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Midwest youth rowing club: A case of financial responsibility in a transient member nonprofit organization

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MIDWEST YOUTH ROWING CLUB: A CASE OF FINANCIAL RESPONSIBILITY IN A TRANSIENT-MEMBER NONPROFIT ORGANIZATION

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Dilemma

"That's what happens when you don't have a boathouse!"

The statement was a bit of trash-talking from a rival youth rower after his boat had won a race, but it made Rob Smith ask himself, "Why would a kid from another club even think to say that? Taunting over a boathouse?"

Rob was struggling with the whole boathouse idea. As a member of the Board of Directors and the treasurer of the nonprofit Midwest Youth Rowing Club (MYR), he would need to take a position either for or against building a boathouse for the club. The club had been founded three years ago on a shoestring and had just begun to stabilize. It appeared to have reached a viable membership level and had an appropriate inventory of equipment, both in terms of the quantities of boats, oars, etc., and in their quality. Maybe this was the time to take the significant step of building a boathouse.

A boathouse would provide storage and practice space at MYR's lakeside site. It would be a symbol of permanence that could prove useful, if not critical, in sustaining membership and/or to achieving future growth. However, the club was successful without a boathouse and the financial commitment would be substantial. A boathouse could prove too large a burden and lead to MYR's demise. As MYR was a youth sports organization, its members were committed for a relatively short duration, maybe five years on average. This short-term commitment made financing a boathouse challenging for the club as a whole. It also made it difficult to match benefits individual members would receive from using a boathouse to paying for it through dues and fees.

As a board member, Rob had a fiduciary responsibility to the club and its members to act with due care—but he felt that responsibility pulling him in different directions. Acting with due care might mean determining that the financial commitment of a boathouse was too risky and he should oppose it. On the other hand, acting with due care might mean determining that a boathouse was critical to MYR's sustainability and he should favor it.

In the Beginning

Rowing was sort of a "cult" sport in Rob's upper Midwestern U.S. city. That is, the sport had a relatively small number of devoted participants compared with other sports. Two rowing clubs had long existed in the city, each in a different part of the metropolitan area; both established in the 1800s. They were private clubs in which an individual purchased a membership and paid annual dues and activity fees. Club members included descendants of club founders and individuals who had rowed on college teams, most likely on one of the coasts and either returned "home" or found themselves in the upper Midwest through career, marriage, or other life circumstances. Others joined for the competition or for rowing's recreational or fitness benefits. The clubs sponsored competitive racing teams and less serious "sport" racing teams and provided recreational rowing activities—all for adult members. They also sponsored youth programs with competitive racing teams for youth aged 14-18. Youth could enroll in the programs for a fee, but were they not bona fide club members.

Five years ago, Rob's older son fell in love with the sport of rowing at age 14 and rowed with one club's youth program for two years. Then, three years ago, Rob's younger son turned 14 and appeared to be interested in rowing as well. Though Rob found that rowing was subject to some parental over-involvement regarding coaching, competition, etc., he found that it was substantially less so than in other youth sports like baseball and basketball in which his sons had participated. In a conversation with a friend whose daughter had also been in a "cult" sport, Rob and the friend concluded that these sports were still enough out of the mainstream in the metropolitan area that "the parents had not yet screwed them up."

However, Rob had found disorganization in his older son's youth program. For example, one week prior to a race in Canada, the club had no plans for lodging, transportation, or getting the rowers (mostly minors) through the port of entry. Rob, an accounting professor and a Certified Public Accountant, had offered to assist with the youth program's financial management, but the club met his offer with indifference. Since he was neither a club member nor a rower, he was an outsider.

During the winter three years ago, a number of youth program parents and other interested individuals approached Rob with the idea of forming a youth-only rowing club. Such a club would be able to emphasize the youth program without having to share resources (i.e., racing boats or "shells," and practice times) with the adult members—who, by virtue of their memberships, rightfully believed they had first claim on shells and practice times. These members were often frustrated by the fact that, the youth rowers, while not members—and having no votes in club affairs—nevertheless often had two parents advocating for them; outnumbering the members, in voices, if not in votes.

The parents and individuals interested in starting the youth club brought organizational skills, knowledge of the sport and equipment, coaching experience, public relations skills, and financial expertise to the table. MYR was organized during January three years ago (Year 1) as a nonprofit corporation and was determined a 501(c)(3) tax-exempt organization by the Internal Revenue Service. Rob was a Founder, a status conferred through the Bylaws. Founders were granted lifetime membership and were encouraged "to give of their time and resources to ensure long-term success" for MYR. A few months after the club's founding, a shuffling of responsibilities caused by the President's resignation put Rob in the treasurer's position and on the board.

During the spring of Year 1, MYR's leadership raised funds, hired coaches, and acquired rowing shells, oars, and coaching launch boats for the upcoming summer season. In addition, it scrambled to find enough rowers to fill an "eight" (an eight-person racing shell) for both the junior men's and junior women's teams. Meanwhile the youth rowers worked out on weekends on ergometers (rowing machines, or "ergs") in the garage of one of the Founders. By the start of the Year 1 summer program, MYR had 16 "varsity" rowers (those with prior rowing experience) and 30 "novices."

Also during the spring of Year 1, MYR negotiated a contract agreement with the Northern Park District (Northern) to locate its rowing programs at a local park reserve with lake access. Northern provided "closet" space in a lakeside building for storing oars, gas tanks for coaching launches, first aid kits, and other rowing supplies. Northern also provided dock access for launching shells and allowed MYR to build racks at the lakeside for shell storage. The fact that MYR had no boathouse provided little hardship when the first rowing programs got underway during the summer months. Coaches, rowers, and parents performed shell repair and maintenance when the weather permitted—which was most of the time. Rowing is a "rain or shine" sport, and rowers only needed to be off the water in the case of lightning or high winds. Conveniently, one rower's family lived within walking distance of the lake and kept ergs in their garage for the rowers to use in shifts during inclement weather.

The Year 1 fall program attracted 32 rowers. For a sport viewed as a summer-only activity for most people in the area, this level of fall program enrollment was encouraging to the Board. Despite the weather turning colder, the team competed through mid-October, managing with the same facilities as in the summer. By the end of the fall season, MYR owned eight racing shells and three launch boats with motors. The club stored its shells, oars, and launches during the winter months in rented storage space.

Year 1 proved an enormous success. Membership exceeded the Board's expectations. The Board had hoped to have at least eight junior women and at least eight junior men—to be able to field at least one "eight" of each in any race. In addition, MYR's relationship with Northern was excellent. The park district prized the activity that MYR brought to the lake—both through incremental sales (e.g., concessions) and by promoting and facilitating youth outdoor activity—a part of Northern's mission. This relationship resulted in Northern offering to assist the club in its programming. Northern would subsequently provide more storage space, install a separate dock for launching shells, and help with logistics when MYR instituted an annual race event on the lake.

During the spring of Year 2, MYR leased space in a "light industrial" building a few miles from the lake. While the shells would still need to be stored on the lakeside racks during the rowing seasons, the space served as MYR's first true home (until then, its mailing address was a Founder's house). The space included a small office and a storage area, long enough to accommodate racing shells that exceed 50 feet in length, for repair and maintenance. It also housed the club's growing collection of ergs and served as training space during winter and inclement weather. Finally, it provided space for monthly board meetings, meetings previously held in the "community rooms" of an area grocery store chain.

In Year 2, MYR's annual membership grew to 100 youth rowers, with a summer program enrollment of approximately 80 rowers and the fall program enrollment of about 50 rowers. In Year 3, MYR added a spring rowing program to replace the erg-based program of the first two years. Table 1 shows MYR's program enrollments and membership for Years 1-3. (Since one annual membership allowed each member to enroll in multiple seasonal programs, the total program enrollments in any year exceed the membership.) MYR had quickly become the largest youth rowing program in its home state and one of the largest in the upper Midwest.

Table 1

Program Enrollment and Membership

	Year 1	Year 2	Year 3
Spring program	13	30	45
Summer program	46	80	75
Fall program	32	50	85
Annual membership	60	100	150

MYR Governance and Finances

The Founders organized MYR on an open membership basis. This meant that youth rower membership simply required completing an application and paying the annual membership dues. An 11-member Board of Directors, elected by the membership, governed the club. The Board included the club's five officers: President, Vice President, Secretary, Treasurer, and Commodore (in charge of equipment). Membership allowed each youth member to designate one parent or guardian to vote in all matters brought to a vote of the membership. In addition to the annual membership dues, each seasonal program required a separate fee.

The Founders started MYR in the spring of Year 1 with about $10,000 in contributions and "handshake" loans. The club acquired shells as economically as possible—generally, "well-rowed" models. A rowing club from another city sold MYR three shells on terms that allowed MYR to pay "later"—when it had cash receipts from summer program fees. During its first summer program, MYR borrowed a trailer for transporting shells to races from a nearby college team. Later that first summer, MYR purchased a used trailer from an out-of-state club for $3,000 cash up front and $1,000 (again) "later." After that first spring, the annual membership and program fees provided the majority of the club's funds. MYR undertook fundraising activities and solicited contributions for boats and oars. In most instances, MYR used these contributions immediately to acquire equipment. No contributions were subject to donor restriction; as a result, all net assets were unrestricted. MYR's financial results for its first three years of operation were as follows:

Table 2

Financial Results

	Year 1	Year 2	Year 3
Contributions	$30,000	$50,000	$40,000
Dues	10,000	25,000	30,000
Program fees	60,000	125,000	210,000
Total revenues	100,000	200,000	280,000
Program expenses	65,000	140,000	200,000
Administrative & fundraising expenses	5,000	10,000	20,000
Total expenses	70,000	150,000	220,000
Surplus	$30,000	$50,000	$60,000
Equipment purchases	$36,000	$39,000	$42,000

The growth in both revenues and expenses in Table 2 reflects the increases in membership and program enrollments from Table 1. By Year 3, MYR had a spring rowing program to replace the erg-based program of the first two years. This allowed the club to attract more spring rowers and charge a higher spring program fee. MYR attempted to price its total membership and program fees to ensure that revenues closely matched expenses. MYR was volunteer-run, with part-time coaches (hired to meet seasonal program needs) the only employees. Major expenses included coaching, rent, fees paid to Northern, depreciation, and repair and maintenance. In determining fee structures in the first years, the Board attempted to price the annual membership dues to cover the equipment cost (i.e., depreciation) for a rower and price the program fees to cover coaching and other operating costs. (The main exception was travel, which was determined on a race-by-race basis and charged to participating rowers separately from seasonal program fees.) Table 2 shows that the annual surplus approximated contributions. Thus, dues and fees approximated the club's total costs.

Table 2 also shows that MYR purchased equipment with most of each year's surplus. Equipment purchases were a substantial start-up cost and an on-going need due to the combination of growth and the fact that the well-rowed equipment that the club could afford at its start quickly needed to be replaced. In Year 2 and Year 3, the membership dues covered approximately 65-70% of new equipment purchases and exceeded the annual depreciation expense of about $17,000. Fundraising efforts yielded an average of $40,000 in contribution revenues annually. Equipment continued to be a significant cost for MYR for the following reasons: First, rowing equipment—even good equipment—wore out and needed to be replaced. Second, MYR developed into a regionally and nationally competitive club, creating demand from members for higher quality (i.e., faster, and more expensive) shells. Finally, growth required additional equipment.

While ensuring that current members were paying for current services, without overpaying, was one consideration in determining fees, another was the market. MYR had to consider two market dimensions: other rowing programs and other sports. Table 3 provides dues and program fees (one seasonal program) information for the youth rowing program that most directly competed with MYR and for a local baseball program.

Table 3

Competitive Program Pricing

	MYR	Other Rowing Program	Baseball
Annual dues	$275	$165	N/A
Program fee	$240	$265	$425

In comparison to the other rowing program, MYR's dues were higher, but program fees were lower. A rower's total annual cost depended on the number of seasonal programs. MYR's lower program fees would offset its higher annual dues over multiple seasonal programs. At three or four seasonal programs, the two clubs' total costs were nearly equal. In comparison to baseball, MYR's program fees were lower, but the baseball program required no membership dues. On the other hand—and MYR leadership continually made this point when recruiting new rowers—while MYR's dues and fees ultimately totaled more than other sports, there was no need to purchase any equipment. MYR's dues ($275) and program fee ($240) totaled $515, or $90 more than the baseball program. However, the cost of a new baseball, bat, glove, or cleats would exceed the $90. The Board's rationale in pricing the membership dues to cover a rower's share of depreciation kept seasonal program fees in line with other sports.

A Boathouse

Towards the end of Year 3, the idea of building a boathouse at the lakeside surfaced for discussion among Board members. While a boathouse would provide space for boat storage, indoor training, and club headquarters, the Board also noted that the other local rowing clubs had signature boathouses. One was a historical landmark. The other was a statement of modern architecture, environmentally blended into the river's edge. The latter's architect even featured the boathouse on its website. Whether functional or a signature, a boathouse also provided a symbol of permanence. As one MYR coach noted, "If we don't have a boathouse, we don't look like we're here to stay."

MYR began looking into building a boathouse at the lake on park reserve land owned by Northern. MYR's lake location was on a suburban lake surrounded only by the park reserve, residential property, and a private school campus. There had been no prior development leaving a suitable building that MYR could refit as a boathouse. Two parents who were architects drew up plans to meet the club's unique needs (e.g., dimensions to house the shells). Board members began discussions with Northern on funding options. Northern would provide approximately one-third of the funding. The state government had recently passed legislation that could provide funding to youth sports organizations. MYR and Northern would work cooperatively to seek that funding to cover another one-third. MYR would be required to fund the remaining one-third. It would have to do so through a combination of fees, fundraising, and borrowing. As the preliminary plans began to come together, the boathouse, which would include boat storage, training, office and social space, would cost $1,000,000. The plans showed an aesthetically pleasing boathouse—a signature, to a degree.

Although there were too many unknowns regarding the funding to be very precise, Rob had done some preliminary computations under the assumption that MYR would need to fund $333,000. MYR paid about $1,700 per month for its existing space. If it were paying on a 15-year mortgage, this monthly amount would cover about $225,000 of principal, at what were historically low interest rates. There would be higher occupancy costs (utilities, insurance, etc.) to be sure, but his computations showed that an additional $800 per month ($2,500 in total) would cover MYR's $333,000 share and occupancy costs.

Rob enumerated the benefits of a boathouse. It would provide a symbol of sustainability and permanence for the club, a statement that the organization "is here to stay." This could prove valuable in future recruiting efforts, ensuring the club's sustainability and possibly leading to growth. A boathouse would provide the functional space needed for boat storage and repair. It would provide space for practice in winter and inclement weather—all at the lakeside, not at a remote location. Finally, it would provide general use space for meetings, administrative needs, and social functions, like fundraisers. On this final point, any agreement with Northern to build on park reserve land would allow Northern to share the general use space. This would further strengthen the relationship with Northern. On top of it all, the plans showed an attractive building.

Nevertheless, a boathouse also presented challenges. While MYR was successful beyond the Founders' expectations, it was still only three-years old and seemed just to have stabilized. It was what Rob called a "transient-member" nonprofit. As such, it lacked a permanent membership. It had part-time employees in the coaches, but no full-time employees or ongoing membership and the long-term commitment such relationships entail. While MYR owned equipment, that ownership provided little permanence as MYR could easily sell the equipment to other rowing clubs. Finally, MYR's mission was to serve youth from ages 14 to 18—a short time span. Parents provided virtually all of the club's leadership, management, and workforce. They also provided a substantial amount of contribution revenues (in addition to membership and program fees). It was the case that some families had children in the club consecutively and some parents committed beyond their child's involvement, but how committed would most parents be to financially supporting the club once their children were no longer involved?

The transient membership put MYR in a "Catch-22" situation with respect to external financing: Building a boathouse would provide the appearance of permanence. However, traditional lenders (e.g., banks) are very reluctant to lend to transient-member organizations like MYR precisely because of their transient nature. The solution was to work out an agreement with Northern by which Northern would fund MYR's portion in addition to its own and then recover MYR's portion through higher contract fees or separate, additional payments. Since Northern would be essentially lending MYR its portion and recouping it over time, such an agreement would incorporate interest in the payments.

Rob's analysis had shown that $2,500 per month would finance MYR's $333,000 share over 15 years in a borrowing scenario. This approach had advantages. It would incorporate known current construction costs and historically low current interest rates. Rob also knew that creditors could not force nonprofits into bankruptcy liquidation. It would make members pay for a boathouse they would be using. However, MYR's transient membership meant that few, if any, members would be part of the organization over the entire term of a borrowing-type agreement. This approach had the disadvantage of committing MYR to a long-term payment stream, at which it could default, and potentially dissolve.

Rob also determined that a plan to invest $2,500 per month would accumulate an investment of $333,000 in just nine years, funding the boathouse through net assets. This approach had the advantage of avoiding default risk but had its own disadvantages. It would depend on unknown future construction costs—inflation would make the boathouse more costly. It would only benefit those who were members when the boathouse was completed. It would require current members to pay for a boathouse that would benefit future members. Finally, MYR would have to pay its current rent and occupancy costs while accumulating the net assets.

Coincidentally, Rob learned of a similar situation from a former MYR member who had gone on to row on a collegiate club team. That club had borrowed to purchase a racing shell. The membership had declined and the club had to raise the membership fee in order to cover the payments. The higher fee further discouraged new members from joining. Rob saw the same risk at MYR. First, it would have to raise dues and fees to cover the payments and additional occupancy costs. If MYR attempted to cover the higher costs through increased membership, it would incur added costs for equipment, coaching, and other operating expenses. Second, if the membership began to decline, MYR would have to increase membership fees and program costs even further to make the payments. MYR could price itself out of the market.

Conclusion

Rob saw the boathouse decision from two perspectives. The club needed a boathouse from a functional standpoint and a boathouse would provide a symbol of permanence. In fact, it might be necessary for the club's long-term sustainability. However, the club was running well without a lakeside boathouse and it could continue with its current facilities. Rob knew that, as a Board member, he would have to take a position either in favor of or against a boathouse.

If MYR was to build a boathouse, there was a question of how to fund MYR's portion, and the options entailed time problems. MYR could finance a boathouse through net assets—by raising fees in order to accumulate a fund to finance it in advance. MYR's members would need to pay higher fees for a period longer than most would actually be members. Rob wondered about the fairness of current members paying for the boathouse and not benefitting from it. On the other hand, MYR could finance it through a borrowing-type agreement with Northern. This would better, although not perfectly, match payments and benefits. However, it would bind the club, and future members, to a financial obligation that could cause desertion and snowball into the club's demise. Rob also wondered about the fairness of current members committing future members to a long series of payments.