LOANS BY MEMBERS

(reviewed July 2011)

Occasionally a golf club may need to raise a large capital sum for major expenditure. This may be for the purchase of the course or even the purchase of a new 100 year lease or additional land. In the majority of cases it will be for major capital expenditure on the clubhouse. Apart from the usual ways of raising capital through the bank or other methods of long term borrowing it may be decided to ask members to loan the club money. Should the club be a limited company then great care should be taken on raising money by this way and if shares or debentures are issued you must get legal and finance advice on how to proceed.

In the case of an unincorporated private members club then money can be raised fairly easily but safeguards should be built into the system and your legal adviser should be consulted on the procedure.

The following points should be noted:

- If members loan money for reduced subscription then you should carefully work out the loss of income from subscriptions.
- Always have a maximum amount anybody can loan certainly no more than the amount needed to cover the annual subscription.
- Always keep the money separate in the accounts and the outstanding balance must be shown on the balance sheet annually.
- Either the Club's Trustees or additional ones should be appointed to oversee the money and to see that it is used for the purpose it was raised.
- Arrangements should be made to repay members who die or leave the club. Normally loans such as this are repayable on demand under these circumstances.
- You should, on asking for loans, have at least a minimum period before any are repaid under normal circumstances.
- Most clubs will have a policy in the event of a member having difficult financial circumstances to allow for repayment.
- Some clubs will repay a fixed amount per year after a period and this can be done by ballot or such other means as the trustees decide.
- All members who loan money should be given an official receipt signed by the trustees, in which should state the terms of the loan.
- It is important for the club to keep a full record of all these loans so that there are no disputes in later years. All receipts must be returned and cancelled and kept for several years.

- In the event of a member losing their receipt you must draw up a proper form which cancels the previous receipt and is properly signed and witnessed.
- It is not usual to have these loans against the assets of the club although your legal adviser should draw a suitable clause in the advent of the club ceasing, so that these members will be paid out before any other distribution.

The above notes are guidelines and every care should be taken in setting up a scheme as committees and secretaries change over the years and mistakes can easily happen.

Some clubs also consider offering a life membership scheme for raising capital. Great care should be taken in carrying this out and you should obtain the service of a Life Insurance Actuary who will work out the life expectancy of the different age groups of members. The usual mistake with this type of scheme is to pitch it too low so that after a few years the members are getting a good bargain. So great care needs to be taken in your calculations. In recent years clubs have done it on say a 5 - 10 year basis so that a member purchases say 5 or 10 years membership in advance but then reverts to full subscriptions again after a set period.

Remember you are losing income on these schemes but getting capital, so care needs to be taken in the initial stages.

Also check that the club rules allow the committee to borrow money in this fashion and get your legal adviser to draft changes if required.

(R.E.Burniston 2001)