

Addendum to FAC Report of July 16th, 2012

BREACH OF WORKERS COMPENSATION INSURANCE LAW

The FAC has uncovered that for the last five months The Players has not had Worker's Compensation Insurance. The club's policy was canceled on October 7th, 2012 for nonpayment of the relevant premium. In fact, the club's coverage, which is required by New York State law, was in jeopardy on five separate occasions in 2012 when Notices of Cancellation were issued for nonpayment of premiums. Apart from this being a breach of the law, the FAC views this as unconscionably irresponsible to our employees and the club's financial well-being, as non-coverage exposes the club to suit for personal injury and medical costs should an employee be injured at work.

Given the elaborate history of actual and near cancellations in 2012 it is insupportable for management to assert that the lapse of coverage in October last year was a mere administrative oversight. How can such an important bill, both legally and morally, slip between the cracks and not get paid? Surely it would be flagged by management and the Treasurer as an upcoming important payable and budgeted for.

New York State law views not having coverage for Worker's Compensation very seriously and categorizes it as a crime, and when the employer has five or more employees, as a Class E Felony. It is a strict liability law and holds the President, Treasurer and Secretary of the club personally liable for the default and also levies heavy fines for failure to keep coverage in place (see section 52(1) of the New York State Worker's Compensation Law). It is the FAC's understanding that the above officers of the club can be prosecuted for this failure. Additionally, so far the club has accrued penalties over \$20,000 for the five months of non-coverage. Penalties that the club can ill-afford. The FAC can see no reason why the burden of these fines and penalties due solely to managerial ineptness and lack of oversight should be borne by the club and its members.

The Executive Committee stated in its letter to members of March 6th, 2012 that alternative Worker's Compensation Insurance coverage was swiftly secured when the cancellation was discovered. This is not true. They delayed at least two weeks from when they say they first found out about not having coverage before they submitted an application to the New York State Insurance Fund. That is two further weeks when our employees and the club were vulnerable. Further, our discussions with the New York State Insurance Fund have advised the FAC that as of Monday March 11th, 2013 the club still does not have a policy in place because they have not submitted acceptable paperwork to support an application for coverage by the State Fund.

This fiasco begs the question of what sort of filing systems are in place in the club, the competence of management and the diligence of the club's officers in monitoring the club's compliance with important mandated requirements.

This report from the Financial Audit Committee of The Players was presented to the Board on July 16th, 2012. Updates to this report are in *italics*.

**FROM: THE PLAYERS FINANCIAL AUDIT COMMITTEE (FAC)
TO: THE BOARD OF DIRECTORS**

JULY 16, 2012

BACKGROUND

The Financial Audit Committee formed ad hoc following the Sept. 13, 2011 club meeting after numerous members raised questions about the conspicuous decline in services and increasingly perilous financial state of the Club.

This committee's purpose is to examine the club's business affairs and its management dispassionately. Our objective is to make recommendations regarding policies and procedure improvements, as they pertain directly or indirectly to strengthening the financial health of the club.

The committee's formation was encouraged by President Johnnie Planco and its creation and mission were sanctioned by the Board. The existence of a permanent financial audit committee is mandated in the club constitution. As a result of that Sept. 13 meeting, members who volunteered coalesced into a committee of 10, which first convened September 26th, 2011 and, since then, has met almost weekly. In October, Mr. James Fenniman was appointed to be our liaison to the board.

There are some documents and financial records that the Committee has yet to be provided with, as well as a substantial number of important questions to which we await answers. Nevertheless, the FAC has reached some important conclusions regarding our recommendations to ensure the club survives the current financial crisis. Here is our interim report.

SUMMARY OF OBSERVATIONS

- **Board Announcements at Annual Meeting:** Some concerns first voiced by the FAC were partially addressed at the annual meeting in June. (i.e lack of transparency, poor communications, room rental policies, the façade project). The formation of certain key committees for fund raising and other necessary aspects of the club's operations are a step in the right direction. Similarly, the Board's promise to concentrate on bringing more transparency into the club has been welcomed by members. Additionally, the recent announcement creating a Governance Committee is a welcome development and, if properly administered, can go a long way in providing a vital outlet for member's comments, suggestions, complaints and problem-solving. We commend the board for taking these actions.
- **Lack of Viable Business Plan for Day-to-Day Operations:** In the opinion of the FAC, the club is in imminent danger of closing once funds are exhausted from the sale of the Sargent paintings. Our own accounting firm states in the 2010 financials that "going concern issues" make it doubtful the club

can continue to operate, barring dramatic changes. In fact, the club would have closed years ago had it not been for generous donations from some of our members, primarily Mr. Herb Blodgett, who has loaned the club over \$2 million to date. However, the interest payments on that loan –six percent annually - amount to \$120,000 per year. Valued assets have also been sold to pay creditors and monthly overhead. The club needs to establish a viable business plan that does not rely on these extraordinary sources for income.

UPDATE: No business plan has been formulated to date.

- **Mismanagement of Room Rentals:**

The FAC commends management for presenting a diverse and highly impressive array of world-class events at the club. Nevertheless, the artistic merit of these events alone cannot compensate for large financial losses that now imperil the club.

Rental income from use of our rooms to outside parties should be a major source of revenue, but is not at all.

We have found no consistency or sound policy regarding terms and conditions of use of rooms.

Fees are routinely being waived or deeply discounted for use of the rooms, even when they are used by outside parties for profit-making events. (Files and calendars the FAC was given for first five months of 2012 show a total of 156 uses of the dining room with no indication of any revenue derived. Use of other club rooms during this period numbered more than 200 occasions with only one payment apparent and one other room fee that was waived.)

We must adhere to a strict set of rules that are applied equally. We must also ensure that we do not violate our constitutional requirement that **no member can utilize the club for profit or do business with the club**. Additionally, we have found that there are generally no accounting records of invoices, payments, etc. pertaining to certain recurring events held at the club. (I.e. V.O.I.C.E. Experience, Project Shaw, New York Film Academy, the Food For Thought program that ran between 2005-2009.) We have been told that the terms were “verbally” communicated by the Executive Director with no written record of what those terms and conditions are. Also, some members are abusing the use of free rooms. There should be a limit on such uses during the course of a given month and year. Additionally, it would appear that the club’s policy of waiving room fees for events classified as being charitable should be curtailed. Every event that the room fees are waived for precludes the possibility of having a profitable event held that night. When ticketed events are held at the club, the Players should build a profit into the room rental fees. At a minimum, the policy should be to guarantee that all labor and overhead costs are covered. We are heartened that the board addressed some of these concerns at the annual meeting and has promised to bring parity to the room rental situation. This will hopefully provide a major step toward the club reaching a profitable status.

UPDATE: No consistent or sound policy or accountability regarding terms and conditions for use of rooms and promised parity has not been implemented.

- **Confusion Re: Club, Foundation and Library:** Confusion and misunderstanding reigns among the general membership regarding the relationship of the club with the Players Foundation and the Hampton Booth Library. It would be helpful to issue a memo to all members, or perhaps print an article in our newsletter, explaining how the entities are related legally and financially and how the merging the Foundation with the Library may benefit the club.

UPDATE: There has been no information provided to the FAC or to the membership to clarify the relationship of the club with the Players Foundation and the Hampton Booth Library.

- **Transparency:** The lack of communication between club management and the general membership has deprived members of critical information in a timely fashion and as a result led to serious morale and dissatisfaction among members. This was exemplified by the club's failure to alert members in a timely way regarding changes to their accessibility to the Friars Club and Gramercy Park. Additionally, members were given erroneous information regarding why the Grill Room had been closed by city health officials. Most importantly, the terms of sale of the Sargent painting were only disclosed to the members after the FAC made an issue of it and the sale was negotiated. At the June meeting, the Board did disclose that the proceeds from the sale totaled \$750,000. However, to date, there has been no summary of the meeting sent to the membership. Thus, the only members who are aware of this are the relative few who attended the meeting. **Given that the Board indicated that \$500,000 of the proceeds were spent almost immediately, members deserve to receive from the board a detailed explanation as to precisely what liabilities were retired or paid down with these funds.** Additionally, the board and membership were told that terms of the sale were favorable to the club, without significant data to support that view.
- In terms of transparency, members hear from management far too infrequently and when they do get a notice, it often pertains to an assessment or a dues increase. The Board and Executive Director only formally address members once a year, at the annual meeting. **There should be quarterly informational meetings for the members to attend.**
- As of this writing, there is literally no published record of who runs the club that is readily available for members to see. A monthly newsletter should be sent to members via E mail that brings them up to date on developments at the club. Employees should be identified along with descriptions of their responsibilities so that members know who to go to for specific information.
- We also understand that certain E mails signed "The Board" are not even shown to the Board members prior to being sent out. All future communications should be signed off by the President or Vice-President of the club, with the names of specific Board members included under the signature line. Additionally, a list of the club's Board's members should be posted in the lobby and on the club's web site. Some of these issues are presently being addressed by the Board and, again, we commend them for doing so.

UPDATE: Except for one newsletter earlier this year, there has been no marked increase in communication or transparency. Further, quarterly informational meetings have not been instigated. No information has been made available to the members identifying employees and their responsibilities.

- **Changes to Audit Process:** The FAC has raised serious concerns about the club's decision to change from a full audit to a review policy to reduce accounting costs. A "review" by an accountant is far

less stringent than a standard audit. It also raises red flags when the club is being investigated by major media outlets. The FAC was told the Board voted for this change; however we have not seen any evidence of this. Our accountant, Steven Goldstein, told the FAC that he believes the club should undergo a full audit and confirmed that a review does not provide the legal protections to Board members that an audit would. It is our strong recommendation that the Board instruct our accounting firm to conduct a full audit of last year's financials, as they have done in all previous years.

UPDATE: *The FAC understands that this will in fact be the practice at least for the current year.*

- **Board Elections:** There is virtually no understanding among members about how the club is structured from a management standpoint or who is running it. This lack of transparency leads to rumors and negative speculation regarding club management. The club no longer even provides background information on the people who are running in elections. Members are being asked to vote for Board members when they know nothing about them or their philosophies about helping the club. A statement from each nominated person should be provided. Although club members are told they can submit their names for nomination, the perception remains that the decision has already been made regarding who will serve on the board. In this past election, interested members inexplicably had only a few days to submit their names and background information for consideration. At no time were they asked to meet with the nominating committee to discuss their interest in serving on the board. In the future, we suggest that a reasonable timetable be given for submitting names for nomination and that the nominating committee extend the courtesy of meeting with those individuals.

UPDATE: *Transparency and information is still lacking and there have been no changes in accessibility for election to the Board.*

- **Use of Revenues:** Members should be informed about precisely how major revenues are being expended. If extraordinary income is obtained through film shoots, events or donations, members should be given a full and prompt accounting of how the money will be spent.

UPDATE: *Information is still not being provided.*

- **Policy and Procedures:** Surprisingly, the club does not have a policies and procedures manual that would help employees and management administer rules in a consistent manner. Such a manual should be given priority status.

UPDATE: *To the FACs knowledge no policies and procedures manuals have been created.*

- **Constitution:** The club management is mandated by the constitution to give every new member of the club a copy of the house rules/constitution. This does not happen, at least on a consistent basis. Yet, members are sometimes held accountable for breaking rules they never knew existed. It is imperative that every new member get a copy of the rule book with instructions to familiarize themselves with house policies.

UPDATE: *The Constitution is now available on the club website.*

- **Honorary Members:** Members are no longer told whether new Players are dues-paying members or honorary members, nor are they advised any longer about who sponsored them. Similarly, the FAC was told that there is no viable way to discern how many Lifetime Members pay for that status and how many such memberships are granted gratis.

UPDATE: *The breakdown of Honorary and Dues Paying members has not been made available to the FAC.*

- **Bad Will Re: Membership Drive Policies:** Last summer, the Board promised incentives for members who brought in new members to the club. Our members responded well, but most heard nothing more about the incentive plan, leading to rumors that the management is renegeing on its promises. The announcement at the annual meeting that these rewards will be fulfilled is excellent news - however, to date; the only members aware of this development are those who were at the meeting. An E mail announcement should be sent out right away to keep members informed about this development.

UPDATE: *These incentives have still not been honored.*

- **Resignation of Members:** Presently, when members resign or go on honorable withdrawal, the club makes no effort to ask them why or try to convince them otherwise. A policy should be in place to record their reasons for leaving. Similarly, a program should be initiated to try to get members who resigned to rejoin the club.

UPDATE: *The Admissions Committee does follow-up with members who resign to find out why they have left the club and try to address their concerns.*

- **Confusion in Events Calendar:** Inexplicably, two separate calendars are being utilized to indicate room usage: one by the office and a separate notebook calendar used by the Executive Director, which is often not immediately available to office staff. This results in confusion and booking errors. The on-line calendar should be the official calendar of record, thus eliminating any confusion or instances of “overbooking”.

UPDATE: *Rooms are still double-booked and conversely when rooms are said to be not available, they in fact are and sit vacant.*

- **Weekend Events:** The Board and Executive Committee are sometimes unaware of certain events taking place at the club on weekends. Given the cost factor involved in operating the club on weekends, the Board or Executive Committee should have to sign off on any such use and ensure that the club is being adequately compensated financially.

UPDATE: *No changes have been reported to this practice.*

- **Lack of Management at Events:** There is confusion about who should be in charge at events involving food and beverage, leaving staff to fend for themselves if problems arise. There is a lack of planning, organization and foresight. We no longer have any person with the club officially assigned as someone with the authority to handle problems that may arise. Someone must be designated as being in charge at these events.

UPDATE: No changes have been reported to this practice.

- **Security Concerns:** The club has many valuable pieces of art and artifacts. Yet, there is virtually no security present on occasions when large numbers of non-members attend events in the club. This has resulted in at least one small piece of artwork having been stolen earlier this year. We propose that a staff member be present to monitor the situation at all such occasions and that the salary for this person be built into the invoices for those renting the facility. A photo inventory of every artifact also would be advisable.

UPDATE: No changes have been reported to this practice.

- **Accounts Receivable and Bad Debt:** The club should enforce its mandate that every member keeps a valid credit card on file. If a member's bill is undisputed and it ages beyond 30 days past due, their card should immediately be charged. This will greatly reduce bad debt write-offs. Working with the Treasurer, the FAC has instituted a program of collections utilizing final notice letters and placement with a collection agency. The write off for last year indicates that one member alone had accumulated over \$30,000 in unpaid charges over the course of many years. By instituting the new policies, no member would be able to amass a sizable balance due again.

UPDATE: We understand there is more diligence in collecting overdue charges.

- **Web Site/Computer Management:** Completion of the new web site should be prioritized so that we can once again have a section for members only, along with previously available information and photos of members who want to communicate with each other. Also, the club's server is very old and could crash at any time. As of this writing, there is also no established program to backup vital data—even though such consumer services as Carbonite could rectify this at a very nominal cost. There should be a designated computer consultant hired periodically to assess the stability of our system, as well as to perform preventive maintenance and make recommendations for essential upgrades. This should be a top priority of the board. The failure of our computer system would be a disaster for the club.

UPDATE: The new website, thanks to the IT Committee is a great improvement. However, there is still no "Members Only" section. We are not aware that any changes have been made to computer back-up systems.

- **Management of the Grill Room:** Cash is still occasionally accepted at the bar despite our stated policy that non-members pay by credit card. This practice should be stopped immediately with no exceptions. Additionally, any person who is being "comped" for food or beverages should still have a chit filled out by the staff and placed in a file for that month. The Executive Director or Treasurer

should review these chits and personally sign off on them. The club needs to also safeguard against people who are no longer members utilizing the club's premises, particularly the Grill Room, which is a continuing problem.

UPDATE: *No changes have been reported and recommendations have not been taken.*

- **Health Inspection:** We need to establish who is personally responsible to ensure that the club never loses its "A" rating from the health department again. (As of this writing, the Health Department is citing numerous violations relating to the club based on recent inspections.) We agree with the Board that it is also vitally important that the management institute a modern point of sale system ASAP. The current system is woefully outdated and members routinely see significant errors on their bills.

UPDATE: *We continue to receive violations from the Department of Health often for recurring deficiencies. And, no point of sales system has been established.*

- **Façade Project:** Some years ago, the club had a fund raising drive to repair the façade. No updates were ever given regarding how much money was raised or how it was spent. For repair work now taking place on the façade, the board should send out a detailed report about exactly who is involved in doing the repairs, estimated costs, etc. While some of this information has been revealed at the annual meeting, the general membership has not been informed. Members are already inquiring

UPDATE: *Apart from the recent newsletter and a couple of emails, there is no regular update on the progress with the façade.*

- **Conflicts of Interest:** The FAC has discovered or been made aware of the appearance of numerous material conflicts of interest among current Board members. The club's constitution is consistent with rules for board members anywhere, **in that there is a strict prohibition in regard to doing business at the club or with the club**, not only by Board members, but by members in general. This policy appears to be being violated at this time. There are Board members who appear have ties to other Board members as well as employees. Given the scrutiny the club is now under by members and the media, such conflicts of interest put the Players in legal jeopardy. Additionally, the club's 990 forms are submitted every year to the federal government attesting that the club maintains a written policies regarding conflicts of interest and that the Board "will now regularly and consistently monitor and enforce compliance." That statement is mitigated by the fact that the club has many very apparent conflicts of interest going on at any given moment. It is not our goal to embarrass individual Board members. However, we strongly urge Board members to re-examine the conflict of interest policy in detail, evaluate their own status and take prompt corrective measures, as may be warranted. The 990 says the club also has a policy of protection of whistleblowers. This policy, too, should be reviewed to ensure it is up to date.

UPDATE: *Conflicts of Interest and Whistleblower and other policies have been put in place after the FACs recommendation.*

- **Poor Communication from the Board:** The Board recently assured members in an E-mail that they communicate with members regularly. This is a mistaken notion. The Board itself is often "out of the

loop” on decisions made by the Executive Committee. Also, the FAC has been contacted by members who claim they receive no response to important letters, E-mails and phone calls despite repeated communications with the Board. The Board should appoint a specific person, perhaps the Secretary, to assume the responsibility for seeing to it that every member receives a timely response to their questions and concerns. Additionally, members have offered their services and talents to try to help the club in key ways, but are often ignored. The formation of the new committees is an encouraging step in trying to harness these talents and put them to good use on behalf of the club. However, as of this writing, some members of the committees have contacted the FAC to complain about lack of feedback for their suggestions and no responses to their E- mails and phone calls from Board members and the ED. Consequently, some of these people are already quitting the committees. Additionally, the FAC was surprised to learn that it is the policy of the Board not to keep minutes of the annual meeting. This policy should be changed in time for the 2013 meeting.

UPDATE: *There has been no increase in communication from Management or the Board to the Membership and in fact, it seems to have decreased.*

- **Other Key Problem Areas:**

UPDATE: *Most of the below remain unaddressed and are still problems unless otherwise stated.*

- In the last nine years, the club has lost an average of \$308,000 a year for a total loss of \$2,900,000.
- Membership has dropped from 850 in 2007 to 625 today. While the club has succeeded in attracting new members, many of these gains are short-term, with members routinely resigning, often in protest of the club’s management.
- Our present accounting system is poor. Files on significant events contain no data; paper trails pertaining to key events are lacking or non-existent.. Many of these problems could be resolved without any significant expenditure, just common sense approaches to bookkeeping.
- The club does not maintain an accurate method of communicating with members via E mail. Many long- time members complain that they do not receive any E mail notifications from the club at all and the E mail notification process that alerts Board members about meetings is unreliable.
- Despite the club’s poor cash flow, it appears as though the Players has been paying a professional publicist for his services. We have not been able to verify his salary in time for this report, but we understand it is possibly \$3,000 per month. At least some Board members seem unaware of this. The matter should be reviewed at once with a determination as to who authorized this continuing expense and whether these funds are better spent in a more practical manner. *The FAC has not been provided with an answer to this above point.*

- Dissatisfaction with the club's management resulted in members utilizing a "renegade" mailing list last summer in which that led to many heated exchanges. This mailing list has been dormant at the request of the FAC and Board members pending the presentation of our findings to the general membership. However, we have indications that the mailing list is about to be activated again. We hope that the establishment of the new Governance Committee will preclude this by allowing members to channel complaints through an authorized outlet. *This above point is no longer relevant.*
- There appears to be no formal staff meetings for people who work in the office. We believe the Executive Director should hold meetings with the staff at least monthly discuss policies and procedures and ways to improve certain problem areas. No one understands a job better than the person who performs it, and we should be getting insights from our office staff about their areas of responsibility.
- On many occasions, people calling the club get a voicemail greeting and no one ever picks up the phone. The doorman is often called away from his post to perform unrelated errands and duties. Members complain that E-mails and phone calls are rarely answered. Even our reciprocal clubs find it difficult to contact us by phone. (The Algonquin Club of Boston recently made it known that they could not get past the voice mail despite numerous attempts to do so.) Additionally, some club employees allow their personal E-mail inboxes to reach a state where E mails are bounced back because it is full. This could have major consequences if important messages are not being received. There are times when it is literally impossible to reach anyone directly at the club- an inexcusably unprofessional practice not seen in any other club of stature.
- Services have declined substantially. In recent years, the dining room has become unavailable for lunch or dinner, except for special occasions. The Grill Room now serves lunch only one day a week. The bar is open at noon but members do not even have access to an "honor bar" until 4:00 PM. We have lost rights to visit the Lotos Club and our rights to visit the Friars have been severely curtailed. We temporarily lost access to Gramercy Park, an embarrassment to the club, because we couldn't pay \$7,000 in dues. Our flawed accounting system with the Friars resulted in some of our members not being billed in a timely manner for costs incurred there. In some cases, they were billed months after the fact, if at all, thus resulting in the Friars having to subsidize our members' expenses.
- Members frequently complain that their bills are in error and are often incomprehensible. Sometimes they are not charged for months at a time only to have large bills issued retroactively, thus making it difficult, if not impossible, for them to check for accuracy. Some members advise us that they now have to write down every expense in a journal to compare it to their monthly statement- an absurdity that is not replicated in any other club of stature. Other members have so little confidence in the billing system that they are paying for their expenses with credit cards each time they visit the club, as though they are non-members.
- Despite the Players' desperate cash flow woes, it sometimes takes in inordinately long time to issue a proper invoice to a client. Even the late Bud Oddsen told the FAC that he was perplexed by the fact that he had sponsored two late night Meet Your Fellow Players events but had yet to be billed for the first. Vital cash flow goes uncollected because of these policies.
- There is problem in the club's prioritization of payments to specific vendors. On various occasions, Con Ed has formally notified the club of their intention to shut off our electricity. The latest of these was received in mid-May. On at least one occasion, representatives of

Con Ed came to the club to turn off power. Only a personal donation from a generous Board member prevented the club from being closed. Similarly, Bollinger sent a formal cancellation notice for our insurance policies. Although these crises were averted at the last minute, they reflect an on-going problem, even after the club received significant proceeds from the sale of the Sargent painting. It is not a rare occurrence for Board members to donate money in order to pay for essential services to prevent the club from being closed. It is also apparent that neither the Board nor the membership, in general, is made aware of many of these day-to-day financial crisis situations.

- Some of our employees have gone years without raises. This issue should be addressed. There are employees who are working for bare-bones salaries. They should receive some salary adjustments if their work performances are satisfactory.

- There needs to be more scrutiny by the Board of important financial decisions. The Elegant Affairs debacle involved a 20-year contract that was hastily entered into with negative results that saw the club absorbing a \$250,000 write-off and our liquor license placed in jeopardy. Additionally, relations with the union were strained to the point of having protestors outside the club, which resulted in a high profile negative media coverage that damaged the reputation and good name of The Players. The club was also assessed significant damages in excess of \$100,000 that had to be paid to the union. There is an alarming lack of documentation relating to the Elegant Affairs transactions, which has cost the club over \$350,000 in needless losses.

- There is no master financial plan to get the club back to solvency except to plead with existing members to bring in more new members, raise dues, levy assessments and sell assets. Members have responded to pleas to bring in new members, donate money and frequent the club, as evidenced by the upturn in revenues from the Grill Room. However, the mismanagement at the club has resulted in a high attrition rate and members are now understandably reluctant to bequeath financial gifts to the club, as indicated by the fact that such donations have dropped dramatically in the last few years. There is simply no assurance to members that their money will be used wisely or for the intended purposes.

CONCLUSIONS AND RECOMMENDATIONS

Although the Board is moving in the right direction on certain key issues, the club's future is in serious jeopardy.

UPDATE: As can be seen, the Board and Management have not addressed most of the key issues presented in this report by the Financial Audit Committee.

Years of mismanagement have resulted in many of our precious assets being liquidated and our once-vaulted reputation tarnished. There appears to be no business plan with which to go forward beyond selling assets, raising dues and hoping for a cash infusion from an extraordinary source. Important issues that have arisen over the years have remained stagnant and not been addressed in a timely manner. The need for bold change is evidenced by the fact that, even when we have sold off assets that represent our very heritage, we still cannot pay our electric and insurance bills on schedule. There is also a great deal of concern about the stability and

management of the club within the Gramercy Park community and in the media, as evidenced by the New York Times article, which we understand will almost certainly spawn at least one “sequel”.

We believe the members of the Board care deeply about the club and its future. Many have given generously of their time and money and we respect them greatly for their efforts. However, some Board members have tried in the past to bring these issues to the forefront without success. Some have quit the Board in protest of how the club is being managed; yet no major changes in management were ever forthcoming.

As the overwhelming evidence indicates, good intentions will not save The Players. Only bold, decisive action will. We urge you to study, then act decisively on these recommendations. We must end the constant lurching from crisis to crisis and work together to bring about a new era for the club. There is no doubt in our minds the Players can not only survive, but prosper, if our suggestions are followed.

Respectfully,

The Financial Audit Committee

Lee Pfeiffer, Chairman
Lynne Lerner, Co-Chair
Bob Cohn
Allan Dodds Frank
Lee Moore
David Paterson
Giacomo Selloni
Ted Story
James Wilson
Mark Yuknevitch

A MESSAGE FROM THE FINANCIAL AUDIT COMMITTEE

As many of you are already aware, the recent letter to members from the Executive Committee falsely claimed that the Financial Audit Committee (FAC) was not Board-sanctioned. Anyone who was at the September, 2011 special meeting knows the truth. The creation of the FAC was suggested by Lee Pfeiffer and immediately agreed to by President Johnnie Planco, who not only asked Pfeiffer to head the committee but to solicit volunteers to serve on it. A few weeks later, we were notified we had an official liaison to the Board, Vice-President Jim Fenniman. Furthermore, the FAC presented a 14 page report of its findings to the Board in July. As further proof of our “official” status, Pfeiffer wrote an extensive summary of the meeting for the now-defunct Players Chronicle newsletter that related how the FAC was formed. (See below).

funds are being spent. I suggested that a committee be formed for this task with the goal of finding areas to improve efficiencies and cut costs. Mr. Planco readily agreed to the suggestion and asked me to head the committee and find volunteers to serve.

The FAC has collectively put in thousands of hours trying to bring truth and transparency to club members. We never sought an adversarial relationship with management, but they basically stopped providing information back in October when we asked to see credit card bills.

It is solely due to the efforts of the FAC that the following facts were brought to light:

- News that Players had temporarily lost their rights to visit Gramercy Park because of non-payment of dues and had their visits to the Friars Club greatly restricted.
- The revelation that the first Sargent painting sold for \$750,000
- The fact that \$30,000 in bad debt was due to *one* member’s account
- Revelation that the remaining Sargent painting has just been hocked to a pawn broker web site for \$250K.
- The management had planned to cancel the employee holiday fund for 2012. The FAC pressured them to reinstate it, which was why solicitations were made so late.

Not only were these facts never intended to be revealed by management, but in some cases the Board itself learned of them only through the FAC.

For all intents and purposes, the FAC’s mission for the benefit of the members is in jeopardy and being denied standard information any audit committee would expect to receive. Regardless of what transpires tonight, we hope members become engaged and demand accountability and transparency from management.

OBSERVATIONS FROM FORMER LONG-TERM, FULL-TIME EMPLOYEES

The following observations were contained in two separate letters from former long-term full-time employees that were sent to the Financial Audit Committee last summer. Although they remain anonymous here, the Executive Committee was supplied with the original letters last summer. The FAC never received any feedback or response to these observations.

FORMER EMPLOYEE #1

- Club consistently sacrifices room rental profits to accommodate favored people and organizations. These entities pay little or virtually nothing for extensive use of the club. For major events that *are* billed, invoices were routinely waived. Member dues supplement the costs of many of these events.
- The union met with Executive Director John Martello in 2008 to propose a plan for the club to hire back the union employees who had been fired and replaced by non-union staff when Elegant Affairs took over the dining functions. The union warned that by not doing this, the club would incur massive fines and penalties. Martello rejected their offers and the club ended up paying hundreds of thousands of dollars in fines and back pay.
- Large numbers of free and “guest” memberships are routinely given out by the Exec Director to his friends and business contacts including the entire Theater Department of Wagner College and the entire staff of NY Theatre Workshop. One of the office staff used to refer to people who get free memberships as our “eternal guests”.
- Exec Director uses club for his personal projects including rehearsals, mailings etc. He allegedly took off many hours of work time during the rehearsal periods of his plays and instructed staff members to take care of errands pertaining to his personal business.
- Exec Director was hired by the NY Film Academy to teach classes on stage at the Players during his work hours on the Players payroll. The Exec Director began giving the NYFA extensive use of the club as a classroom for no charge, a practice that continues today.
- Kitchen is routinely left in filthy condition with dirty dishes left overnight.
- Exec Director often doesn’t document events held on the weekend. There is often no official record of who is there and why.

FORMER EMPLOYEE #2

- Billing system is a complete shambles.
- Exec Director has absolute power and is virtually never challenged by the Board about anything.
- Poor communications and virtually no staff meetings.
- Poor treatment of employees; promised raises never materialize.
- “Blurred lines” between Club and The Players Foundation; Treasurer is the same for both; Foundation uses staff from the Club for its own purposes. Executive Director of the Club sits on the Board of the Players Foundation.

Allan Dodds Frank for the Financial Advisory Committee

For those who do not know me, I am a former network television business investigative correspondent who has been a member of The Players since 1988, the year I was married at the club. My late father also was a member for many years and I first visited the Players as a student at Colgate University for the month of January, 1967. Professor Russell Speirs – an English teacher who was a Player- brought a dozen of us to New York City to learn how to be drama critics. We saw as many plays as possible, wrote reviews every day, then met in the second floor card room to analyze them with one another before repairing for lunch daily in The Grill.

My devotion to the Players and concern for its survival is unchallenged. I joined the Financial Advisory Committee when it was formed following a tumultuous meeting of the membership.

The essence of today's meeting is the battle for complete transparency about the conduct of the management of this club. There is a duty owed to each and every member by the officers, the board and the executive director, to run this club prudently and in accordance with generally accepted standards and principles of ethical and professional management behavior.

One of the most obvious standards is maintaining a high level of accountability. That requires keeping complete books and records that accurately reflect the cash flows, assets and liabilities and true overall financial condition of the organization. This is more critical than ever, given the repeated warnings from the club's accounting firm that its analysis requires "a going concern" note stipulating that the club may not be a viable enterprise. If indeed the records that are available do not encompass the entirety of the club's financial exposure, the situation may be even more dire than the accountant's analysis suggests. That information gap is a situation the officers and board have a duty to examine, explain to the entire membership, and correct.

Finally, there are the club's important intangible assets -its good will and good reputation - that the officers, board members, executive director and staff have the duty to protect and enhance. Part of that duty requires an effort to avoid even "the appearance of a conflict of interest" by providing complete explanations to members of financial arrangements that involve board members or employees. This need for full disclosure is most apparent when the financial well being of the Players becomes enmeshed with the personal finances of board members or club employees who have financial stakes in firms doing business with the club.

Regardless of whether a court might actually determine whether an "unlawful conflict of interest might exist," even the raising of the question by a major newspaper such as the New York Times or a website can be damaging to the Players.

For instance, two executive committee members work for insurance firms that provide coverage to the club at commercial rates. Similarly, the brother of one executive committee member has business

arrangements with the firm that currently is doing the façade work under a contract that may exceed \$500,000.

While it may well be true that the commercial relationships these board members are engaged in actually benefit the club, the membership deserves full explanations and a presentation of the facts that might substantiate such assertions.

During the course of its existence, the Financial Advisory Committee has brought to the attention of the Players Executive Committee – and by reference – to the Board and the Management Committee, other questions of fact pertaining to potential “conflicts of interest,” including some related to the executive director. However, it also is our understanding, that at least so far, the membership has never been informed about the resolution of our inquiry and what salutary actions may have been taken.

Every member of this club has the right to be informed, fully, honestly, and in a timely fashion, about how the officers, board members, and employees of the club, most notably the executive director, are performing their duties.

Sadly, the Financial Advisory Committee concludes there has been a pattern of behavior by the Executive Committee, if not by the Board as a whole, and by the Executive Director, that has resulted in the membership as a whole not being informed about the mistakes, bad decisions and failures of management.

We believe that such behavior is contrary to ethical and proper management practices, and undermines, in a most serious and corrosive way, the trust and proper civil behavior by ladies and gentlemen on which this club is built.

Only complete disclosure of the facts can disinfect the atmosphere of mistrust of management now engulfing our cherished club. And only a systematic, reliable professional management plan can make that happen in a way that will measurably improve the current method of running the club.

Thank you for your consideration of the FAC’s recommendations.