Financial Management

Acknowledgements

This module has been written by Christopher Auld and Graham Cuskelly, both from the School of Leisure Studies, Griffith University, Brisbane. Particular thanks go to them for the considerable work involved in producing this publication. In addition, thanks are due to the reviewers, Dianne Cowan from the Australian Sports Commission; all the state departments of sport & recreation VIP coordinators; and all those people who generously devoted time and effort to provide feedback and comments on draft modules.

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Introduction

Sport and recreation organisations achieve their strategic goals and deliver their programs and services through the efficient and effective application of human (volunteers and staff), physical (facilities and equipment) and financial (monetary) resources. Responsible management of financial resources is perhaps the most common factor that separates sport and recreation organisations that are successful from those that are either less successful or those that no longer exist. This module focuses on accounting for and managing financial resources.

The purpose of this module is to:

- clarify the position and role of the Treasurer within sport and recreation organisations
- outline the skills and attributes, and equipment needed to help the Treasurer to be successful in their role
- provide an overview of the routine procedures of the Treasurer as the manager of financial resources in sport and recreation organizations

The Position of Treasurer

The constitution of most sport and recreation organisations usually requires the Treasurer to have a position on the management committee or board. (Note that the Treasurer can be called the Finance Director in some organisations; in this module/series we simply use the job title Treasurer.) The Treasurer should also hold a position on the executive committee (see ‘Constitutions’ in the *Legal Issues and Risk Management* module). It is important that the Treasurer does not operate in isolation. Because financial resources are critical to the development and implementation of strategic plans, all management committee or board members should have input to the use of an organisation’s finances. At the very least, the management committee or board should be involved in developing and approving the annual operating and capital budgets, keeping up to date with the financial position and performance of the organisation, and asking questions about the organisation’s finances.

At times the Treasurer will be in the position of having to balance the competing demands of management committee or board members or different constituencies with their primary responsibility of effectively and responsibly using financial resources. Having budgets approved by the management committee or board and providing regular and up-to-date financial reports will ensure that any advice the Treasurer gives is based on fact rather than opinion.

A key issue for the Treasurer is accountability. The Treasurer must be accountable to the management committee or board and ultimately the members of a sport or recreation organisation for all financial transactions. Separation of powers and conflict of interest are important concepts in this regard. In order to minimize the risk of errors, misuse of funds or fraudulent activities, all financial transactions (eg receipting cash or making payments) should pass through at least two parties within an organisation. Importantly, the two parties should not be involved in a close interpersonal relationship which might increase the risk of collusion with respect to the misuse of funds.

The constitution normally sets out the financial year for organisations. Most finish their financial year one or two months prior to the annual general meeting (AGM). This allows time to get the accounts in order and have them audited in time for presentation at the AGM (see 'Auditing' in this module). If possible, the financial year should also be in tune with funding bodies as well as state or regional associations.

The volume and nature of the work of the Treasurer depends upon the size of the organisation, the programs, services and activities it is involved in, and whether the organisation owns facilities or employs staff. Because every organisation functions differently and has different needs, the position and role of the Treasurer may need to be adapted to suit the

needs of a particular organisation and may well change as an organisation grows and develops. For example, all but small clubs and associations frequently appoint an Assistant Treasurer or hire a staff member to reduce the day-to-day workload that would otherwise be the sole responsibility of the Treasurer. Generally, larger sport and recreation organisations that own or manage facilities and employ staff will have a finance sub-committee to help the Treasurer.

The individual who takes on the position of Treasurer will need to know what they are required to do and how their performance will be evaluated. Just as the positions of President, Secretary, Coaching Coordinator and most other volunteers have job descriptions so should the position of Treasurer. The role of the Treasurer is indeed broad. It spans day-to-day clerical tasks to financially significant but infrequent strategic decisions. Aside from keeping track of the details of all financial transactions the Treasurer also provides advice to the management committee or board about major financial decisions such as investing or borrowing funds, or the financial implications of strategic decisions. The Treasurer's role alternates between reporting what has happened to an organisation's funds (accounting or financial operations) and looking for the most effective ways to use available funds (financial planning and management).

When first taking over the role of Treasurer it is useful to meet with the previous Treasurer and the organisation's auditor. They are in a position to understand what is required of the position and should be helpful putting the new Treasurer on the right path. The job description below lists the typical duties and responsibilities of a Treasurer. Aside from a job description the key duties of the Treasurer are often spelt out in the constitution.

Job Description

- Ensure that adequate accounts and records exist regarding the organisation's financial transactions.
- Coordinate the preparation of budgets for the forthcoming year describing potential sources of income and expenditure.
- Issue receipts and promptly deposit all monies received in the organisation's bank account.
- Make all approved payments promptly.
- Keep accurate and up-to-date records of all income and expenditure.
- Invoice groups/members promptly for rentals (eg building, equipment, uniforms).
- Act as the signatory on the organisation's bank accounts, cheque accounts, and investment and loan facilities (with at least one other management committee member).
- Manage the organisation's cash flow.
- Be accountable for the organisation's petty cash.
- Prepare regular bank account reconciliation statements for presentation to the management committee or board.
- Be fully informed about the financial position of the organisation at all times.
- Prepare and present financial statements on a regular basis to management committee or board meetings.
- Recommend investment strategies for surplus funds.
- Manage the organisation's investment programs.
- Negotiate with banks for overdraft facilities, mortgages and other loan facilities where required by the management committee or board.
- Handle payrolls and income tax payments for employees if applicable.
- Regularly file business activity statements (including GST) with the relevant authorities, where applicable.
- Acquit funds received from government grants and submit the necessary financial statements.

- Prepare financial accounts for annual or more frequent auditing, and provide the auditor with information as required.
- Prepare all necessary financial statements for inclusion in the annual report.
- If incorporated, ensure annual returns and audited financial statements are filed with the relevant government department as required by the Associations Incorporation Act.

Skills required in a treasurer

A key benefit of being Treasurer is the opportunity to develop accounting, financial and organisational skills which can be of use in personal and working life. Treasurers who are better at their jobs tend to have the following skills and attributes:

- honesty and integrity
- enthusiasm for the task
- good organisational skills
- a good eye for detail
- good at making decisions
- an ability to work in a logical and orderly manner
- an ability to allocate regular time periods (eg weekly or monthly) to maintain the books
- an ability to keep good records
- an awareness of procedures for handling cash, cheques and other financial transactions
- a willingness to learn new skills, if necessary.

Financial Operations

A majority of the Treasurer's tasks involve the day-to-day management of an organisation's financial resources – what are sometimes termed accounting or financial operations.

In this role the Treasurer, perhaps with the help of paid staff or other volunteers, puts into place the procedures necessary to collect and record details of all financial transactions affecting the financial position and performance of a sport or recreation organisation. The output of these procedures is regular financial reports which are presented at the management committee or board meetings.

Accounting Stationery

In order to get started with the financial operations aspect of their role the Treasurer will need the following accounting stationery:

- cheque books
- bank deposit books
- a cash book or a general ledger
- payment authorisation (cheque requisition) vouchers
- a numbered receipt book with carbon copy page
- account forms for members ' subscriptions
- a petty cash payment book and petty cash vouchers
- a file for accounts payable
- a file to store receipts from accounts paid
- a file of orders placed with suppliers
- a file to store bank statements.'

All of the stationery listed should be held by the organisation or the previous Treasurer and should be routinely handed over when the new Treasurer takes up their position.

The Treasurer will be responsible for setting up systems to collect and record the details of financial transactions, most of which will be receipts and payments. An understanding of the operations of bank accounts, the cash book, receipting funds, making payments, bank reconciliation, petty cash and managing creditors (external parties who are owed money) and debtors (people who owe the sport or recreation organisation money) is essential.

Bank Accounts

A cheque account is a must for the well-run sport or recreation organisation. A cheque account provides a convenient record of payment through the cheque butt. It is therefore essential that cheque butts are completed when cheques are drawn and the cheque number is written on the creditors invoice when payment is made. Cheques also provide a secure method of payment. This means that in most circumstances members need not carry cash.

It is usually a requirement of the constitution to have two management committee members (Treasurer and one other) with authority to jointly sign cheques. Some organisations find it useful to have three members with signing authority, with individual cheques requiring any two authorised signatures. It is never a good idea to sign cheques:

- before all other details have been completed (eg date, amount, payee)
- without an accompanying invoice from the supplier
- before checking that goods have been received or services completed.
-

It is good practice to pay all invoices and accounts from the cheque account, as all expenditure will be recorded on the account statement. Depending upon the average number of transactions, bank statements can be requested quarterly, monthly or more frequently.

Financial management tip: Surplus cash is an idle asset when held in the cheque account. A cash flow plan (discussed later)enables an organisation to anticipate the months in which it is likely to have cash surplus to its operational needs. The Treasurer is responsible for transferring surplus cash to an investment account or setting up procedures so this it is done regularly. Even over short periods of time, interest earned on surplus cash can be used as another source of revenue for the organisation. Investments can be timed to mature to suit the cash flow needs of the organisation.

Cash Book

The cash book, also known as the cash receipts and cash payments journal, is used to record all of an organisation's receipts and payments. Cash means bank notes, credit card slips, cheques and money orders. Source documents such as receipts and cheque butts provide details about individual transactions, but unless the individual transactions are recorded and summarized it is impossible to get a clear picture of the financial position of an organisation. The Treasurer should regularly record the details of receipts and payments in the cash book.

To determine the cash balance, total the receipts and deduct payments (see 'Receipts' and 'Payments' following pages). Other items that will affect the cash balance are bank interest and charges, government taxes, unpresented cheques, dishonoured (bounced) cheques, and direct credits or debits from other accounts. At the end of each month, the figures recorded in the cash book can be checked against the bank statement (see 'Bank reconciliation page13). The cash book closing balance for each month becomes the opening balance for the next month. It is also a good practice to summarise what the organisation owes to external or third parties (creditors) and what money is owed to the organisation itself (debtors).

In small organisations the cash book is usually a manual system based on a ruled ledger book available from most newsagents and office supply companies. Some organisations record receipts in the front of the cash book and payments

in the back. It is a relatively simply process to set up a cash book using a spreadsheet program. Larger organizations use specialised computer software, with varying levels of sophistication, to manage their receipts and payments. They still have source documents (evidence that a financial transaction has occurred such as a receipt copy) and regularly check their transactions against the bank statement.

Receipts

Details of receipts are recorded in cash book columns. Columns are labelled with the account names (eg membership, coaching fees, raffles, bank interest). The columns are often the same as those identified in the income side of an organisation's budget or statement of income. Receipts are usually entered in three places, depending on the amount of detail required and the type of cash book system used.

Receipts are entered in the amount column, usually in receipt number order, under its account column, and in the banked column when it is banked. At the end of each month the cash receipts columns should balance with one another (ie the amount column totaled should tally with the total of all other columns, excluding banked, added together). Often the banked figure will be an accumulation of all money received since a deposit was last made. Listing individual amounts by date banked facilitates the bank reconciliation process.

All receipt columns should be totaled at the end of each month. Monthly totals can be accumulated to give a record of receipts for the year to date, overall and for each account (eg total for membership).
Accumulated totals can be compared to budgeted figures to reveal whether income items are on budget, ahead or behind. When balanced, the monthly closing balances can be carried forward as the opening balances for the next month.

Receipt entries in a manual or spreadsheet based cash book might look like this:

Date	Details	Receipt Number	Amount $	Court Hire $	Membership $	Banked
July						
1	C Smith	00345	50.00		50.00	
2	Rebels training	00346	75.00	75.00		
						125.00

Financial management tip: It is good practice to bank all receipts promptly and intact. Promptness reduces the risk of cash and cheques being misplaced and ensures that the proceeds of cheques received by the organisation are cleared and ready to use. Banking receipts intact (ie without deductions being made) reduces the risk of funds being misused as well as facilitating the bank reconciliation process.

Payments

As with receipts, payments are recorded in cash book columns. Columns are labeled with the account names (eg telephone, rent paid, maintenance, bank fees). The columns are often the same as those identified in the expenditure side of an organisation's budget or statement of expenditure.

When a cheque is issued, the details should be entered in the appropriate columns, usually in cheque number order. The amount column provides a running total of expenditure for the organisation. At the end of each month the cash payments columns should balance with one another (ie amount column totalled should tally with the total of all other columns added together). All payment columns should be totaled at the end of each month. Monthly totals can be accumulated to give a record of expenses for the year to date, overall and for each account (eg total for rent paid).

As with receipts, accumulated totals can be compared to budgeted figures to reveal whether expenditure items are on budget, ahead or behind. When balanced, the monthly closing balances can be carried forward as the opening balances for the next month.

Payment entries in a manual or spreadsheet based cash book might look like this (below):

Date	Details	Cheque Number	Amount $	Printing $	Telephone $	Rent Paid $
July						
1	ABC Real Estate	00123	700.00			700.00
4	Telstra	00124	207.50		207.5	

When writing cheques it is important to:

- write in the payee's name in full
- cross out 'or bearer' if you want the cheque to be paid only to the payee, and cross it 'not negotiable' if it should be banked into the payee's bank account
- write in the correct date
- write in the total amount clearly both in words and figures
- put the sport and recreation organisation's postal address and the invoice or account number on the back of the cheque
- fill in the cheque butt
- sign the cheque, making sure there are two authorised signatures
- request a receipt for all payments.

Some sport and recreation organisations find that payment authorisations can be more easily verified by using a cheque requisition form. This form contains all details of payment, similar to those on the cheque butt, including the signatures of those organisation members authorised to make payments on the organisation's behalf. The cheque requisition form and supporting documentation (eg invoice) can be filed, month by month, for future reference and can facilitate the auditing process.

Financial management tip: It is good practice to pay all accounts and invoices according to their terms, usually between 7 and 30 days of receiving an invoice or claim from a supplier. Prompt payment will generally ensure the good will of suppliers. Prompt payment of the out-of-pocket expenses of volunteers also generates goodwill within the organisation. It is usually the Treasurer's responsibility to prepare cheques for approval and signing by a second authorised signatory. The Treasurer usually has the power to make payments between management committee meetings; it is good practice to have any such payments ratified at the next meeting. All payments that have been budgeted for can normally be paid subject to ratification by the management committee. The management committee minutes should record authorisation for major items of expenditure.

Cash Based or Accrual Accounting?

The accounting system described in this module is cash based. Cash and accrual accounting are two different accounting standards which use different criteria for recognising income and expenses.

Using an accrual based system provides a more accurate record of an organisation's financial position and financial performance but involves more work. Revenue and expenditure have to be matched for the period in which they are incurred. Many sport and recreation organisations, particularly those that are entirely volunteer staffed, do not have sufficient resources to run accrual based accounting systems. They use the cash based system because it is easier to learn and requires less work to keep it up to date. Because the cash based system does not routinely track accruals (eg prepayments such as insurance, unpaid accounts, or unearned revenue such as membership fees), the management committee may not always have complete financial information. Some organizations use a modified cash based system in that they record income when it is received but record expenses whether or not they have been paid.

Bank Reconciliation

The Treasurer should arrange with the bank to mail the organisation's cheque account statement several days prior to monthly management committee meetings. The bank statement shows all movements of funds into and out of an account. To obtain a clearer picture of the organisation 's financial position the cash book balance is reconciled against the bank statement. Check the bank statement against the cash book (receipts and payments) to ensure they are the same. Recall that there are items that may cause the bank statement balance to differ from the cash book balance (see 'Bank reconciliation' below).
For example, interest and bank charges, taxes, unpresented cheques, dishonoured (bounced) cheques, and direct credits or debits to or from other accounts.

A reconciliation statement looks something like this:

BANK RECONCILIATION STATEMENT AS AT __/__/__	
Opening cash book balance	1 500
Add receipts	*60*
Less payments	*200*
Closing cash book balance	1 360
Add direct credits not yet written	*250*
Less direct debits into cash book	*40*
Adjusted cash book balance	1 570
Bank statement balance at end of period	1 570
Add receipts not yet banked	*235*
Less cheques not yet presented	*400*
True cash book balance	1 405
List of cheques not yet presented: *Date written cheque number*	
12 Jan 000123 Brand T-shirts	*240*
14 Jan 000124 Logo Designs Ltd	*160*
Total unpresented cheques	400

Petty Cash

A petty cash system is a convenient and cost effective way to reduce paperwork and minimise account fees and taxes that would have to be paid if a cheque was drawn for every item of expenditure. Petty cash can be issued in exchange for a receipt as a means of reimbursing members or volunteers who have used their own money to purchase small items (eg less than $50.00) on behalf of the organisation.

To initiate a petty cash system, a 'cash' cheque is drawn on the organisation's bank account for a small amount (eg $100.00) and entered in the cash book. When presented with a valid claim supported by a receipt the Treasurer completes a petty cash voucher, has the claimant sign the voucher, reimburses the claimant, records and retains the receipt. Petty cash expenditure should be recorded in a petty cash book, not the cash book. As a means of control, at any given time the amount of cash plus retained receipts should tally with the total in the petty cash fund. When the petty cash funds run low a 'cash' cheque is drawn to the total of the receipts paid. It is advisable to include the petty cash float in the organisation's theft insurance policy.

Payroll

Sport and recreation organisations are increasingly hiring paid staff to assist with many of their day-to-day functions, such as coaching, officiating and administration. It is good practice to keep a payroll and pay employees by cheque or direct deposit to their bank account. A payroll summary is an important set of records that should be passed on to the auditor when the annual accounts are being audited. The payroll summary should be kept with the vouchers for the cheques written to pay salaries or wages. The example following shows a payroll where employees are paid by cheque.

Payroll number (fortnight)	Pay Period ending (date)		Date Paid:	
Name	Gross $	Tax $	Net $	Chq No.
W Russell	400.00	128.00	2723.00	12301
P Muir	220.00	66.00	164.00	12568

Depreciation – accounting for capital assets

Many sport and recreation organizations have capital assets (eg clubhouse facilities, motor vehicles) which are used in their day-to-day operations. The worth or service potential of capital assets diminishes over their useful life, due to wear and tear, technological obsolescence and physical deterioration. Accounting for the depreciation of capital assets gives a more accurate picture of the expenses incurred in operating programs or services. However, cash basis accounting systems do not always make allowances for depreciation. Depreciation refers to writing off the cost of a capital asset over the period of its useful life. Without going into the detail of the accounting methods used, depreciation allocates the cost of an asset over time in an attempt to match this cost to the period in which the asset is being 'used up'. There are several important points to note about depreciation:

- The charging of depreciation is a book entry and does not involve cash.
- The process of depreciation does not set aside cash to replace an asset at the end of its useful life.
- The depreciated value of an asset is not necessarily the same as its market value.
-

If an organisation has capital assets it should maintain a capital assets register. An asset register helps keep track of:

- the supplier of the asset
- the estimated life of the asset
- the method of depreciation and the rate that is applied
- the original cost, annual depreciation and accumulated depreciation
- insurance details
- major repairs and maintenance
- the method and proceeds of disposal or sale of the asset.

Accounting for the GST

The goods and services tax (GST) is a broad based tax of 10% applied to supplies of most goods and services consumed in

Australia[1].

Sport and recreation organisations, including those in the non-profit sector, must be registered for the GST if their annual turnover is $50,000 or more (commercial sector) or $100,000 or more (non-profit sector). Registered organisations have an Australian Business Number (ABN). GST is payable by sport and recreation organisations on most goods and services sold or supplied in the course of their business. These supplies are called taxable supplies. There are other types of supplies where the GST does not have to be included in the price. These are called input-taxed supplies and GST-free supplies.

GST is also included in the goods and services that an organisation acquires for its business. If an organisation is registered for GST it can claim a credit from the Australian Tax Office (ATO) for any GST included in the price paid for things purchased for the organisation. This is called an input tax credit. The difference between the GST payable on an organisation's supplies and the GST included in the purchase price of its acquisitions is the amount owed to the ATO.

Displayed prices (eg membership fees) must include the GST, where applicable. For example, an annual membership fee for a swimming club of $110 includes a GST of $10 (one-eleventh of the displayed price). Donations, grants, sponsorships (monetary and contra), gambling, fundraising, contracts (including leases, rental and hire purchase), insurance, food (production, preparation or supply), motor vehicles and second hand goods are treated in different ways with respect to GST.

Sport and recreation organisations should consult a qualified accountant, financial manager or legal adviser about how best to deal with the GST. Further information is also available from the tax reform web site (www.taxreform.ato.gov.au) and the Australian Sports Commission (www.ausport.gov.au/gst/).

Financial Planning

The Treasurer has several key roles in the area of financial planning for a sport and recreation organisation, mostly to do with budgeting, financing and investing activities.

Preparing Budgets

J Edgar Hoover once said that budgeting is about telling your money where to go rather than wondering where it went. In more formal terms a budget is an expression in monetary terms of the means by which an organization plans to achieve objectives[ii]. Even though a budget is often thought of as a way to limit expenditure it is really a tool for planning the efficient and effective application of financial resources on a day-to-day basis toward the long-term goals of the organisation.

A budget is not about putting a sport or recreation organisation into a financial straight-jacket. The level of sophistication in the budgeting process is determined largely by the size of the organisation and its objectives (eg expansion of staff and programs, facility redevelopment).

Operating and capital Budgets

Usually it is the Treasurer's responsibility to coordinate the budgeting process in consultation with other management committee or board members. Budgeting is a key role in financial planning and management for most sport and recreation organisations. It follows on from a review of the organisation's development or strategic plan and may well lead to a review of the organisation's future plans. There is usually a separation between operating and capital budgets. Operating budgets are usually projected for one year at a time. Capital budgets involve less frequent but mostly substantial items and might be projected over a five-year period and subject to annual review. Though not elaborated on in this module, in larger organisations operating budgets may be further subdivided into a number of cost-centre budgets such as for marketing, administration, programs, facility operations, training and development, merchandising and so on.

The budget is a statement of the likely sources of income and anticipated expenses for operations and capital development. The budget shows all sources of income and expenses such as administration expenses as well as program income and expenses. It is therefore essential that program sub-committees (eg coaching, facility development) have input to the budgeting process.

Major Steps in Preparing budgets

1. The management committee should decide whether the organisation is going to use a conservative approach to budgeting and whether it is going to run a break-even(ie operating income to equal operating expenses), surplus or deficit budget. If there is to be a surplus or deficit budget, what amount is the management committee expecting or prepared to tolerate?
2. Identify and list all possible sources of income and all likely areas of expenditure, separating those items that belong in the operating budget and those items that belong in the capital budget. As a general principle, prudent budgeting ensures that total operating expenses are covered by total operating income for the year.
3. Obtain or make estimates for all budgeted items. Make a careful estimate about the amounts likely to be spent or received for each item. If the principle of conservatism is to be applied to the budgeting process, income items should be underestimated and expenditure items overestimated. Having end-of-year financial statements and budgets from previous years is particularly helpful in the budgeting process. This is an incremental approach to budgeting and assumes that the organisation does not need to implement major changes. It is important to consult with individuals and groups within an organisation who are likely to be affected by budget decisions.
4. Adjustments for inflation and likely increases in expenses should be made. Figures are usually rounded off because they are estimates.
5. For some items it will be possible to calculate the amount which is likely to be paid or received. For large items, such as capital expenditure or hiring a staff member for the first time, it may be necessary to obtain quotes or estimates if the budget is to be accurate.
6. It may take several attempts to draw up a budget that is acceptable to the management committee or board. It is not unusual for a sport or recreation organisation to review its operational and capital expenditure plans in light of budget estimates, particularly where deficits are likely to occur.

A draft operating budget for a small sport and recreation club might look like the example shown below. Note that the budget is in deficit (expenses are projected to be higher than income).

Operating Budget for the Year	
Income	$
Subsidies	2 000
Membership	1 500
Donations	400
Fundraising	2 000
Sponsorship	1 000
TOTAL	**$6 900**
Expenses	
Rent	3 500
Equipment	600
Volunteers Expenses	350
Publicity and Printing	200
Fundraising Expenses	200
Telephone	1 500
Stamps and Stationery	300
Insurance	600
Sundry	500
TOTAL	**$7 750**
PROJECTED SURPLUS (DEFICIT)	**($850)**

When a budget is being developed, particularly for the first time, it is important to make notes for the future. Projected and actual income and expenditure might vary markedly in the first few years of budgeting, but fine-tuning over a number of years will bring the projected and actual figures much closer together. Notes will help eliminate any 'fuzzy' thinking from past budgets.

Large deficit budgets, where expenditure is expected to exceed income, can be a problem if an organisation does not have a pool of uncommitted accumulated funds from previous years. The organisation must find ways of reducing expenditure or increasing income. If income can be increased realistically, looking at large expenditure items can provide options for saving money. As discussed earlier, the organisation may have to forgo some of its plans if it has insufficient funds.

A draft operating budget for a larger sport and recreation organisation might look something like this:

Operating Budget for the Year	
Income	$
Government grant – salary subsidy	42 000
Membership/Affiliations	100 000
Awards, badges	2 000
Bank Interest	500
Bar takings	50 000
Donations	1 500
Fundraising	10 000
Gate takings	6 000
Hire of gym	5 000
Sponsorship	12 500
Total	**$229 500**
Expenses	
Salaries and costs	
Administrator	39 000

Clerical secretary	22 000
Development officer	29 000
Coaching coordinator (part time)	8 000
Hourly paid assistance	1 000
Casual bar staff	17 000
Postage and telephone	12 000
Stationery and postage	14 000
Travel	3 500
Insurance	6 000
Repairs and maintenance	16 000
Trophies	1 000
Photocopier	10 000
Word processor	6 000
Publicity and promotions	10 000
Rental	2 500
Bar stock	7 000
Tracksuits	2 500
Coaching sessions	4 000
Umpires seminar	2 000
Secondary schools tournament	5 000
National affiliations	1 000
Miscellaneous	1 500
TOTAL	**$220 000**
PROJECTED SURPLUS (DEFICIT)	**$9 500**

A capital budget for a sport and recreation organisation which owns a licensed clubhouse facility might look something like the budget below. The yearly figures would need to be carried forward into the operating budget of the organisation to ensure that it did not run into problems with a deficit budget. Grant funds and other forms of income might be used to offset some items of capital expenditure:

	Year 1 $	**Year 2 $**	**Year 3 $**	**Year 4 $**	**Year 5 $**	**TOTAL $**
Refurbish lounge bar area	7 000	5 500				12 500
Repaint exterior of building	10 000				12 500	22 500
Replace beer reticulation system		21 000				21 500
Upgrade gym equipment			7 500	7 500		15 000
Replace and upgrade car park lighting			30 000			30 000
Rectify car park drainage problem	15 000					15 000
Clubhouse extension				120 000		120 000
Fit out clubhouse extension					60 000	60 000
TOTAL	**$32,000**	**$26,500**	**$37,500**	**$127,500**	**$72,500**	**$296,000**

Cash flow Budgeting

If a sport and recreation organisation is to continue to operate it must have enough cash to pay its bills when they become due. Many sport and recreation organisations are vulnerable to cash flow problems because they operate on small cash reserves, and they fail to see the implications of cash flow problems until it's too late. The timing and size of cash receipts and payments are the two most important factors in cash flow budgeting. After projecting annual operating and capital budgets, the Treasurer and the management committee should try to project on a month-to-month basis its cash position to plan for months where the organisation is likely to have a shortage or a surplus of cash on hand. Months where income is projected to be low and expenditure is expected to be high tend to cause cash management problems.

Astute Treasurers are able to anticipate the months in which cash flow problems are likely to occur and plan accordingly. Bringing forward income and putting back large items of expenditure (eg capital works) are the two most widely used strategies for dealing with cash flow problems. Borrowing money (eg bank overdraft) is another strategy that is often used to overcome cash flow problems.

However, the risks and costs associated with borrowing funds and finding access to such funds makes it a less appealing strategy for most not-for-profit sport and recreation organisations. In months where a cash surplus is expected to occur, the Treasurer can suggest strategies for investing the surplus funds for short periods of time to generate additional income for the organisation (see the 'Financial management tip' under 'Bank accounts' pg 8/9).

Financing and Investing Activities

From time to time the Treasurer may be called on to provide advice or make recommendations to the management committee about financing the purchase of a major asset (eg a new clubhouse facility) or how to invest surplus funds. Because financial institutions offer such a wide range of loan and investment products and services the Treasurer should seek independent financial advice about such matters before making firm recommendations about how the organisation should proceed. Decisions about financing major asset purchases or investing large amounts of money do not occur very often but have significant long-term implications for the financial performance of most sport and recreation organisations. Financing and investing activities are regulated to some extent in incorporated associations by the Associations Incorporation Act in each state.

Some financial implications of incorporation

Incorporated sport and recreation organisations have a legal existence in and of themselves. In financial terms this means that it can:

- sue and be sued in its own right
- own land and other property
- make contracts and enter into tenancy agreements in its own right
- receive a bequest or gift from a will
- borrow money
- perpetually exist, that is, remain in existence no matter who is a member until it is disbanded by direct operation of the law.

Further, the office bearers and members are not personally liable for the debts of the organisation, nor the negligent acts or omissions of other office bearers and members unless the rules specifically provide otherwise. Liability of members to contribute toward the payment of debts and liabilities of the organisation or the costs and expenses of winding up the organisation is limited to a sum provided in the rules (usually $1.00). However, incorporation does not protect the individual from liability for their own negligence. Incorporated associations may not be formed for the purposes of trading or earning profit for members.

If the organisation earns a profit from commercial activity, this profit may not be distributed among the members. It must be used for the objectives of the organisation as stated in its constitution. Further details about incorporation are included in the *Legal Issues and Risk Management* module.

Sport and recreation organisations that frequently review their financial position can make investment decisions to ensure that they carry minimal levels of surplus cash in their cheque accounts. When surplus funds are invested the two key factors to consider are the level of risk and return. In general, investments with higher returns tend also to have higher levels of risk. Dealing with reputable financial institutions when making investment decisions minimises the risks associated with investing funds. In some states, under the Associations Incorporation Act the investment activities of incorporated associations are restricted to certain types of financial institution.

Borrowing funds exposes organisations to some degree of risk. If an organization defaults on its loan repayments the financier may move to appoint an administrator to conduct the affairs of the organisation (ie the management committee loses control) or may have the organisation wound up and its assets sold to cover any outstanding debt. There are several basic principles involved when borrowing funds to finance the purchase of fixed assets:

- Match the term of the loan to the useful life of the asset (eg motor vehicle 4 to 5 years, new building 10-20 years).
- Funds provided by the organization should equal or exceed the borrowed funds.
- The organisation should ensure it has the capacity to service the debt.

Lenders are concerned with the amount of collateral offered in relation to a loan, the ability of the organisation to repay the loan out of its earnings, the current market value of its assets, and the ease with which the lender could sell the assets.

When approaching a financial institution with a proposal to borrow funds, a sport and recreation organisation will need to have the following information available:

- The purpose of the loan.
- Last three years financial statements (eg statements of income and expenditure and balance sheets).
- A cash flow budget for the period of the loan (monthly for first year).
- Details of debtors and creditors.

Financial Reporting

As well as managing the day-to-day financial operations and coordinating the budget process, the Treasurer is responsible for financial reporting and management. The role is to regularly report the financial situation of the organisation (actual performance) to the management committee, as well as comparing actual performance with budgeted performance.

Where actual performance varies unexpectedly from budgeted performance the Treasurer might be called on to advise the management committee about managing unexpected financial results.

Monthly financial reports

For regular management committee or executive meetings it is useful to prepare a statement showing the income and expenditure for the past month, as well as a summary of the year-to-date figures, and a comparison to budgeted figures called variance (see example below). Each month a bank reconciliation statement should also be presented to the management committee.

The Sport and Recreation Organisation Inc Statement of Income and Expenditure for month ending __/__/__				
	This month $	**Year to Date $**	**Budget $**	**Variance %**
Income				
Grant		3 002.40	10 000	30%
Sale of Shirts	21.00	110.45	500	22%
Affiliation fees	100.00	225.00	500	45 %
Interest	2.50	2.50	20	13%
TOTAL	123.50	3 340.35	11 020	30%
				Expenditure
Electricity	80.52	579.50	2 000	29%
Stationery & Postage	43.50	821.45	2 000	41%
Telephone		176.30	500	35%
Insurance	115.25	263.40	500	53%
Equipment		665.00	1 000	66%
Repairs and Maintenance		186.00	2 000	9%
Costs of Shirts		300.00	300	100%
Travel	21.69	775.26	2 000	39%
Sundries	10.05	30.15	100	30%
TOTAL	**271.01**	**3 787.06**	**10 400**	**36%**
Surplus (Deficit)	**(147.51)**	**(446.71)**	**620**	**-72%**

Actual versus budgeted performance (variance)
Variance is a method widely used to compare actual with budgeted financial performance. Variance can be presented in percentage (shown previous page) or difference terms. In the example on the previous page items in the 'Year to date' column are divided by the budgeted figures for each item. Variance should be interpreted in light of just what the 'Year to date' figures represent (eg two, three or six months of the year completed) and whether the organisation has seasonal fluctuations (eg all shirts are purchased in bulk at the start of the season). If variance is:

- about equal to what is expected then no action needs to be taken
- higher or lower than what is expected the organisation will have either:
- a problem to solve because income is lower than budgeted or expenditure is higher than budgeted, or
- an opportunity to use budgeted funds elsewhere when income is higher than budgeted or expenditure is lower than budgeted.

The management committee may also require a bank reconciliation statement (see example shown earlier in this module, page 13) and a list of creditors (money owed by the sport and recreation organisation) and debtors (money owed to the sport and recreation organisation).

The information contained in these reports enables the management committee to get a clearer picture of its financial position and performance and can use the information in making other types of decisions (eg revising the price of membership or choosing an alternate telephone company).

In larger organisations, the management committee may also require a report on its assets and liabilities (balance sheet) at monthly meetings (see example on following pages in 'End of year financial reports').
Frequent financial reporting gives a sport and recreation organisation a better chance of identifying problems early. It should also help to improve the organisation's overall financial performance and ultimately strengthen its financial position.

End of Year Financial Reports

Most sport and recreation organizations publish a statement of income and expenditure and balance sheet as the principal financial reports for presentation to and adoption by its members at the annual general meeting (AGM). These statements summarise and report the financial performance (statement of income and expenditure) and financial position or net worth (balance sheet) of the organisation.

Unlike budgets which are estimates or projections where the figures are rounded, financial reports account for every dollar and cent. The reports are based on the receipts and the payments that have been recorded and summarised in the cash book throughout the year by the Treasurer. The constitution of most organisations requires that the accounts of the organisation have been independently audited prior to presentation at the AGM (see 'Auditing' page 28).

Annual Statement of Income and Expenditure

The Annual Statement of Income and Expenditure, also known as a Profit and Loss Statement shows how much money an organisation has made or lost over the year as a result of its operations (see example pg 26). It is a summary of the financial performance of an organisation. The statement is based on figures that the Treasurer has recorded in the cash book. This statement is normally prepared by the Treasurer and verified by an auditor.

Annual balance sheet

A balance sheet is a statement of what an organisation owns and what it owes, the difference being the net worth or accumulated funds of the organisation. It is a summary of the financial position of an organisation. In cases when a conventional balance sheet is not prepared, it is advisable to provide members with a report of the organisation's affairs in the form of a statement of assets and liabilities. This will list the organisation's assets and liabilities, arranged in general categories, and show an estimated (eg computer or photocopier) or actual value (eg cash on hand) for each item. The liabilities when deducted from the total assets, show the net worth of the organisation.

Financial management tip: Including last year's figures in annual financial reports enables the management committee and the members to see whether the financial performance and position of the organisation has improved or worsened since last year. It is possible to compare total income, total expenses, net assets, overall financial performance (surplus or deficit) as well as charges on individual items. In order to make valid comparisons from one year to the next, it is important that radical changes are not made to the accounting system used by an organisation.

The Sport and Recreation Organisation Inc. Statement and Income and Expenditure for year ending __/__/__		
Last Year $		**This year $**
	INCOME	
9 000.00	Grant	22 000.00
5 000.00	Development funding	16 000.00
80 152.00	Membership/affiliations	100 001.25
1 515.35	Awards, badges	2 251.60
315.35	Bank interest	478.25
42 242.35	Bar takings	50 468.00
2 125.00	Donations	1 505.65
	Fundraising	4 136.57
4 152.25	Hire of gym	5 168.50
	Sponsorship	2 500.00

$144 502.30	**TOTAL**	**$204 509.82**
	EXPENDITURE	
32 589.70	Administrator	38 124.56
18 567.35	Administrative assistant	22 145.35
15 486.35	Development officer	27 259.86
5 874.12	Coaching coordinator	6 145.38
5 236.65	Casual assistant	1 285.26
15 687.25	Casual bar staff	18 254.79
11 569.85	Telephone and fax	9 523.68
12 156.98	Stationery and postage	13 257.42
3 698.74	Travel	2 894.65
4 985.62	Insurance	5 874.55
3 986.45	Electricity	4 326.89
14 526.96	Equipment repair	9 548.96
1 986.34	Trophies	1 458.76
9 853.24	Photocopier	8 359.41
11 256.74	Publicity and promotions	7 586.50
	Coaching sessions	
	Umpires seminars	
2 758.69	Schools tournament	4 875.69
750.00	National affiliation	1 000.00
1 268.39	Sundry	1 785.36
$172 239.42	**TOTAL**	**$189 372.67**
($27 737.12)	**SURPLUS (DEFICIT)**	**$15 137.15**

Filing annual financial reports

If a sport and recreation organisation is incorporated under its state's Associations Incorporation Act, it is required to lodge a return (copy of the annual accounts) with the appropriate state authority, usually the state Corporate Affairs Office. The accounts are to be accompanied by a certificate stating that they have been approved by the members at the AGM on a particular date, and they must be signed by an officer of the organisation.

Last Year $		**This Year $**
28 462.31	*NET ASSETS* *represented by*	33 375.05
	ASSETS	
100.00	Petty cash float	100.00
3 694.31	Cash at bank	1 689.35
15 000.00	Deposits- building society	21 580.25
2 750.00	Furniture and equipment	2 500.00

22 000.00	Minibus	19 700.00
43 544.31	**TOTAL ASSETS**	**45 569.60**
	Less LIABILITIES	
82.00	Creditors	654.25
15 000.00	Business loan (minibus)	12 540.30
15 082.00	**TOTAL LIABILITES**	**13 194.55**
$28 462.31	**Equals NET ASSTES (ACCUMULATED FUNDS)**	**$32 375.05**

Auditing

The term audited accounts means that the financial records of the organisation have been independently checked by someone with recognised accounting qualifications (usually a chartered accountant) as being a true and correct record of the financial operations and position of an organisation at that time. The Treasurer must be familiar with the rules/constitution of their organisation and its obligations, particularly if the organisation is incorporated (see filing annual reports pg 27).

For incorporated associations, depending on the complexity of its books, it may be possible to appoint an auditor who is not from a registered company, such as an accountant, bank manager, council clerk or chartered secretary. Some organisations, because of their constitution, require an honorary auditor to be appointed at the AGM. If the organization is an incorporated association, it is usually a legal requirement to have the organisation's accounts audited prior to the AGM.
Unincorporated organisations requiring an auditor may approach their local bank manager, council clerk or an accountant, who may do the work for nothing in support of the organisation. The records of all organisations do not necessarily have to be audited. However, the members of almost any organisation can pass a resolution requesting an audit. It is best to check with the State Corporate Affairs Office before appointing an auditor either in an incorporated or unincorporated association.

Because auditing can be a costly process, it is not unusual for sport and recreation organisations to search for an accountant who is willing to audit the organisation 's books on a voluntary basis. To ensure that an audit is truly independent, the auditor should be someone that is a not member of the organisation. It is good practice to give the auditor plenty of time (eg 6 to 8 weeks) to audit the accounts.

The auditor will need to be provided with:

- the books of account, consisting of the cash books written up and balanced for the year, and journals and ledger if these records are maintained.
- bank statements for the whole year
- copies of deposit slips and cheque butts
- receipt books containing the duplicates of receipts issued as well as cancelled original receipts; the auditor also needs to sight books of unused receipts
- vouchers for payments made, which should be placed in numerical sequence of cheques drawn
- access to 'paid' cheques from the organisation's bankers - unless receipts have been obtained for all payments made
- a copy of the minutes book to enable the auditor to review approvals for major items of income and expenditure
- a copy of the last audited statements of account
- the financial statements for the year now being subjected to audit, together with all supporting working papers
- any other records or evidence the auditor may request to confirm the accuracy of transactions recorded and the existence of assets and liabilities shown in the books of account and the financial reports.

Summary

The application of financial resources has a significant bearing on the success of sport and recreation organisations. Organisations need to be able to account for their financial resources, but also need to look at ways to effectively use their financial resources.

The Treasurer has a key role to play in the effective management of financial resources, but it is the management committee or board which has ultimate accountability for how funds are used by organisations.

This module has endeavoured to clarify the position and role of the Treasurer, to outline the skills and attributes that may help treasurers be successful in their role, and to detail the responsibilities of the Treasurer as a manager of financial resources in sport and recreation organisations.

Further information

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Hillary Commission for Recreation and Sport (1991) *Club Administration Manual*. Wellington, NZ: Hillary Commission.
Institute of Chartered Accountants in Australia (1988) *The Club Treasurers Handbook*. Sydney: The Institute.
Meredith, GG (1995) *Accounting and Financial Management for Business Decisions*. Sydney: McGraw-Hill.
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Tasmanian Department of Sport and Recreation (1989) *For Love or Money*. Hobart, Tasmania: The Department.

Glossary

Account. A record in a ledger used to record financial transactions.
Account payable. See creditor
Account receivable. See debtor
Accounting. A process of recording financial transactions in a series of accounts.
Accrual accounting. A system that records all financial commitments as well as cash transactions.
Assets. Physical resources owned and used by an organisation.
Auditing. A review of financial statements by an independent accountant to provide an opinion on the accuracy and validity of financial statements.
Balance sheet. A statement of financial position which reports the assets, liabilities and owners' equity (accumulated funds) of an organization at the close of an accounting period.
Bank reconciliation. A process of checking the financial records of an organization against bank statements to ensure accuracy of processing and to identify bank charges.
Budget. An expression in financial terms of the means by which an organisation plans to achieve its objectives.
Capital budget. A long-term financial plan which estimates likely sources of finance and the costs of acquiring significant assets (also see Operating budget).
Cash accounting. An accounting system that records only cash receipts and cash payments (also see Accrual accounting).
Cash payments journal. A journal or book used to record the details of payments by cash or cheque.
Cash receipts journal. A journal or book used to record the details of cash receipts.
Creditor. A third party who is owed money by the organisation.
Debtor. A third party who owes money to the organisation.
Depreciation. An accounting process designed to allocate the cost of using an asset over its useful life.
Incorporation. An incorporated association is created under legislation which gives that body capacity to sue and be sued, have perpetual succession, to be able to hold and dispose of property, be able to enter into contracts, to borrow money and secure money borrowed over the property of the association, and have a common seal.
Liabilities. Obligations or debts payable to a third party.
Operating budget. A financial plan which estimates likely sources of income and items of expenditure over a period usually no longer than one year (also see Capital budget).
Petty cash. Small amounts of cash held to pay for minor items of expenditure.

Profit and loss statement. See statement of income and expenditure.
Statement of income and expenditure. A statement of revenues (income) and expenses for a given period of time (also known as a profit and loss statement).
Transaction. An event that affects the financial position of an organisation.
Variance. The difference between an actual and budgeted amount on a financial statement.
Voucher. A document used to record details of payments being made by an organisation.

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[1] Australian Taxation Office (1999). *Sport, Recreation and Gaming and the New Tax System*. Cat. no. NAT 3003-10.1999. Canberra: ATO (web site: www.taxreform.ato.gov.au).

[ii] Wilson, C and Keers, B (1993) *Introduction to Financial Management*, 2nd edn. Sydney: Prentice-Hall.