

Financial Reporting

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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. Their role is to regularly report the financial situation of the club (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

The profit and loss statement (sometimes referred to as the income & expenditure statement) is a summary of a club's income and expenses over a specific period of time. It is prepared at regular intervals (usually monthly and at financial year end) to show the results of operations for a given period.

This statement is important for clubs, as it shows how received funds have been allocated against operating expenses during the reporting period, providing information to all donors and the management committee.

Income

Most clubs receive most of their income from membership fees (rather than receiving fees for services), grants and donations. These are often referred to as 'contributions'. Some clubs will also receive income from trading activity, such as the sale of branded goods or goods produced from workshop activities undertaken by clients.

Each source of income for clubs carries specific characteristics and should be appropriately disclosed in the financial statements. Where income is received with specific conditions about how it is to be used, these conditions should be reported through the financial statements.

This is particularly relevant for grants received that carry reciprocal conditions. A reciprocal grant is a grant that has an agreement specifying the conditional use of the contribution. For reciprocal grants, reporting should include stages of completion. This may be measured by reporting the extent to which the conditions of the grant have been met (i.e. the percentage of funds spent or resources used).

Non-reciprocal grants are essentially transfers of resources from one party to another where the transferors do not directly receive approximately equal value in return. These include everyday transfers such as gifts, donations, government grants and taxes. They may be received as cash, or as other assets, or as reductions in liabilities (for example, forgiven loans). Non-reciprocal transfers are a major source of funding for clubs.



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Expenses

In order to complete the financial picture of the operational activities of the club, all income (after deducting any cost of goods sold) must be matched against the expenses incurred during the reporting period. Expenses can include items such as wages and salaries, rent, advertising, fundraising expenses, client support expenses, etc.

The most appropriate way of reporting expenses is to classify them into what is known as functional expense classifications. The two main functional expense classifications are program services and supporting activities.

- Program services are segregated activities that can be clearly identified and recorded separately. For example, where the club undertakes various workshop activities, expenses for each activity would be separately reported under that activity.
- Supporting activities typically include management and general activities, fundraising, and membership development.

	This Month \$	Year to Date \$	Budget \$	Variance %
Income				
Grant		3,002.40	10,000	30%
Sale of Shirts	21.00	110.45	500	22%
Membership 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		655.00	1,000	66%
Repairs & Maintenance		186.00	2,000	9%
Cost 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%

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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 (e.g. two, three or six months of the year completed) and whether the club has seasonal fluctuations (e.g. 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. If variance is higher or lower than what is expected the club 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 guide*) and a list of creditors (money owed by the sport and recreation club) and debtors (money owed to the sport and recreation club). The information contained in these reports enables the management committee to get a clearer picture of its financial position and performance, and to use the information in making other types of decisions (e.g. revising the price of membership or choosing an alternate telephone company). In larger clubs, the management committee may also require a report on its assets and liabilities (balance sheet) at monthly meetings (*see example below in 'End of year financial reports'*).

Frequent financial reporting gives a sport and recreation club a better chance of identifying problems early. It should also help to improve the club's overall financial performance and ultimately strengthen its financial position.



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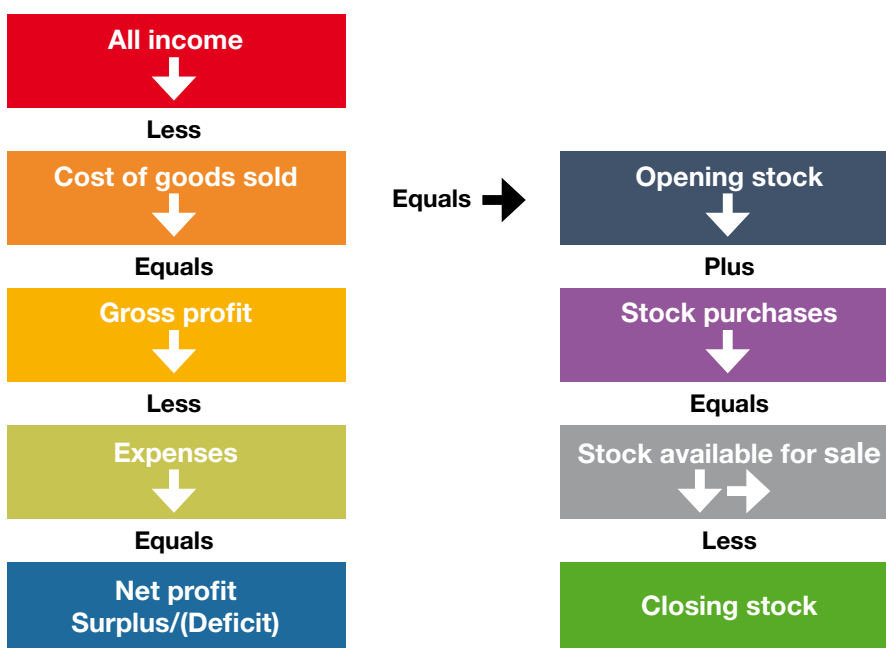
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Calculating the cost of goods sold

Calculating the cost of goods sold will only be relevant where the club sells product. For retail and wholesale sales, computing the cost of goods sold during the accounting period involves tallying beginning and ending stock. This, of course, includes purchases made during the accounting period. Where the club is involved in manufacturing, the calculation takes into account finished-goods stock, plus raw materials stock, work-in-progress stock, direct labour, and direct factory overhead costs.

Where the club is a service club, calculating the cost of goods sold is not relevant as there are no goods sold. Calculating the Cost of Goods Sold can be diagrammatically shown as:



Only those clubs that have products to sell will calculate the cost of goods sold.

End of year financial reports

Most sport and recreation clubs publish a statement of income and expenditure and a balance sheet as the principal financial reports for presentation to and adoption by their members at the annual general meeting (AGM). Many clubs will have this requirement within their Constitution. These statements summarise and report the financial performance (statement of income and expenditure) and financial position or net worth (balance sheet) of the club. 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 cashbook throughout the year by the Treasurer.

The constitution of most clubs requires that the accounts of the club are independently audited prior to presentation at the AGM (see 'Governance & Auditing' overleaf).

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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 a club has made or lost over the year as a result of its operations (see example below). It is a summary of the financial performance of a club.

The Sport and Recreation Club Inc. *Statement of Income and Expenditure* for year ending ___/___/___

Last year \$		This year \$
	INCOME	
3,000.00	Grant	5,000.00
2,000.00	Development funding	4,000.00
19,500.00	Membership/affiliations	20,500.00
1,968.67	Awards, badges	2,251.60
420.60	Bank interest	478.25
49,653.47	Bar takings	50,468.00
1,300.00	Donations	1,505.65
4,689.32	Fundraising	4,136.57
4,500.00	Hire of gym	5,168.50
2,000.00	Sponsorship	2,500.00
\$89,031.96	TOTAL	\$96,008.57
	EXPENDITURE	
10,987.65	Administrator	11,124.65
8,723.98	Development officer	9,259.45
5,923.46	Coaching coordinator	6,145.98
1,188.36	Casual assistant	1,258.32
17,650.25	Casual bar staff	18,254.55
7,900.23	Telephone	9,253.82
4,536.78	Stationery & postage	5,257.46
702.88	Travel	894.96
4,874.57	Insurance	4,874.57
3,659.87	Electricity	3,326.55
4,325.98	Equipment repair	7,548.00
1,423.45	Trophies	1,458.33
2,456.11	Photocopier	2,359.78
4,700	Publicity & promotions	4,586.00
3,945.00	Coaching sessions	3,897.00
1,500.00	Umpires seminars	1,786.00
2,489.33	Schools tournament	2,786.77
1,000.00	National affiliation	1,000.00
568.24	Sundry	785.36
\$88,556.14	TOTAL Expenditure	\$95,857.49
\$475.82	Surplus/(Deficit)	\$151.08

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 club has improved or worsened. 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 a club, if they are then this needs to be explained.

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Balance sheet

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

The Sport and Recreation Club Inc.

Balance Sheet (Statement of assets and liabilities)

for year ending ___/___/___

Last year \$		This year \$
	ASSETS	
100.00	Petty cash float	100.00
3,694.31	Cash at bank	1689.35
15,000.00	Deposits – credit union	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 LIABILITIES	13,194.55
28,462.31	NET ASSETS	\$32,375.05
\$28,462.31	ACCUMULATED FUNDS	\$32,375.05

Filing annual financial reports

If a sport and recreation club is incorporated under the *Associations Incorporation Act*, and is a prescribed association (its gross receipts are greater than \$500,000) it is required to lodge a return (copy of the annual accounts) with SA's Consumer & Business Services office. The accounts are to be accompanied by a certificate stating that the members at the AGM have approved them on a particular date, and an officer of the club must sign them.

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