

Club/Association Financial Management Guide

For Recreation & Sport Organisations



2017



Government of South Australia
Office for Recreation and Sport

be active.

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Financial Management

- > Introduction
- > Management committee role
- > Cash-based or accrual?

Introduction

Clubs are an essential part of every community. They exist to provide benefits to members of the community. They can vary in size, from the very large to the local sport & recreation clubs. Operations are based on the receipt of grants, donations, fundraising or receipts from members as the principal income source. In some instances, clubs supplement this income with trading activities. Although these clubs operate on a not-for-profit basis, appropriate good financial management practices will ensure that there are adequate resources to meet their objectives, remain solvent and continue to support the community.

Although profitability is not the core purpose of a club, it is necessary to ensure that the club is sustainable, properly capitalised and funded. Clubs need to ensure they have adequate cash flow to support their operations and contribute to achieving their goals.

This guide has been produced to assist in the implementation of sound financial management practices to make certain that the social objectives of the community club are met. It is aimed at clubs whose income is below \$150,000.

Of course, for each club, some of the areas may not be relevant. For instance, where there are no trading activities, then the areas that discuss stock management will not be relevant. Also the type of industry in which the club operates will determine the implementation process when considering good financial management. For example, if the club runs a cafe then stock levels will be reviewed every week; a small retail shop may do a stock-take only once a year.

By implementing good financial management your club will deliver its strategic goals in a financially sound manner. Responsible management of financial resources is perhaps the most common factor that separates sport and recreation clubs that are successful from those that are either less successful or those that no longer exist.

Please note that we have used the term “Treasurer” throughout this guide but understand that alternative names can be used.



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Financial Management - Management Committee

All clubs should have a properly constructed club management committee (which is usually detailed in the constitution). It is essential that the Treasurer has the support of and is part of this management committee.

One of the responsibilities of the management committee is to ensure that the club has good financial management practices in place to achieve the objectives of the club, for scheduled bills and expenses, to make sure that there are adequate funds in the accounts and to ensure it can fund all its programs and all other contractual obligations.

Solvency – making sure that the club:	YES?
• can pay all bills when due	
• has adequate funds in the accounts for scheduled expenses	
• can fund all its program and other contractual obligations	
• regularly reviews its cash-flow forecasts, identifies any variances and notes their potential impact on solvency	
Budgeting – ensuring that:	YES?
• all expected income and expenditure is included	
• all sources and amounts of income are identified	
• all expenditure included in the budget is approved	
• expenditure is not greater than income	
• the annual budget is approved	
• there is a regular review of budget to actual results (monthly, quarterly)	
• the impact of any variances from budget to actual are identified and explained	
• the budget is amended where material changes have occurred that impact original budgeted income and expenditure	
Financial statements – ensuring that:	YES?
• appropriate record keeping is maintained	
• key financial accounts are regularly reconciled	
• there is regular reporting of income and expenditure, balance sheet, cash flow statement, budgets and forecasts	
• financial statements are audited annually	
• the balance sheet is reviewed in order to assess the financial health of the club	
• appropriate financial controls are in place for accurate records	
Preventing fraud and mismanagement – ensuring that:	YES?
• controls are in place to safeguard assets	
• money is used in line with approved budgets	
• controls are in place for approval of spending	
• controls are in place for banking transactions	

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Financial Management *cont.*

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Review those questions in the checklist that are applicable to your club but for which you have not answered 'yes'. The management committee should implement appropriate policies and procedures, including naming the people who will be responsible for them and a completion date. When the appropriate policies and procedures have been set up, you should be able to answer 'yes' to all the questions. The management committee should review this checklist annually.

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 a club'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 clubs, 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 (e.g. prepayments such as insurance, unpaid accounts, or unearned revenue such as membership fees), the management committee may not always have complete financial information. Some clubs 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 (or vice versa).



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The Treasurer

> Role, job description and skills

The purpose of this module is to:

- Clarify the position and role of the Treasurer within sport and recreation clubs
- Outline the skills and attributes, and equipment needed to help the Treasurer be successful in their role
- Discuss how the Treasurer is an integral component of the overall management of the club
- Provide an overview of the routine procedures the Treasurer should follow as the “manager” of financial resources in sport and recreation clubs.

The Treasurer in conjunction with the management committee needs to determine whether the accounts/books are to be compiled in a manual form or to utilise computer software to record and construct the resultant financial reports. Software can also be used to prepare payroll and other statutory reporting if necessary. In most instances the size of the club will determine the level of sophistication.

Software website references include:

www.myob.com.au

www.xero.com/au/Accounting-Software

www.reckon.com.au

Note this is neither a complete list nor a recommendation. You should seek professional advice with any decisions, in particular, those relating to any cloud-based software.

The position of Treasurer

The constitutions of most sport and recreation clubs usually require the Treasurer to have a position on the management committee or board. 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 members should have input into the use of a club's finances. At the very least, the management committee 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 club, and asking questions about the club's finances.

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

The constitution normally sets out the financial year for clubs. 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).

The volume and nature of the work of the Treasurer depends upon the size of the club, the programs, services and activities it is involved in, and whether the club owns facilities or employs staff. **Because every club 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 club and may well change as a club grows and develops.**

Generally, larger sport and recreation clubs 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 Treasurer's role alternates between reporting what has happened to a club's funds (accounting or financial operations) and looking for the most effective ways to use available funds (financial planning and management).

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The Treasurer *cont.*

> Role, job description and skills

When first taking over the role of Treasurer it is useful to meet with the previous Treasurer and the club's auditor. They are in a position to understand what is required of the position and should be helpful in 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

Small clubs, say <\$50,000 income

- Ensure that adequate accounts and records exist regarding the club's financial transactions, i.e. accurate and up-to-date records of all income and expenditure.
- 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 club's bank account.
- Make all approved payments promptly.
- Act as the signatory on the club's bank accounts, cheque accounts, and investment and loan facilities (with at least one other management committee member).
- Manage the club's cash flow.
- Be accountable for the club's petty cash.
- Prepare regular bank account reconciliation statements for presentation to the management committee.
- Prepare and present financial statements on a regular basis to management committee meetings.
- Be fully informed about the financial position of the club at all times.
- Prepare financial accounts for annual or more frequent auditing, and provide the auditor with information as required.

Larger clubs, say over \$50,000 income

All of the above functions for a smaller club plus, potentially, the following:

- Invoice groups/members promptly for rentals (e.g. building, equipment, uniforms).
- Recommend investment strategies for surplus funds.
- Manage the club'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 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 (generally only applicable to prescribed bodies with income greater than \$500,000).



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The Treasurer *cont.*

> Role, job description and skills

Skills required by a Treasurer

A key benefit of being Treasurer is the opportunity to develop accounting, financial and club administration skills that can be of use in personal and working life. Treasurers tend to have the following skills and attributes:

- Honesty and integrity
- Enthusiasm for the task
- 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 (e.g. 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.

A majority of the Treasurer's tasks involve putting into place the procedures necessary to collect and record details of all financial transactions affecting the financial position and performance of the sport or recreation club. The output of these procedures is regular financial reports, which are presented at the management committee or general meeting of members.



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Managing Transactions

- > Stationery / Software > Transaction accounts
- > Recording transactions > Petty cash > Payroll
- > Depreciation > GST

Accounting stationery &/or software

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

- Cheque book(s) (particularly if the club constitution does not allow for electronic payments)
- Bank deposit book(s)
- A cash book or a general ledger (for computer programs)
- Payment authorisation (for electronic or 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 unless they are scanned and electronically stored
- A secure computer/laptop if software is being used
- An efficient and secure back-up facility for the software and files.

All of the stationery listed should be held by the club 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 club money) is essential.

Transaction (e.g. credit union & bank) accounts

Most clubs still utilise the cheque book payment system. Financial institutions are phasing this out and it will require a constitutional change by the clubs to accept electronic payments.

Many financial institutions now allow for electronic payments, eliminating (to a point) the need for cheques. This facility allows for a "secure token" to validate a payment amongst the "signatories" for payment. Further research should be conducted with your preferred financial institution to investigate availability and costs.

Where a cheque account is still utilised it does provide a convenient record of payment through the cheque butt. It is therefore essential that cheque butts be completed when cheques are drawn and the cheque number is written on the creditor's invoice when payment is made. Cheques in some circumstances provide a convenient method of payment, because they mean that members need not carry cash. This means that in most circumstances members need not carry cash.

If the electronic facility is in place a payment authorisation form should be completed prior to initiating the payment with the financial institution.

It is usually a requirement of the constitution to have at least two management committee members with authority to jointly sign cheques or authorise the electronic payments. Some clubs find it useful to have three or four members available for payment authorisation.

It is never a good idea to sign cheques or make any payment:

- Before all other details have been completed (e.g. date, amount, payee)
- Without an accompanying invoice from the supplier
- Before checking that goods have been received or services completed.

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Managing Transactions *cont.*

- > Stationery / Software > Transaction accounts
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It is good practice to pay all invoices and accounts from the financial institution account, as all expenditure will be recorded on the account statement. Depending upon the average number of transactions, financial institution statements can be requested quarterly, monthly or more frequently. In today's modern banking world it may be more cost effective to have the statements available electronically.

Transactional banking products

If your club engages in trading activities, then you should consider what the club is offering to its customers, what it requires of its suppliers and how it wants to manage its cash flow. The relationship with your financial institution is as important as all other business relationships and will assist in achieving good financial management if handled well.

With so many options available, it is wise to ask the bank account manager to help you choose those products that will help you manage your cash flow and reduce the time you will need to spend in managing your banking.

This is a list of the most common transaction banking products currently available.

- Electronic desktop/internet banking
- Credits to accounts – electronically, manually or by direct credit
- Debits to accounts – electronically, by manual cheque, GDES, EFT, via real-time gross settlement or overseas transactions
- Bpay via credit card
- Bpay via debit card
- Overdraft and other limit facilities
- Cheque production facility

Merchant facilities

These should be considered for clubs that have trading operations. Merchant facilities provide customers with various options to pay by either a credit or debit card. They enable payments made on these cards to be processed either manually or electronically. Merchant facilities provide a real benefit to your club's business cash flow because your customers do not need to have cash in the bank to pay for your goods or services.

These are some of the benefits of merchant facilities:

- You are guaranteed payment within 48 hours of the purchase (no more 30-, 60- and 90-day payment terms).
- Your improved cash flow will improve your club performance.
- You will be able to keep less cash on your premises.
- Your administration costs will be reduced. You will no longer have to wait for a purchase order, issue paper invoices or chase debtors for payment.
- You will no longer need to establish accounts for one-off or infrequent transactions.
- You will use less paper.

Here are some questions you should consider before discussing merchant facilities with the account manager:

- Does your club have a retail store where customers pay for goods with their credit cards? If so, you may require an EFTPOS terminal to swipe their cards.
- Does the club take most of its orders via mail, the phone, fax or the internet? Is an EFTPOS terminal required or is there an alternative method of taking payments?
- Could you have an EFTPOS terminal to swipe the cards of walk-in clients but key-enter the details of remote orders?
- What is the ratio of credit card transactions to cash or other payment methods?

As always it is important to research all available options. This may involve non-traditional financial institutions like PayPal.

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Managing Transactions *cont.*

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Transactional fees

Unfortunately, most financial institutions do not provide free transactional services. In fact, the fees related to these services can substantially affect the profitability of the club. With so many financial institutions providing these services, you should consider the fee structures of a number of providers before selecting the provider you feel is best for you.

Most clubs do not know how much they are paying in bank fees. This can be attributed to the fact that they do not spend time reviewing their transactional banking arrangements and of course financial institutions do not always make it easy to clearly establish the total amount of fees being charged.

The Australian Securities & Investments Commission (ASIC) released a guide for financial institutions entitled ***Good transaction fee disclosure for bank, building society and credit union deposit and payments products (transaction accounts)***. (See www.asic.gov.au) This guide provides information on what type of disclosure institutions should provide to assist clubs in making informed decisions about their transactional banking requirements and the relevant fees. It provides the following guidelines, which in most cases have been implemented by the financial institutions:

- Fee summary information should, where relevant, be provided on transaction account statements to enable customers to make informed choices about how they conduct their transactions.
- The information should enable customers to clearly understand the fees, by distribution channels and number of transactions, which apply to their accounts during the charging period and other relevant information.
- Fees should be shown separately, not bundled, and the basis on which charges are calculated should be explained.

The guide notes that the disclosure statement provided by the financial institution will vary depending on the agreed fee structure of the transactional banking arrangements. Some accounts have a number of free transactions, with the free transactions either calculated at the end of the period, based on which were the most expensive, or charged when the number of transactions exceeds the free limit. Other accounts charge for all transactions, but provide a fee rebate, the amount of which depends on the customer's overall relationship with the institution.

Therefore, it is likely that your club will currently have, or will receive from its transactional bank, a schedule of fees that relate to its banking arrangements. This will assist you when you are planning your cash flow and also if you are thinking about switching from one financial institution to another.



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Managing Transactions *cont.*

- > Stationery / Software > Transaction accounts
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- > Depreciation > GST

Cashbook

The cashbook, also known as the cash receipts and cash payments journal, is used to record all of a Club'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 summarised it is impossible to get a clear picture of the financial position of a club. The Treasurer should regularly record the details of receipts and payments in the cashbook.

To determine the cash balance, total the receipts and deduct payments (see 'Receipts' and 'Payments' below). 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 cashbook can be checked against the bank statement (see 'Bank reconciliation' below). The cashbook closing balance for each month becomes the opening balance for the next month. It is also a good practice to summarise what the club owes to external or third parties (creditors) and what money is owed to the club itself (debtors). (A balance sheet statement may be used for this purpose).

In small clubs the cashbook is usually a manual system based on a ruled ledger book available from most newsagents and office supply companies. Some clubs record receipts in the front of the cashbook and payments in the back. It is a relatively simple process to set up a cashbook using a spreadsheet program. Larger clubs 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 cashbook columns. Columns are labelled with the account names (e.g. membership, coaching fees, raffles, bank interest). The columns are often the same as those identified in the income side of a club's budget or statement of income.

Receipts are usually entered in three places, depending on the amount of detail required and the type of cashbook 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 (i.e. the amount column totalled 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 totalled 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 (e.g. 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.



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Managing Transactions *cont.*

- > Stationery / Software > Transaction accounts
- > Recording transactions > Petty cash > Payroll
- > Depreciation > GST

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 club are cleared and ready to use. Banking receipts intact (i.e. 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 labelled with the account names (e.g. telephone, rent paid, maintenance, bank fees). The columns are often the same as those identified in the expenditure side of a club'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 club. At the end of each month the cash payments columns should balance with one another (i.e. amount column totalled should tally with the total of all other columns added together).

All payment columns should be totalled 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 (e.g. 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:

Date	Details	Cheque number	Amount \$	Printing \$	Telephone \$	Rent paid \$
July						
1	ABC Real Estate	00123	700.00			700.00
4	Telstra	00124	207.50		207.50	

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Managing Transactions *cont.*

- > Stationery / Software > Transaction accounts
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Payments *cont.*

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 out '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 club'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 clubs 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 club members authorised to make payments on the club's behalf. The cheque requisition form and supporting documentation (e.g. 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 goodwill of suppliers. Prompt payment of the out-of-pocket expenses of volunteers also generates goodwill within the club. 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 but 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.*

Bank Reconciliation

The Treasurer should arrange with the bank to mail the club's cheque account statement several days prior to monthly management committee meetings. This can be expedited by utilising the electronic banking facility. The bank statement shows all movements of funds into and out of an account. To obtain a clearer picture of the club's financial position the cashbook balance is reconciled against the bank statement. Check the bank statement against the cashbook (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 cashbook 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.

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Managing Transactions *cont.*

- > Stationery / Software > Transaction accounts
- > Recording transactions > Petty cash > Payroll
- > Depreciation > GST

A reconciliation statement looks something like this:

Bank Reconciliation Statement	
As at/...../20.....	
Opening cashbook balance	1,500
<i>add receipts for period</i>	60
<i>less payments for the period</i>	200
Closing Cash Book Balance	1,360
Bank statement balance at end of period	1,570
<i>add receipts not yet banked</i>	190
<i>less cheques not yet presented</i>	400
True cash book balance	1,360
List of cheques not yet presented:	
Date Written Cheque No.	
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 (e.g. less than \$50.00) on behalf of the club.

To initiate a petty cash system, a 'cash' cheque is drawn on the club's bank account for a small amount (e.g. \$100.00) and entered in the cashbook. 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 cashbook. 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 club's theft insurance policy.



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Managing Transactions *cont.*

- > Stationery / Software > Transaction accounts
- > Recording transactions > Petty cash > Payroll
- > Depreciation > GST

Payroll

Sport and recreation clubs 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 (fortnight) number	Pay period ending (date)	Date paid		
Name	Gross \$	Tax \$	Net \$	Cheque Number
W Russell	400.00	128.00	272.00	12301
P Muir	220.00	66.00	164.00	12568
2	Rebels-training	00346	75.00	75.00

It is imperative to meet your obligations with the hiring of employees to ensure the correct income tax is deducted and distributed to the ATO monthly. In addition a superannuation guarantee charge may be payable along with the appropriate compulsory workcover insurance.

Website reference:

<https://www.ato.gov.au/Business/Super-for-employers/>



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Managing Transactions *cont.*

- > Stationery / Software > Transaction accounts
- > Recording transactions > Petty cash > Payroll
- > Depreciation > GST



Depreciation — accounting for capital assets

Many sport and recreation clubs have capital assets (e.g. clubhouse facilities, motor vehicles) that 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-based 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 a club 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 most goods and services consumed in Australia.

(web site: <https://www.ato.gov.au/Business/GST/>)

Sport and recreation clubs, including those in the non-profit sector, must be registered for the GST if their annual turnover is \$75,000 or more (commercial sector) or \$150,000 or more (non-profit sector). Registered clubs will have an Australian Business Number (ABN). GST is payable by sport and recreation clubs 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 a club acquires for its business. If a club 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 club. This is called an input tax credit. The difference between the GST payable on a club's supplies and the GST included in the purchase price of its acquisitions is the amount owed to the ATO.

Displayed prices (e.g. 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 secondhand goods are treated in different ways with respect to GST. Sport and recreation clubs should consult a qualified accountant, financial manager or legal adviser about how best to deal with the GST.

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Financial Planning - Budgeting

- > Operational budgets
- > Capital budgets
- > Cash flow budget
- > Borrowing

Financial Planning

The Treasurer has several key roles in the area of financial planning for a sport and recreation club, mostly to do with budgeting, financing and investment 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 - 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 so as to advance the long-term goals of the club. A budget is not about putting a sport or recreation club in a financial straightjacket. The level of sophistication in the budgeting process is determined largely by the size of the club and its objectives (e.g. 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 committees. Budgeting is a key role in financial planning and management for most sport and recreation clubs. It follows on from a review of the club's development or strategic plan and may well lead to a reassessment of the club'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 guide, in larger clubs 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 (e.g. coaching, facility development) have input into the budgeting process.

Major steps in preparing budgets

1. The management committee should decide whether the club is going to use a conservative approach to budgeting and whether it is going to run a break-even (i.e. 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 club does not need to implement major changes. It is important to consult with individuals and groups within a club 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.

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Financial Planning - Budgeting *cont.*

- > Operational budgets
- > Capital budgets
- > Cash flow budget
- > Borrowing

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 club 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 DEFICIT	(\$850)

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Financial Planning - Budgeting *cont.*

- > Operational budgets
- > Capital budgets
- > Cash flow budget
- > Borrowing

When compiling the budget it is important to detail the estimates behind any numbers. This allows for more accurate budgeting when compiling future budgets.

Large deficit budgets, where expenditure is expected to exceed income, can be a problem if a club does not have a pool of uncommitted accumulated funds from previous years. The club must find ways of reducing expenditure or increasing income. As discussed earlier, the club may have to forgo some of its plans if it has insufficient funds.

A draft operating budget for a larger sport and recreation club 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

cont. overleaf

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Financial Planning - Budgeting *cont.*

- > Operational budgets
- > Capital budgets
- > Cash flow budget
- > Borrowing

OPERATING BUDGET FOR THE YEAR _____ <i>cont.</i>	
Stationery and postage	14,000
Travel	3,500
Insurance	100,000
Repairs and maintenance	6,000
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	7,000
Umpires seminar	4,000
Secondary schools tournament	5,000
National affiliations	1,000
Miscellaneous	1,500
TOTAL	\$220,000
PROJECTED SURPLUS	\$9,500



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Financial Planning - Budgeting *cont.*

- > Operational budgets
- > Capital budgets
- > Cash flow budget
- > Borrowing

A capital budget for a sport and recreation club, 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 club 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				21,000
Upgrade gymnasium 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
Fitout 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 club is to continue to operate it must have enough cash to pay its bills when they become due. Many sport and recreation clubs 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 their club's cash position to plan for months where the club 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.

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Financial Planning - Budgeting *cont.*

- > Operational budgets
- > Capital budgets
- > Cash flow budget
- > Borrowing

For larger clubs, borrowing money (e.g. a 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 clubs. 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 club.

Good budget preparation should include documentation of all your key assumptions. This way you will remember what you anticipated, and when reviewing your forecast against actual budgetary position, it will help to see what has changed if the actuals turn out differently. When listing your assumptions, if you believe that there is some risk that the event may not occur, include this information with the assumption and any actions that you may have thought of in the event that a particular assumption turns out to be incorrect. That way, you will already have an action plan in place. The table below is an example of documenting assumptions.

Assumptions	Forecast	Source	Risk	Action
Grants	Grants will decrease by 11%.	Released government information as attached.	Grants available will be less than anticipated.	Increase fundraising and donation activity.
Trading operations	Overall trading income will decrease by 13%.	Current economic data and industry information.	Overall the decrease will be greater than anticipated.	Implement aggressive marketing campaign to increase sales. Review expenditure.
Salaries	Salaries will increase by 2.3%.	In line with CPI and market conditions.	Salaries will increase by more than 2.3%.	Review all staffing levels and employment contracts to identify possible savings.
Expenses	Expenses will decrease by 8%.	Prior-year historical data identified excess expenditure.	Expenses will decrease by less than 8%.	Continually review operational activities to identify any expense savings.

Financial management tip: You may want to consider presenting the key assumptions to the management committee for approval before developing the new budget. This way, it will be fully informed of what has been estimated for the key events for the budget year and will be able to see clearly what is going on. If you do seek approval, then at each committee meeting you should also advise the management committee of any changes that may have occurred that have or are likely to have an impact on your assumptions.

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- > Operational budgets
- > Capital budgets
- > Cash flow budget
- > Borrowing

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 (e.g. 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 club 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 clubs. The Associations Incorporation Act regulates financing and investing activities to some extent in incorporated associations.

Some financial implications of incorporation

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

- Sue and be sued in its own right
- Own land and other property
- Make contracts and enter into tenancy agreements in their 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 the club is disbanded by direct operation of the law.

The office bearers and members are not personally liable for the debts of the club, nor the negligent acts or omissions of other office bearers and members unless the rules specifically provide otherwise. 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 club earns a profit from commercial activity, this profit may not be distributed among the members. It must be used for the objectives of the club as stated in its constitution.

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Sport and recreation clubs 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 clubs to some degree of risk. If a club defaults on its loan repayments the financier may move to appoint an administrator to conduct the affairs of the club (i.e. the management committee loses control) or may have the club 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 (e.g. motor vehicle 4 to 5 years, new building 10-20 years).
- Funds provided by the club should equal or exceed the borrowed funds.
- The club 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 club 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 club will need to have the following information available:

- The purpose of the loan
- Last three years' financial statements (e.g. 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

- > Monthly actual vs budget
 - > Calculating cost of goods sold
 - > Income and expenditure statement
 - > Balance sheet
- > End of year reporting

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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Financial Reporting *cont.*

- > Monthly actual vs budget
- > Calculating cost of goods sold
- > Income and expenditure statement
- > Balance sheet

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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Financial Reporting *cont.*

- > Monthly actual vs budget
 - > Calculating cost of goods sold
 - > Income and expenditure statement
 - > Balance sheet
- > End of year reporting

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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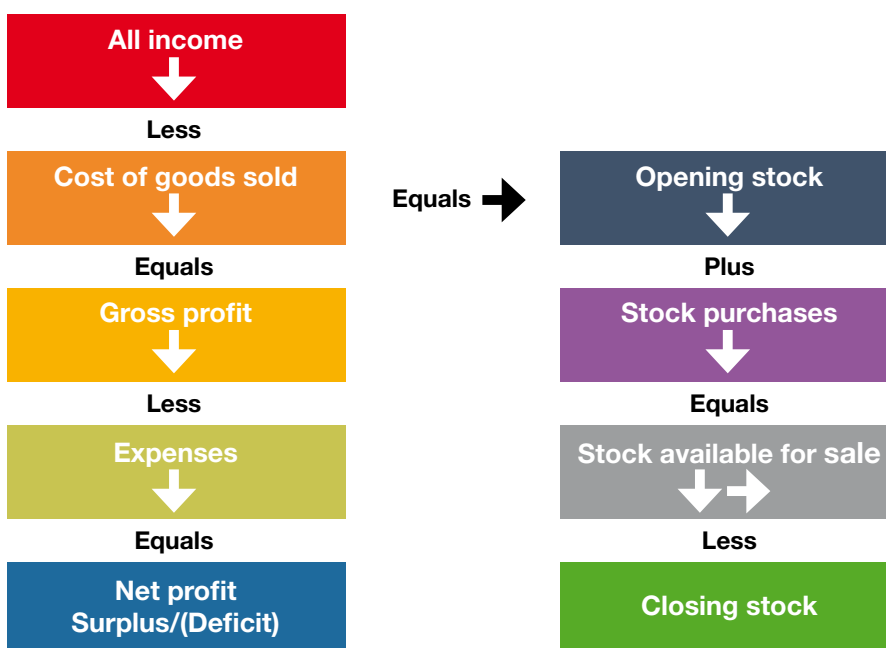
Financial Reporting *cont.*

- > Monthly actual vs budget
- > Calculating cost of goods sold
- > End of year reporting
- > Income and expenditure statement
- > Balance sheet

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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Financial Reporting *cont.*

- > Monthly actual vs budget
- > Calculating cost of goods sold
- > End of year reporting
- > Income and expenditure statement
- > Balance sheet

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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Financial Reporting *cont.*

- > Monthly actual vs budget
- > Calculating cost of goods sold
- > End of year reporting
- > Income and expenditure statement
- > Balance sheet

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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Analysing your club's financial health

> Ratios and benchmarks

Analysing the financial health of a club

Financial ratio analysis is not something undertaken by many smaller clubs, but it is the common method of analysing the financial health of a club with gross receipts above, say, \$100,000, of predicting the club's potential for success or failure, and of assessing its progress. Ratio analysis enables you to spot trends in the club and to compare its performance and condition with the average performance of similar clubs in the same industry.

Although there are many financial ratios you can use to assess the financial health of your club, we will discuss the main ones that you can use easily. The ratios are grouped together under each area the club should focus on for financial survival and prosperity.

Liquidity ratios

These ratios indicate the ease of turning assets into cash to assess your clubs' ability to pay its bills as they fall due. They include the current ratio, the quick ratio, and working capital. **In general, the higher the ratios in this category, the sounder are the club's activities and its ability to withstand tight cash flow periods.**

Current ratio = Total current assets / Total current liabilities

One of the most common measures of financial strength, this ratio enables you to see if the club has current assets sufficient to meet its due debts with a margin of safety.

A generally acceptable current ratio is 2 to 1. However, this will depend on the nature of the club and the form of its current assets and liabilities. For example, a club may have current assets made up predominantly of cash and would therefore survive with a lower ratio.

Quick ratio = Current assets – inventory / Current liabilities – overdraft

Sometimes called the 'acid test' ratio, this is one of the best measures of liquidity. By excluding inventory that could take some time to realise unless the price is 'knocked down,' it concentrates on real, liquid assets. It helps to answer the question, 'If the club does not receive income, will it be able to meet its current obligations with the readily convertible "quick" funds on hand'?



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Analysing your club's financial health *cont.*

> Ratios and benchmarks

Solvency Ratios

These ratios indicate the extent to which the club is able to meet all its debt obligations from sources other than cash flow and hence remain solvent and able to continue to operate. Commonly used solvency ratios are the leverage ratio, debt to assets and interest coverage.

Leverage ratio = Total liabilities / Equity

The leverage (or gearing) ratio indicates the extent to which the club is reliant on debt financing versus equity. Generally speaking, the higher the ratio, the more difficult it will be to borrow more money.

Debt to assets = Total liabilities / Total assets

This measures the percentage of assets being financed by liabilities. Generally speaking, it should be less than 1, indicating adequacy of total assets to finance all debt.

Interest coverage = Net profit / Total interest

This measures how many times your net profit covers your interest expense obligations. The higher the ratio, the more likely the club will be able to meet its interest expenses.

Profitability benchmarks

These are ratios that measure your club performance and ultimately indicate the level of success of your operations.

Gross margin benchmark = Gross profit / Net income

This ratio measures the percentage of sales dollars still remaining (after obtaining or manufacturing the goods sold) and available to pay the overhead expenses of the club. This ratio is only relevant to the trading segments of the club.

Net margin benchmark = Net profit / Net income

This measures the percentage of sales dollars left after all expenses (including stock), except income taxes. It provides a good opportunity to compare the club's 'return on income' with the performance of other clubs.

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Analysing your club's financial health *cont.*

> Ratios and benchmarks

Operational benchmarks

These are ratios that measure the performance of each distinct activity within the club. They enable management to see quickly how successful each activity is.

Activity expense benchmark = Activity expenses / Activity income

For example:

Fundraising ratio = Fundraising expenditure / Fundraising income

This ratio measures the cost of fundraising against the income derived from fundraising. It can be used for discrete activities within the club.

Activity expense to total expense benchmark = Activity expense / Total expense

This is the ratio of the cost of the activity to total expenditure. It allows management to see quickly which activities are the most expensive.

Activity expense to total income benchmark = Activity expense / Total income

For example:

Fundraising expense to net income = Fundraising expense / Net income

This shows fundraising expenses as a fraction of the total of all income derived from the activities of the club. Where this ratio is calculated for each discrete activity within the club, management can clearly see which fundraising activities are the most expensive.

Activity income to total income benchmark = Activity income / Total income

For example:

Fundraising income to net income ratio = Fundraising income / Net income

This is the ratio of the income from fundraising to the net income derived from all the activities of the club. Where this ratio is calculated for each discrete activity of the club, management can clearly see which activities generate the highest proportion of the club's net income.

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Analysing your club's financial health *cont.*

> Ratios and benchmarks

Management ratios

Management ratios monitor how effectively you are managing the key cash flow activities of the trading operations. These measures are referred to as 'working capital'.

$\text{Days' Inventory} = \text{Inventory} / \text{Cost of goods sold} \times 365$

$\text{Days' Debtors} = \text{Debtors} / \text{Net Income} \times 365$

$\text{Days' Creditors} = \text{Creditors} / \text{Cost of goods sold} \times 365$

Balance sheet ratios

These ratios indicate how efficiently your club is using assets and equity to make a profit.

$\text{Return on Assets} = \text{Net Profit before Tax} / \text{Total Assets} \times 100$

The return on assets indicates how efficiently profits are being generated from the assets employed in the club. The ratio will only have meaning when it is compared with the corresponding ratios of similar clubs. If the ratio of your club is low in comparison with those of similar clubs, it indicates that you are using your assets inefficiently.

$\text{Return on Investment} = \text{Net Profit before Tax} / \text{Equity} \times 100$

The ROI is perhaps the most important ratio of all as it tells you whether or not the club is achieving its objectives and making an appropriate return on the funds it raises and receives.

Financial management tip: *By comparing each of these ratios after each reporting period, you will be able to see the strengths and weakness of the club's operations.*

Net operating cash flow is less than profit after tax, which means the club is spending more than it is earning.

In a small club under, say, \$100,000 this would not be necessary.

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Governance and auditing

- > Audit preparation
- > Financial controls
- > Should you audit?

Governance and Auditing

Governance is the process by which clubs are directed, controlled and held to account. It is concerned with the overall structures and processes for decision-making, accountability, control and behaviour and should be directed by the management committee.

Financial management governance is a core component of the governance framework. In this section, the two key areas for financial management governance are discussed.

Financial controls

Financial management is not only about understanding the financial information about your club and using this information to improve club operations, it is also about ensuring that the right policies and procedures are in place to ensure that the financial information you are using is accurate and that you can protect your investment in the club. For complete financial management of your club, you need to consider implementing good financial controls.

A financial control is a procedure that is implemented to detect and prevent errors, theft or fraud, or policy non-compliance in a financial transaction process. Financial control procedures can be implemented by either an individual or as part of an automated process within a financial system.

Each financial control procedure is designed to fulfil at least one of these seven criteria:

1. Completeness – ensures that all records and transactions are included in the reports of the club
2. Accuracy – ensures that the right amounts are recorded in the correct accounts
3. Authorisation – ensures that the correct authorisations are in place to cover such things as approval, payments, data entry and computer access
4. Validity – ensures that the invoice is for work performed or products received and the club has incurred the liability properly
5. Existence – ensures the existence of assets and liabilities. Has a purchase been recorded for goods or services that have not yet been received? Do all assets on the books actually exist? Is there correct documentation to support the item?

6. Handling errors – ensures that procedures are in place to ensure that errors in the system have been identified and corrected
7. Segregation of duties – ensures that certain functions are separated. For example, the person taking cash receipts does not do the banking.

Benefits of financial controls

- Understanding the financial position of your club
- Regular reporting will provide accurate financial information that can be used by those responsible for the operations of the club (e.g. sales numbers can be provided to sales representatives to monitor targets and budgets)
- Clubs can make informed decisions on budgets and spending
- Provides documentary proof for compliance requirements (e.g. GST calculations)
- Club standards are set and all persons within the club are informed of these standards through reporting.

Good financial controls will:

- Help to align the objectives of the club – to ensure thorough reporting procedures and to ensure that the activities of the club are in line with its objectives
- Safeguard assets – to ensure that the club's physical and monetary assets are protected from fraud, theft and errors
- Prevent and detect fraud and error – to ensure that systems quickly identify any errors or fraud
- Encourage good management – to ensure that the manager receives timely and relevant information on performance against targets, as well as figures that can indicate variances from targets
- Allow action to be taken to correct undesirable practices – authorise a formal method of dealing with any fraud, dishonesty or incompetence
- Reduce exposure to risks – to minimise the chances of unexpected events
- Ensure proper financial reporting – to maintain accurate and complete reports as required by legislation and management, and to minimise the time lost in correcting errors and ensuring resources are correctly allocated.

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Governance and auditing *cont.*

- > Audit preparation
- > Financial controls
- > Should you audit?

Financial controls checklist

To manage the risk of financial transaction processing failures, manual or automated control procedures should be implemented at key stages of the process. Some of the questions that can be asked are:

- How well are the financial aspects of the club managed?
- Are the club operations protecting the club against disasters, internal theft and unfavourable external audits?
- How comprehensive are management practices? Are the financial records accurate?
- Review the following checklist. clubs with sound financial management practices would answer 'yes' to most of the following questions:

General	YES?
Is a chart of accounts used?	
Is it detailed enough to give adequate management information?	
Is a double entry bookkeeping system used?	
Are journal entries used?	
Are journal entries approved?	
Do you use budgets and cash projections which are:	
• compared to actual results?	
• investigated if there are major discrepancies?	
Do you understand the form and contents of the financial statements?	
Are comparative financial statements produced and reviewed?	
Are the books and records kept up to date and balanced?	
Is financial information produced regularly?	
Are reasonable due dates imposed for preparation of financial information?	
Are storage facilities safe (including computer back-up files)?	
Is insurance cover regularly reviewed?	
Is there a records retention schedule?	
Is there a policy for credit approval for customers?	
Sales	YES?
Are credit files kept up to date?	
Are credit checks on customers done regularly?	
Are sales orders approved for price, terms, credit and account balance?	
Are all sales orders recorded on pre-numbered forms and are all numbers accounted for?	
Do you review the monthly debtors' statements for outstanding balances?	
Is the accounts receivable subsidiary ledger balanced monthly?	
Is an aging schedule of customers' accounts prepared monthly?	
Are write-offs and other adjustments to customer accounts approved?	

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Governance and auditing *cont.*

- > Audit preparation
- > Financial controls
- > Should you audit?



Cash Receipts	YES?
Do you or a responsible employee other than the bookkeeper or person who maintains accounts receivable:	
• Open the mail and pre-list all cash receipts before turning them over to the bookkeeper?	
• Stamp all cheques with restrictive endorsement 'for deposit only' before turning them over to the bookkeeper?	
• Compare daily prelisting of cash receipts with the cash receipts journal and the duplicate deposit slip?	
Are cash receipts deposited intact on a daily basis?	
Are cash receipts posted promptly to appropriate journals?	
Are cash sales controlled by cash registers or pre-numbered cash receipts forms?	
Cash spent (disbursements)	YES?
Are all disbursements except for petty cash made by cheque or internet payments?	
Are cheques pre-numbered and all numbers accounted for?	
Are all cheques recorded when issued?	
Are all unused cheques safeguarded, with access limited?	
Is a mechanical cheque protector used to inscribe amounts as a precaution against alteration?	
Are voided cheques retained and mutilated?	
If a signature plate is used, do you have sole control?	
Do you sign or view all cheques and internet payments?	
Are supporting documents, processed invoices, receiving reports, purchase orders, presented with the cheques and reviewed by you before the manager signs the cheques?	
Are supporting documents for payments properly cancelled to avoid duplicate payment?	
Are cheques payable to cash prohibited?	
Are signed cheques mailed by someone other than the person who writes them?	
Are bank statements and cancelled cheques:	
• received directly by you?	
• reviewed by you before they are given to the bookkeeper?	
Are bank reconciliations prepared:	
• monthly for all accounts?	
• by someone other than the person authorised to sign cheques or use a signature plate?	
Are bank reconciliations reviewed and adjustments of the cash accounts approved by a responsible person other than the bookkeeper?	
Are all disbursements from petty cash funds supported by approved vouchers?	
Is there a limit on the amounts of individual petty cash disbursements?	
Are petty cash funds on an imprest basis (the total amount is set (e.g. \$100), you can only spend what you have, and it's only topped up with what's spent)?	
Are petty cash funds:	
• kept in a safe place?	
• sufficient to require only monthly reimbursement?	
• controlled by one person?	
• periodically checked by someone other than the custodian?	

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Governance and auditing *cont.*

- > Audit preparation
- > Financial controls
- > Should you audit?

Accounts payable	YES?
Are supplier invoices matched with relevant purchase orders and receiving reports?	
Are all available discounts taken?	
Is there written evidence that invoices have been properly processed before payment, e.g. stamped?	
Are there procedures that ensure that direct shipments to customers are properly billed to them?	
Do you verify that the total of accounts payable agrees with the general ledger control account?	
Are expense reimbursement requests submitted properly and approved before payment?	
Goods received	YES?
Are all materials inspected for condition and independently counted, measured, or weighed when received?	
Are receiving reports prepared and used promptly?	
Are receiving reports:	
• pre-numbered and do they account for the sequence of all numbers?	
• promptly provided to those who perform the purchasing and accounts payable function?	
• controlled so that liability may be determined for materials received but not yet invoiced?	
Employees	YES?
Are all employees' job references checked?	
Are individual personnel files maintained?	
Is access to personnel files limited to a person who is independent of the payroll or cash functions?	
Are wages, salaries, commission and piece rates approved?	
Is proper authorisation obtained for payroll deductions?	
Are adequate time records kept for employees paid by the hour?	
Are salesmen's commission records reconciled with sales records?	
If employees punch time clocks, are the clocks located so someone in authority may watch them?	
Are time records for hourly employees approved by a foreman or supervisor?	
Are there controls to ensure that the absence of any employee is noted?	
Is the accuracy of the payroll checked?	
Are payroll registers reviewed by a responsible person?	
If employees are paid in cash, is the cash requisition compared to the net payroll?	
Is there control over unclaimed payroll cheques?	
Are staff cross-trained in accounting functions?	
Are annual vacations required?	

Review those questions in the checklist that are applicable to your club but which you have not answered 'yes' to. The management committee should implement appropriate policies and procedures, including naming the people who will be responsible for them and a completion date. When the appropriate policies and procedures have been set up, you should be able to answer 'yes' to all the questions. The management committee should review this checklist annually.

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Governance and auditing *cont.*

- > Audit preparation
- > Financial controls
- > Should you audit?

Many clubs would be of a size (under \$500,000 in income - prescribed association) whereby a formal audit could be deemed unnecessary. This is a decision for the Management Committee and of course what is detailed within the constitution. The above checklist should be completed regardless whether an auditor is appointed and then provided to the auditor.

The term “audited accounts” means that the financial records of the club have been independently checked by someone with recognised (accounting) qualifications as being a true and correct record of the financial operations and position of a club at that time.

The Treasurer must be familiar with the rules/constitution of their club and its obligations, particularly if the club is incorporated (see *Filing annual accounts, above*). For incorporated associations, depending on the complexity of their 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 clubs, because of their constitution, require an honorary auditor to be appointed at the AGM. If the club is an incorporated association, it is usually a legal requirement to have the club's accounts audited prior to the AGM.

Unincorporated clubs 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 club. The records of all clubs do not necessarily have to be audited. However, the members of almost any club 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 clubs to search for an accountant who is willing to audit the club's books on a voluntary basis. To ensure that an audit is truly independent, the auditor should be someone who is a not member of the club. It is good practice to give the auditor plenty of time (e.g. 6 to 8 weeks) to audit the accounts.

The auditor will need to be provided with:

- The books of account, consisting of the cashbooks 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 the numerical sequence of cheques drawn
- Access to ‘paid’ cheques from the club'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 clubs.

Clubs 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 that has ultimate accountability for how funds are used by clubs. This guide 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 clubs.

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Appendices

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Appendix A - Summary of hints and tips *cont.*

Section	Comment	Topic	Hint	Tip
Setting the scene	Having good financial information and understanding how it is put together, what it is telling you and how you can use it to plan for the future are critical for all not-for-profit managers.			
Understanding financial statements	Financial statements provide information about how the club is operating financially and why. Once this is understood, the information can be analysed to show the areas of financial strengths and weaknesses	Balance sheet	The club requires assets to operate and these assets are either funded by accumulated funds from the operations of the club or by borrowing money from external parties (liabilities).	The categories in the balance sheet will highlight those items that can be converted to cash quickly.
	The club requires assets to operate and these assets are either funded by accumulated funds from the operations of the club or by borrowing money from external parties (liabilities).	Income and expenditure statement	Only those clubs that have products to sell will use the calculation of cost of goods sold.	Segment reporting will provide transparency about each distinguishable operating activity of the club.
		Statement of cash flows	The statement of cash flows only shows the historical data and differs from a cash flow forecast.	The statement of cash flows will provide three warning signals: <ul style="list-style-type: none"> • Cash receipts less than cash payments – the club is running out of money • Net operating cash flow is an 'outflow' • Net operating cash flow is less than profit after tax, which means the club is spending more than it is earning.
		Financial ratio analysis	Using financial ratio analysis regularly will assist in monitoring the financial health of the club.	By comparing each of these ratios after each reporting period, you will be able to see the strengths and weaknesses of your club's operations.

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Section	Comment	Topic	Hint	Tip
Record keeping for improved financial information	Only accurate data that is recorded systematically will provide the financial information that is necessary for improved financial performance	Chart of accounts	Keep your chart of accounts simple to start with and review and revise it as the need arises.	
		Accounting method		If you are not sure which accounting method to use, speak to an accountant.
Budgeting and forecasting	Budgeting and forecasting encompass the future financial plan of the club. They are where the strategic plans are translated into dollars and cents to ensure that plans are financially viable.		Only those clubs that have products to sell will use the calculation of cost of goods sold.	Segment reporting will provide transparency about each distinguishable operating activity of the club.
		Income and expenditure budget	For programs that have a lifespan of more than one year, you may need to extend the budget to match the life of the program.	You may want to consider presenting the key assumptions to the management committee for approval before developing the new budget. This way, committee members will be fully informed of what has been estimated for the key events of the budget year and they will be able to see clearly what is going on. If you do seek approval, then at each committee meeting you should also advise the management committee of any changes that may have occurred (or that might occur) that could have an impact on your assumptions.
		Forecasting	Forecasting is different to budgeting. A forecast is where the budget is updated with actual events to show what has happened and the impact of these events on the predicted outcomes.	The key to successful forecasting is to review results regularly, identify variances and implement strategies early to ensure that the approved budget will be met.

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Appendix A - Summary of hints and tips *cont.*

Section	Comment	Topic	Hint	Tip
Financial management	Good financial management means that the financial information provided in the financial statements and budgets and forecasts can be used to improve operational activities and accomplish important daily and future financial objectives.			
Managing profitability and cash flow		Profitability	Improved profitability will be achieved through the following three key areas: <ul style="list-style-type: none"> • Regular monitoring • Knowing the impact of discounting • Tight management of expenses 	By focusing on improved profitability, additional funds will be generated that can be used to support the operations and goals of the club.
		Cash flow management	By undertaking active cash management your club can ensure that funds are available to pay all debts when they fall due.	By reviewing the variances between the expected and actual cash flows, you can minimise any unexpected changes in cash flows
Working capital management	Working capital is the short-term capital that works for the club. It includes stock, work in progress, and payments to suppliers and receipts from customers. By managing your account payment cycle it should ensure that there is sufficient monies to meet all payments.	Stock	Setting up good stock control procedures will ensure that cash is not tied up unnecessarily in holding stock.	
		Suppliers	Setting up good management procedures will ensure that you get the most out of your suppliers.	
		Work in progress	The key to managing work in progress is to have a good record-keeping system.	
		Debtors	Ensure that you have good procedures in place to encourage prompt payment.	

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Section	Comment	Topic	Hint	Tip
Financing	Ensuring that all types of financing available are fully understood and matched to the club's needs will result in good financial management.	Grants	Before accepting reciprocal grants, ensure that all conditions are fully understood and can be met.	
		Debt financing	In a competitive market, financiers will package finance products under different names and introduce a range of features to differentiate themselves.	It is important to consider the purpose of the financing, together with security and repayment requirements and applicable fees, to ensure that the chosen facility is the best for the club's particular requirements.
		Refinancing your debt	When considering refinancing of borrowings, there are many factors to consider. The decision should not be based on pricing alone, but on the overall package available to the club.	
		Preparing a loan application	When preparing a loan application, ensure that all relevant information is provided and presented to the bank in person. The bank will not only be reviewing the application, it will also be making an assessment of management and its ability to run the club.	If the loan application is denied, find out as much as you can about why. This will assist you with any future loan applications.
Transactional banking to suit the needs of your club	The relationship with your bank is as important as any of your other business relationships. If it's good, it will assist you to achieve good financial management.	Managing banking relationships	A good banking relationship depends on both parties. You need to keep the bank fully informed at all times about all key aspects of the operations of the club.	One of the advantages of a good banking relationship is that the experienced bank manager can assume some of the role of an unpaid financial adviser. Bank managers have experience with many types of clubs and, since they are not closely involved, they can give impartial advice.

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Section	Comment	Topic	Hint	Tip
Transactional banking to suit the needs of your club <i>cont.</i>		Transactional banking	Transactional banking services can incur large unnecessary fees. Regular review will ensure that the services are being provided at the best available cost.	Your banker can help you to choose the transactional services best suited to your club.
		How to switch banks	Before changing your banking arrangements, make sure that a number of alternatives are considered and compared to your current arrangements.	Before switching banks, see if your current bank is prepared to offer you a better deal. Often the current bank will be willing to match the offer made by the alternative bank.
Financial management governance	Good financial management must be supported by the appropriate policies and procedures to ensure that the financial information is complete and accurate and will lead to the correct decisions.			
Financial controls			Financial control procedures ensure that all financial information is recorded and accurate. If it is not accurate or complete, then wrong decisions could be made.	Review those questions in the checklist that are applicable to your club but to which you have not answered 'yes'. Ask management to implement appropriate policies and procedures, including naming the people who will be responsible for them and a completion date. This checklist should be reviewed annually by the management committee.
Board financial management			The oversight role of the board or management committee includes ensuring that the club has good financial management practices in place to achieve the objectives of the club.	Review those questions in the checklist that are applicable to your club but to which you have not answered 'yes'. Ask management to implement appropriate policies and procedures, including naming the people who will be responsible for them and a completion date. This checklist should be reviewed annually by the management committee.

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Appendix B - Glossary of terms

There is a wealth of jargon and terminology associated with financial management. It is helpful for you to understand these terms when reading financial statements or when talking to finance professionals, e.g. bank managers. The most basic and useful of these are described as follows:

Accrual accounting	Recognising income and expenses when they occur rather than when income is received or expenses paid.
Accounting entry	The basic recording of business transactions as debits and credits.
Accounting period	A period for which financial statements are prepared – normally monthly then annually.
Amortisation / Depreciation	The process by which the value of an asset is gradually reduced (based on its expected life)
Asset	Anything having a commercial value that is owned by the club.
Break even	The amount in either units or dollar value that the club needs to achieve before a profit is generated.
Budget	A financial plan for a club, typically done once a year.
Capital expenditure	The amount of money that is allocated or spent on assets.
Cash accounting	Accounting for income and expenses as they are received or paid, or a system that records only cash receipts and cash payments (<i>also see Accrual accounting</i>).
Cash flow	The flow of cash into and out of the club.
Cost of goods sold	The total cost of all goods sold during the period (COGS).
Creditors	The money which you owe your suppliers.
Current	Refers to a time period of less than 12 months from the current time which assists in allocation of assets and liabilities.
Debtors	The money which is owed by your customers to you.
Deferred tax	The postponement of tax payable to a future period.
Depreciation expenses	The write-off of a portion of a fixed asset's value in a financial period.
Financial accounting	The costs associated with earning the club income.

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Financial ratio	The method by which a club can measure its financial health and compare the club's operations to those of similar clubs in the same industry.
Forecasting	The process of predicting the future financial performance of a club.
Intangibles	Assets that don't have a physical form, e.g. patents.
Inventory	The stock that a club holds to sell.
Liability	The amount the club owes to external stakeholders.
Margin	Profit from sales before deducting overheads (often referred to as gross margin), or after all expenses are paid, often referred to as net margin.
Mark-up	The percentage by which the sales price exceeds the cost.
Mutuality principle	A person's income consists only of monies derived from external sources. Accordingly, subscriptions and contributions from members for particular services provided by a club or association are generally excluded from the assessable income of that club or association.
Non-current	Refers to a time period of greater than 12 months from the current time which assists in allocation of assets and liabilities.
Overheads	Costs not directly associated with the products or services sold by the club.
Profit (surplus)	Revenue minus expenses.
Purchase order	A commercial document issued by a buyer to a seller, indicating the type, quantities and agreed prices for products or services the seller will provide to the buyer.
Receivables	Amounts that are owed to a club by its debtors.
Revenue	The income the club earns from its activities, including grants, donations, fundraising and any trading income.
Retained earnings	Profits that have remained in the club.
Stock	Goods that the club purchases to sell.
Transaction	An event that affects the financial position of a club.
Working capital	The excess of current assets over current liabilities.
Work in progress	Where an order has been taken from the customer and is in the process of completion.

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Appendix C - Incorporation explained

One of the main problems that face administrators in the running of their club or association is the issue of incorporation. There is no legal necessity for a sport or recreation club to become incorporated if it remains a voluntary association. However, remaining unincorporated does leave the club in a difficult situation in regard to the law. If a club is not incorporated, legal rights and obligations can fall onto individual members.

Whether to incorporate (or not) is an important decision that should be reviewed from time to time, especially if the size or nature of your club's activities changes (for example, your club wants to employ a paid staff member). This is one of the most important legal decisions you will face as a group. It is particularly important for people who are, or have been approached to be, involved on the board or committee of a sporting club, or who have decision-making functions.

Why incorporate?

The advantage of incorporation is that the club becomes 'registered' as an incorporated club. This means that the club has a legal identity, separate and distinct from the individuals who formed or make up the club. With the club having a legal existence, it can conduct business in its own name, for example:

- Incorporation protects club members, to a certain extent, from being sued individually
- Office bearers can sign documents and enter into contracts
- The club can buy, sell, own, lease and rent property and other assets
- The club can sue and be sued in its own right
- It can receive grants from government and other philanthropic groups
- It can borrow money.

One of the main benefits of incorporation for a club is that the group has 'limited liability'. This means that in most cases, the responsibility for debts or any legal proceedings or costs, is limited to the amount of money and assets held by the club. This protects individuals in the club from being personally liable if anything goes wrong. However there are exceptions to limited liability, with the main one being that if a person or persons on the committee act improperly or unlawfully, then they will not be protected. It is imperative then that all committee members are fully aware and understand their responsibilities as office holders.

What are the dangers of remaining unincorporated?

If your club chooses to remain unincorporated, it is important to understand that the club will not have its own legal status. Incorporation creates a legal 'identity' that is separate and distinct from that of the individual members. It is therefore important that a club and more importantly the office bearers are made fully aware of the risk of personal liability for any debts or legal costs incurred.

Groups should also consider the other practical difficulties that arise by remaining unincorporated, including:

- An inability to receive grants from government or philanthropic trusts and foundations
- An inability to enter into contracts or agreements under the group's name (including applications for tax concessions)
- An inability to own/lease property in the group's name
- An inability to sue or bring a legal action in the group's name.

A group should think about how much financial risk it might be exposing itself to through its actions. Incorporation should be viewed as an opportunity to limit personal risk, and unincorporated groups should therefore consider whether they are putting their members in a position where they may become personally liable for the actions of the group.

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Remaining unincorporated

If your club intends to remain informal and focus on simply entering teams into competitions, for example, then there is not necessarily a need to become incorporated. Some of the benefits of remaining unincorporated are that the club doesn't have to hold meetings in a specific format, register with government, make public who its members are or its financial position, or pay any annual fees to government. However, it is strongly recommended that unincorporated clubs develop a set of rules, similar to a constitution that assists with governing the club and particularly decision making. It is also best practice to regularly review the decision to incorporate at least every year and particularly as your club changes and grows.

Steps to incorporation

If your group decides to incorporate, you should visit the relevant authority in your state that deals with not-for-profit clubs and incorporation. In addition this website will provide you with the relevant information, paperwork, costs and a template constitution for your club to use; the relevant website is www.cbs.sa.gov.au/associations-and-cooperatives/incorporated-associations/



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Appendix D - Sample Financial Management Policy

Purpose:

To ensure that the club's finances are handled responsibly and to enable the implementation of sound day-to-day financial management practices with clear parameters.

The Treasurer has direct responsibility for looking after the club's financial affairs, however, overall financial responsibility rests with the club's management committee.

Incorporated clubs will have information in their constitutions that outlines the procedures for financial management and reporting. The club's financial year operates from 1st July to 30th June.

Policy Statement

The club's management committee will ensure that:

- A suitably qualified person is recruited to the role of Treasurer
- The club will assess its obligations in relation to income tax each year
- The club will ensure that all requirements of the Australian Taxation Office in relation to GST are met (e.g. acquiring an ABN if annual turnover is above \$150,000, etc.)
- If the club is incorporated and over \$500,000 in income, it will lodge an annual return with Consumer Affairs (or other relevant body) by the specified date each year if club income is greater than \$500,000 as it will be a 'Prescribed Association'.
- An approved budget for the year is determined and that expenditure is within budget
- A budget is available to purchase up-to-date financial software if needed
- Sufficient income is available to meet the budget requirements
- All funding agreements are adhered to and acquitted as required
- Monthly financial management reports are produced and presented to the next management committee meeting
- All investment decisions are ratified by the management committee
- An audit is completed, if necessary, in accordance with the Associations Incorporation Act and the club's constitution.

Policy Procedures

- Decide whether to use cash or accrual-based accounting
- Two signatures are required on all cheques as a minimum to authorise any payment, i.e. cheque or electronic facility
- The Treasurer and two other committee members (Treasurer, President & Secretary) are authorised to operate the club's bank accounts
- A limit of \$_____ may be authorised by the Treasurer or President, without approval from the full committee
- A petty cash system may be used for the reimbursement of small cash expenses. A petty cash book will be kept to record all payments and money will only be reimbursed on the production of a receipt
- The maximum petty cash reimbursement is \$_____
- The club's financial recording will include the following:
 - Use of a receipt book
 - Bank deposit book
 - Cheque book
 - Cash receipt journal
 - Cash payment journal
- At the end of each month, a bank reconciliation will take place, ensuring the total of all receipts and payments equals all bank deposits and withdrawals,
- The Treasurer will prepare an annual budget for the club, 3 months before the beginning of next financial year, predicting expected income and expenditure,
- Sufficient income is available to meet the budget requirements,
- Any variances to the budget are explained to the management committee,
- The Treasurer will:
 - Provide a profit-loss statement and balance sheet for the annual report each year,
 - Appoint a suitably qualified Auditor if required,
 - After audit, develop a subsequent action plan to respond to the auditor's report,
 - If a Prescribed Association the club will submit an annual return to Consumer Affairs by the given date.

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Appendix E - Sample General Ledger

Sample General Ledger Accounts

Ownership Equity

Accumulated members funds

Assets

Bank account

Debtors

Motor vehicles at cost

Office equipment at cost

Stock (Clothing)

Stock (Equipment)

Liabilities

Accumulated depreciation on motor vehicles

Accumulated depreciation on office equipment

Creditors

PAYG tax withholding

Cost of sales

Purchases of clothing for resale

Purchases of equipment for resale

Canteen purchases

Income

Fundraising income

Bar sales

Canteen sales

Soccer program revenue

Membership fees

Government grants

Sales - Clothing *Use for any type of clothing sales*

Sales - Equipment *Use for sales of e.g. footballs etc.*

Sponsorship

Other income

Expenses

Bar purchases

Fundraising Costs

Club program costs

Overheads

Audit fees

Bad debts

Computer expenses

Electricity

Maintenance of clubhouse

Maintenance of fields and tractor

Photocopier lease payment

Postage

Printing and stationery

Purchases - Clothing

Purchases - Equipment

Rates

Salaries

Telephones

Travel and accommodation

Revenues (Income)

Fundraising Income

Bar sales

Canteen sales

Soccer program revenue

Membership fees

Government grants

Sales - Clothing *Use for any type of clothing sales*

Sales - Equipment *Use for sales of e.g. footballs etc.*

Sponsorship

Other income

Note:

1. *It is possible to further split certain expense categories if the club wishes to group costs under specific headings.*
2. *Further information is available at the following website: <https://www.acnc.gov.au>*

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