

Accounting for non-accountants

SPORT AND RECREATION
ORGANISATIONS

—
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01

UNDERSTANDING FINANCIAL STATEMENTS

1.1 FINANCIAL REPORTING

As part of the governance of sport and recreation organisations, financial reports are prepared and used to assist in the management of organisations and provide accountability and information to their members and other stakeholders. If an organisation is a registered charity, from 1 April 2015, there is a statutory requirement to attach financial statements in a new, prescribed format with the annual return to Charities Services*. Failure to comply would likely mean losing charitable status, which means the organisation may be subject to income tax.

* If you are unsure if your organisation is a registered charity, check the charities register at www.charities.govt.nz

Amateur sports clubs are exempt from income tax, unless there is a private benefit to their members. An exemption must be applied for in writing to Inland Revenue as it does not occur automatically. In the past, charitable organisations have had no specific requirements for financial reporting.

Organisations which are not registered charities will likely have, as part of their constitution or ruling document, a requirement to produce financial reports for their members, normally on an annual basis. If the operating expenditure for an organisation is over \$500,000 for the previous two accounting periods, the Charities Act requires, from 1 April 2015, that financial reports for registered charities must be audited or reviewed by a qualified auditor. A qualified auditor must be a member of an accredited body (see Financial Reporting Act sections 35 and 36).

An audit involves detailed testing of financial statements, which may include inspecting, observing, confirming, recalculating, and undertaking inquiry and analytical review, to be able to state that, in the auditor's opinion, the financial statements are free from material misstatement. The cost will vary between organisations so please contact a qualified auditor for a quote.

A review is a more limited approach and focuses on inquiry and analytical review, and concludes that nothing has been discovered that would cause a belief that the financial reports are not free from misstatement.

If a charitable organisation has expenditure of over \$1 million for the last two periods, an audit must be conducted by a qualified auditor.

Organisations that are below the expenditure thresholds or are not registered as a charity may still be required to have an audit or review if the organisation's rules or constitution require one.

1.2 TYPES OF FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE

This statement shows if the organisation makes a surplus or deficit from its activities conducted over a 12-month period, called the “accounting period”. It is titled for the year ended as it reports on 12 months of transactions. (If the reporting period is less than 12 months, the title can be changed to “the month(s) ended”.)

The following elements make up the Statement of Financial Performance: Revenue, Expenses and Surplus/Deficit.

Revenue

Can be defined as income earned during the normal activities of the organisation, such as member subscriptions, donations, grants, and fundraising activities. It does not include funds received from money lent to the organisation.

Expenses

Are costs incurred to earn revenue as part of the normal activities of the organisation, such as salaries, electricity, rent, communications and printing. While most expenses are paid out of the bank account, items such as depreciation – which is the allocation of the cost of an asset, such as a computer, over its useful life – are non-cash items.

A Surplus

Will arise if revenue exceeds expenses; otherwise a deficit occurs.

STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position (also referred to as “The Balance Sheet”) allows readers to assess the organisation’s financial standing. Three main areas make up this statement: Assets, Liabilities and Accumulated Funds. It is headed “as at” because it shows what we own and owe at a particular date.

Assets

Are what the organisation owns. Assets are broken down into categories such as current and non-current assets.

Current Assets:

Are cash or expected to be turned into cash within the next accounting period (i.e., a year). Examples are bank, member subscriptions due and inventory.

Non-Current Assets:

Are kept longer than a year, such as land, buildings and vehicles. We normally put these in a schedule at the end of the financial accounts.

Liabilities

Are obligations owed external to the organisation and are split into current and non-current liabilities.

Current Liabilities:

Are due for payment within the next accounting period and include accounts payable. They also include the current portion of long-term loans that are due for repayment in the next accounting period.

Non-Current Liabilities:

Are liabilities containing items such as mortgages and leases which are not due until the next accounting period or beyond.

Working Capital

Is the difference between current assets and current liabilities and is an important part of the Statement of Financial Position. This is because the resources to pay the current liabilities come from the current assets, once these are converted to cash.

Accumulated Funds

Are the difference between the assets and liabilities. Accumulated funds can contain funds contributed by members, accumulated surpluses, and reserves. Reserves are funds that have been set aside for a purpose such as a contingency fund in case of financial emergency, or a maintenance reserve for the organisation’s buildings.

FIT TIPS

Expenditure which creates an asset is called capital expenditure.

Prudent working capital management requires that inventory and accounts receivable are turned into cash as quickly as possible to pay liabilities.

1.3 ACCRUAL AND CASH ACCOUNTING

EXAMPLE: ACCRUAL ACCOUNTING

Accrual accounting includes all transactions incurred within the accounting period, whether they have been paid in cash or not.



A tennis organisation orders a new umpire stand from Acme Engineering.



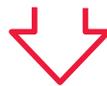
It arrives within the financial year ended 30 June 20X3, but doesn't have to be paid for until 20 July 20X3 – outside the financial year.



Under accrual accounting the umpire stand must be recorded in the accounts. How?



This is done by increasing the assets and the current liabilities as an account payable.



In the same way, if a transaction is paid for within the financial period but doesn't belong there, this must be removed by reducing the expense and creating a current asset called "Prepayments".



For example, if a subscription held by the organisation is paid in advance for the following year, subscription expenses are reduced and prepayments are increased.



Member subscriptions that are owing at the end of the year are recorded by increasing subscription income and creating a current asset called "Accounts Receivable".



If however, members pay subscriptions before they are due, the subscription income is reduced and a current liability account is created called "income received in advance".

EXAMPLE: CASH ACCOUNTING

Cash accounting is the simplest form of accounting and records only transactions during the accounting period which go in and out of the bank account(s). This simple example illustrates this:



A badminton organisation has received income of \$12,000 in cash and is owed \$3,000 in subs from its members at its financial year end.



It has paid cash expenses of \$9,000 and owes \$1,500 for invoices received but not yet paid for.

The difference between both methods is \$1,500 caused by the members' subs of \$3,000 not yet received, less the \$1,500 in expenses owing.

As shown in this example, there can be a difference between accrual profit and cash surplus. This can explain why we can make a healthy accrual profit, and yet not have as much cash in the bank as we expected.

	REVENUE	LESS EXPENSES	SURPLUS
Cash Accounting	\$12,000	\$9,000	\$3,000
Accrual Accounting	\$15,000 (\$12,000 + \$3,000)	\$10,500 (\$9,000 + \$1,500)	\$4,500

1.4 CASE STUDY

HAMPDEN TENNIS CLUB

Hampden Tennis Club is a fictitious New Zealand tennis club.

It is a registered charity and reports under Tier 3 of Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit).

As a prospective committee member, you have been given a preview of the financial reports section of their Performance Report, and some background information.

The club membership and subscriptions as at 30 June 20X3 are as follows (exclusive of GST):

90 adults@	\$347.82
14 midweek@	\$217.39
17 couples@	\$521.74
178 juniors@	\$310.44

During the last financial year, the club lost six adult, four midweek, and two couple memberships, but gained 15 junior members. You have been told the strong junior membership will continue, placing a strain on court use at times. Two adult members did not pay their subscriptions and their subs were written off.

Two years ago, the club undertook a strategic review.

As part of the review, the management committee was concerned about the steady decrease in adult members that had been occurring, although there had been strong growth in the juniors. It was decided to diversify the income as subscriptions were becoming unsustainable to support the club.



As the cash flow had appeared to allow it, a secretary/manager was employed at a cost of \$60,000 per annum from 1 July 20X1.

MANAGERS'S MAIN FOCUS AND IDEAS

Generate income for the club, such as applying for grants for operational expenses.

- Project manage the new pavilion project, which has been in the planning stage for over five years. The pavilion will contain changing rooms and shower facilities, which at present do not exist.
- Ask club members to sell wine as a fundraiser. The management committee decided to create a more social atmosphere to the club and try to raise more club funds in the process.
- A small bar area was created in the club house 18 months ago, complete with four bar tables.
- Encouraged by the initial success of the use of the bar, a part-time bar staff member was employed from 1 July 20X2 at a cost of \$15,000 per annum.
- Previously club members had volunteered for bar service, with the manager holding the liquor licence.

OTHER INCOME

Two years ago, a tennis coach was employed to run lessons for members and non-members. This has proved very popular, mainly due to the coach – a retired professional tennis player, now in his late 60s.

There have been some grumblings at the club about lessons taking place with ball machines and balls everywhere during the midweek.

There are eight courts in the complex, and Hampden Tennis Club was one of the first to adopt synthetic tennis courts and provide night-time lighting. The courts are now starting to show their age.

A growing source of revenue is hireage of the courts by non-members. Bookings are made online and paid by credit card, and a code is issued to unlock the security gate.

REQUIRED:

Based on the information given, and from the financial reports (below), make a list of your first impressions of the club.

HAMPDEN TENNIS CLUB

Below are the Statement of Financial Performance and Statement of Financial Position for the Hampden Tennis Club year ending 30 June 20X3. These will be used as the basis for examples in the following chapters.

Statement of Financial Performance for the year ended 30 June 20X3

	NOTES	\$ 20X3	\$ 20X2
REVENUE			
Grants, donations, fundraising and similar revenue	1	2,261	17,125
Fees, subscriptions and other revenue from members	2	66,435	68,474
Revenue from providing goods or services	3	125,896	83,251
Interest, dividends and other investment revenue	-	-	-
Total Revenue		194,592	167,950
EXPENSES			
Expenses related to public fundraising	4	2,087	-
Volunteer and employee related costs	5	75,000	60,000
Costs related to providing goods or services	6	51,865	28,253
Other expenses	7	100,411	96,475
Total Expenses		229,363	184,728
Surplus/(Deficit) for the period		(34,771)	(16,778)

	NOTES	\$ 20X3	\$ 20X2
NOTES TO THE STATEMENT OF FINANCIAL PERFORMANCE			
Grants, donations, fundraising and similar revenue	1		
Wine sales fundraiser		2,261	-
Grants (unrestricted as to purpose)		-	17,125
		2,261	17,125
Fees, subscriptions and other revenue from members	2		
Member subscriptions		66,435	68,474
		66,435	68,474
Revenue from providing goods or services	3		
Bar takings		36,522	23,551
Tennis lessons		67,800	38,100
Court bookings (non-members)		21,574	20,700
		125,896	82,351
Expenses related to public fundraiser	4		
Wine fundraiser		2,087	-
		2,087	-
Volunteer and employee related costs	5		
Wages and salaries		75,000	60,000
		75,000	60,000
Costs related to providing goods and services	6		
Bar purchases		29,565	24,553
Tennis professional (lessons)		20,000	10,000
Opening bar inventory		6,300	-
Less closing inventory		4,000	6,300
		51,865	28,253
Other expenses	7		
Audit		2,500	2,500
Bad debt		696	-
Bank fees		300	300
Cleaning		6,000	5,500
Depreciation		30,765	32,769
General expenses		3,561	6,779
Insurance		2,200	2,100
Interest		3,600	4,000
Electricity		24,600	22,650
Printing		1,200	800
Rates		2,300	2,150
Repairs and maintenance (tennis courts)		18,804	10,127
Repairs and maintenance (building)		2,485	5,600
Telephone/Internet		1,400	1,200
		100,411	96,475

HAMPDEN TENNIS CLUB

Statement of Financial Position as at 30 June 20X3

	NOTES	\$ 20X3	\$ 20X2
ASSETS			
Current Assets			
Bank accounts and cash		21,432	11,100
Accounts receivable	7	9,100	5,800
Accrued income		-	450
Inventory		4,000	6,300
Prepayments		1,100	1,000
Total Current Assets		35,632	24,650
Non-Current Assets			
Property, plant and equipment	8	394,452	420,000
Total Non-Current Assets		394,452	420,000
Total Assets		430,084	444,650
LIABILITIES			
Current Liabilities			
Accounts payable		4,000	6,000
Accrued expenses		3,550	3,800
GST payable		6,155	3,700
Unused grant with conditions	9	30,000	-
Borrowings	10	10,000	10,000
Total Current Liabilities		53,705	23,500
Non-Current Liabilities			
Borrowings	11	80,000	90,000
Total Non-Current Liabilities		80,000	90,000
Total Liabilities		133,705	113,500
NET ASSETS		296,379	331,150
ACCUMULATED FUNDS			
Retained earnings		320,650	337,428
Surplus/(Deficit)		(34,771)	(16,778)
Pavilion Reserve Fund	12	10,500	10,500
		296,379	331,150

NOTES	\$ 20X3	\$ 20X2		
NOTES TO THE STATEMENT OF FINANCIAL POSITION				
7. Accounts receivable				
Subscriptions owing (GST inclusive)	9,100	5,800		
Total	9,100	5,800		
8. Property, plant and equipment				
	Opening carrying amount	Additions	Depreciation impairment	Closing carrying amount
Club house	110,000		3,300	106,700
Land	140,000			140,000
Synthetic courts and lighting	151,000		21,895	129,105
Plant and equipment	19,000	5,217	5,570	18,647
	420,000	5,217	30,765	394,452
9. Unused grant with conditions				
Pavilion fund-project not yet started			30,000	-
Total			30,000	-
10. Borrowings				
Current Loans				
Hampden City Council 4% interest on reduced balance			10,000	10,000
Non-current Loans				
Hampden City Council 4% interest on reduced balance			80,000	90,000
Total Borrowings			90,000	100,000
II. Pavilion Reserve Fund				
Fund for new pavilion building			10,500	10,500
Total			10,500	10,500

HAMPDEN TENNIS CLUB

Statement of Cash Flows as at 30 June 20X3

	NOTES	\$ 20X3	\$ 20X2
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was received from:			
Donations, fundraising and other similar receipts		32,261	-
Fees, subscriptions, receipts from members		62,869	65,284
Receipts from providing goods and services		126,346	88,259
Interest, dividends and other investment receipts		-	-
Net GST		1,764	3,789
Total		223,240	157,332
Cash was applied to:			
Payments to suppliers and employees		(197,691)	(122,632)
Net cash flows from operating activities		25,549	34,700
CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES			
Cash was applied to:			
Acquisition of property, plant and equipment		(5,217)	-
Loan repayments		(10,000)	(10,000)
Net cash flows from investing and financing activities		(15,217)	(10,000)
Net Increase/(Decrease) in Cash		10,332	24,700
Opening Cash		11,100	(13,600)
Closing Cash		21,432	11,100
This is represented by: Bank		21,432	11,100

1.5 ANALYSIS OF FINANCIAL STATEMENTS

HAMPDEN TENNIS CLUB

Financial statements can be analysed using ratios and percentages as tools to help determine the financial health of an organisation.

The ratios may, however, in their own right not be an indicator of how truly an organisation is performing and are subject to some limitations, such as:

Historical data being used. The past may not be indicative of the future.

Changes in the way information is presented. For example expenses may be grouped differently, making comparisons difficult.

Economic environment. If the economy is poor, this will make getting grants or attracting members to your club difficult, and may not necessarily be reflective of the club.

Changing patterns and tastes. These can have an impact on financial results, for example if leisure time is scarce with busy lifestyles.

Interpreting results can be difficult. For instance, an organisation might have sold off a strategic piece of land to temporarily create more cash, improving the ratios.

Despite these limitations, ratios and percentages can be very useful in understanding financial reports.



ANALYSIS OF FINANCIAL REPORTS – HAMPDEN TENNIS CLUB

Below is a list of common ratios that have been adapted for analysis of non-profit financial reports. We will use some of these in analysing the financial performance of Hampden Tennis Club.

A) Statement of Financial Performance

* Credit sales are issued to the customer via accounts receivable; therefore cash sales are not included in the formula

RATIO	FORMULA			EXPLANATION
Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}}$	X	$\frac{100}{1}$	The percentage of gross profit per sales dollar from selling goods
Revenue mix	$\frac{\text{Income by category}}{\text{Total income}}$	X	$\frac{100}{1}$	Shows mix of income an organisation has by percentage
Mark-up	$\frac{\text{Gross profit}}{\text{Cost of sales}}$	X	$\frac{100}{1}$	Margin in relation to the cost of sales
Expense control	$\frac{\text{Expenses}}{\text{Revenue}}$	X	$\frac{100}{1}$	Individual expenses or categories of expenses can be compared as a percentage of sales. Trends are important
Fundraising efficiency	$\frac{\text{Fundraising expenses}}{\text{Fundraising revenue}}$	X	$\frac{100}{1}$	Measures fundraising expenses as a percentage of funds received
Programme efficiency	$\frac{\text{Programme expenses}}{\text{Total expenses}}$	X	$\frac{100}{1}$	Shows the amount of expenses spent on organisational programmes as opposed to total expenses
Return on revenue	$\frac{\text{Net surplus}}{\text{Revenue}}$	X	$\frac{100}{1}$	Surplus generated from each revenue dollar
Inventory turnover	$\frac{\text{Cost of goods sold}}{\text{Average inventory}}$	X		Efficiency of inventory management
Days of sales in inventory	$\frac{\text{Ending inventory}}{\text{Cost of goods sold}}$	X	$\frac{100}{1}$	An alternative method of calculating inventory sales
Average collection period	$\frac{\text{Average accts rec}}{\text{Credit sales*}}$	X	$\frac{365}{1}$	Average days taken in collecting accounts receivable
Return on accumulated funds	$\frac{\text{Net surplus}}{\text{Avge accum funds}}$	X	$\frac{100}{1}$	Shows the percentage return on accumulated funds of the organisation
Interest cover	$\frac{\text{Net surplus before int}}{\text{Interest expense}}$			Shows ability to meet interest expense from the net surplus

B) Statement of Financial Position

RATIO	FORMULA			EXPLANATION
Debt/equity	$\frac{\text{Total liabilities}}{\text{Accumulated funds}}$	X	$\frac{100}{I}$	Funding provided by creditors versus accumulated funds
Equity ratio	$\frac{\text{Accumulated funds}}{\text{Total assets}}$	X	$\frac{100}{I}$	Shows percentage of assets funded by the club
Liabilities/ assets	$\frac{\text{Total liabilities}}{\text{Total assets}}$	X	$\frac{100}{I}$	Percentage of assets to liabilities
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$:I	Measures ability to meet short-term debt (solvency)
Liquidity, quick or acid test ratio	$\frac{\text{Cash + accts rec}}{\text{Current liabilities} - \text{bank overdraft}}$:I	Immediate liquidity: ability to meet immediate debts from near-cash assets
Days of cash on hand	$\frac{\text{Cash \& cash equiv}}{\text{Total operating exp}}$		365	The number of days that cash is available for cash expenses
Operating reserve ratio	$\frac{\text{Operating reserves}^*}{\text{Total operating exp}^\wedge}$:I	*Operating reserves equals total unrestricted net assets minus fixed assets (net of debt) \wedge Total operating expenses equals total annual expenses less depreciation

1.6 RECONCILIATION OF ACCRUAL AND OPERATING CASH SURPLUS

The net deficit in the Statement of Financial Performance for 20X3 was a loss of (\$34,771) through calculating revenue and expenses under the accrual system. Net cash flow from operating activities in the cash flow statement, however, showed a surplus of \$25,549.

How can we explain the difference?

We need a reconciliation that starts with the accrual loss of (\$34,771) and then add back the non-cash item of depreciation and the increases and decreases in the working capital areas – which are sources of, and depletions of, cash. We should arrive at our net cash flow from operating activities of \$25,549.

NET DEFICIT FROM STATEMENT OF FINANCIAL PERFORMANCE	(34,771)
Add back depreciation	30,765
Less decrease in accrued revenue	450
Add increase in accounts receivable	(3,300)
Less decrease in inventory	2,300
Add increase in prepayments	(100)
Add decrease in accounts payable	(2,000)
Add decrease in accrued expenses	(250)
Less increase in GST	2,455
Less increase in unused grant with conditions	30,000
Net cash flow from operating activities	25,549

Cash flow statements are useful to see the differences between the accrual surplus or deficit and the net cash flow operating activities increase or decrease. Although there has been an accrual loss, there has been a cash increase from operating activities.

The two main causes of these differences are the non-cash expense of depreciation and the unused grant which is not yet counted as revenue.

1.7 ANALYSIS OF STATEMENT OF FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE

Revenue – Vertical analysis

The vertical analysis shows the percentage of a line item, such as member subscriptions, against total revenue. It is calculated as follows:

$\frac{\text{Revenue item}}{\text{Total revenue}} \times \frac{100}{1}$	Example for wine sales fundraiser
$\frac{2,261}{194,592} \times \frac{100}{1} = 1\%$	

REVENUE ITEM	\$ 20X3	% OF REVENUE	\$ 20X2	% OF REVENUE
Wine sales fundraiser	2,261	1%*	-	0%
Grants	-	0%	17,125	10%
Member subscriptions	66,435	34%	68,474	41%
Bar takings	36,522	19%	23,551	14%
Tennis lessons	67,800	35%	38,100	23%
Court bookings	21,574	11%	20,700	12%
Total Revenue	194,592	100%	167,950	100%

Horizontal analysis

The horizontal analysis shows the percentage increase or decrease of a revenue item between a base year and one or more years. It is calculated as follows:

$\frac{\text{Dollar change} = \text{amount of item in comparison year (20X3)} - \text{amount in base year (20X2)}}{\text{Amount of item in base year}} \times \frac{100}{1}$	Example for member subscriptions:
$\frac{66,435 - 68,474}{68,474} \times \frac{100}{1} = -3\%$	

The vertical analysis shows membership revenue declining from 41% to 34% as a total of revenue, but down only 3% between the years, as shown by the horizontal analysis.

Tennis lessons have increased dramatically as a percentage of total revenue from 23% in 20X2 to 35% in 20X3 from the vertical analysis. The horizontal analysis shows a 78% increase between 20X2 and 20X3. Bar takings have also increased dramatically, but this is due to a full trading year in 20X3.

REVENUE ITEM	\$ 20X3	\$ 20X2	% 20X2/20X3
Wine sales fundraiser	2,261	-	-
Grants	-	17,125	-
Member subscriptions	66,435	68,474	-3%
Bar takings	36,522	23,551	55%
Tennis lessons	67,800	38,100	78%
Court bookings	21,574	20,700	4%
Total Revenue	194,592	167,950	

Grants, donations and fundraising

A major focus of the new manager was to raise revenue to diversify from its subscription base. An initiative was to purchase wine from a local winery and ask members to sell this. However not all members were on board with the fundraising. As at 30 June 20X3 all the wine had been sold or discarded as it was past its use by date.

Fundraising efficiency	$\frac{\text{Fundraising expenses}}{\text{Fundraising revenue}}$	X	$\frac{100}{1}$	
20X3	$\frac{2,087}{2,261}$	X	$\frac{100}{1}$	92.3% of revenue is taken up with expenses

Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}}$	X	$\frac{100}{1}$	
20X3	$\frac{174^*}{2,261}$	X	$\frac{100}{1}$	7.7% – this means 7.7 cents gross profit per \$1 of sales

*Gross profit calculation: Wine sales \$2,261 less cost of wine \$2,087 = \$174

The profit was probably not worth the effort, and questions should be raised about the selling price per bottle, and the lack of buy-in from members which means it is probably not a good idea to run future similar fundraisers.

During the year a grant of \$30,000 was received to assist with the building of the new pavilion. This grant cannot be included as revenue until it is used for the purpose it was given, which has not yet begun. No other grant money was received during the year, despite this being a focus of the new manager.

From the vertical analysis, we have seen that the revenue is split amongst five areas, with subscriptions from members contributing 34% of the revenue. Although the reliance on subscription revenue has decreased from 20X2 diversifying its income to meet the costs of running the club is still an ongoing challenge. The membership has also been falling, and also two bad debts occurred during the year – which apparently has never occurred before (assume a beginning debtors' figure for 20X2 of \$2,700).

Average collection period subscriptions	$\frac{\text{Average accts rec}}{\text{Credit sales}}$	X	$\frac{365}{1}$	
20X3	$\frac{9,100 + 5,800}{2} / 66,435$	X	$\frac{365}{1}$	41 days
20X2	$\frac{(5,800 + 2,700)}{2} / 68,474$	X	$\frac{365}{1}$	23 days

As can be seen, the average time to collect subscriptions in 20X2 was 23 days, which increased to 41 days in 20X3 – a worrying trend, especially as there are falling club member numbers in the higher subscription category. The influx of juniors is bringing in more revenue but is the cause of complaints from the adult members because of their large usage of court time.

REVENUE FROM PROVIDING GOODS OR SERVICES:

Bar Takings

The mark-up and gross profit percentages have considerably weakened from 20X2 to 20X3. This requires investigation into why this has occurred.

The question also might be asked, after a modest profit in 20X2, why the club decided to spend \$15,000 in wages in 20X3 on a part-time bar person.

The inventory turnover has improved – that is, the club is selling more, but both mark-up and gross profit percentages offset the higher volume of sales.

It should also be pointed out that other expenses, such as electricity, have not been allocated to the bar, which would make the situation even more unprofitable.

			\$ 20X3	\$ 20X2
Bar sales			36,522	23,551
Less:				
Cost of sales				
Opening inventory	6,300			-
Add purchases	29,565			24,553
Less closing inventory	4,000	31,865	6,300	18,253
Gross profit			4,657	5,298
Less wages			15,000	0
Net/(loss) profit			(10,343)	5,298

Gross profit mark-up	$\frac{\text{Gross profit}}{\text{Cost of sales}}$	X	$\frac{100}{1}$	
20X3	$\frac{4,657}{31,865}$	X	$\frac{100}{1}$	= 14.7%

20X2	$\frac{5,298}{18,253}$	X	$\frac{100}{1}$	= 29.0%
------	------------------------	---	-----------------	---------

Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}}$	X	$\frac{100}{1}$	
20X3	$\frac{4,657}{36,522}$	X	$\frac{100}{1}$	= 12.8%

20X2	$\frac{5,298}{23,551}$	X	$\frac{100}{1}$	= 22.5%
------	------------------------	---	-----------------	---------

Inventory turnover	$\frac{\text{Cost of goods sold}}{\text{Average inventory}}$		
20X3	$\frac{31,865}{(6,300 + 4,000)/2}$		= 6.2 times
20X1	$\frac{18,253}{(6,300 + 0)/2}$		= 5.8 times

Tennis Lessons

These began in 20X2 when the club received an approach from retired tennis professional Lewis Christian. They have proved to be very popular, especially amongst the high schools, which are sending students for lessons. The lessons are held in groups of 10, at a cost of \$30 + gst per person.

In 20X2, 127 hours of lessons were held for \$38,100 in sales, the cost of which was \$10,000 paid to Lewis. This yielded a profit of \$28,100.

There are no significant additional costs as Lewis is able to use old club tennis balls, and while they are not new, they are acceptable to use.

Realising how much profit the club was making from him, Lewis demanded an increase in his fee to the club for the next season.

During 20X3 the 226 hours of lessons were fully booked out and made a profit of \$47,800. Some members have heard rumblings from Lewis that the hourly fee of \$88.50 he received is still not enough.

The sales for 20X3 are calculated as 226 hours of lessons with 10 people paying \$30 each – therefore 226 x 10 people x \$30 = \$67,800 less the \$20,000 dollars paid to the professional.

Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}}$	X	$\frac{100}{1}$	
20X3	$\frac{47,800}{67,800}$	X	$\frac{100}{1}$	= 71%
20X2	$\frac{28,100}{38,100}$	X	$\frac{100}{1}$	= 74%

The profits, with no other significant expenses, are good at 74 cents per every dollar in 20X2 even though they decreased slightly to 71 cents in 20X3..

There is a risk to this income, however, as the professional is rumoured to be unhappy with his fees, and his coaching abilities make him an attractive drawcard for another club.

Court Bookings

Non-members

Non-members can book courts online and receive a code to unlock the club gate. The manager keeps an eye on the bookings during the week days to ensure their stay is no longer than booked.

Bookings from 5pm to 9pm on week nights are not policed, apart from any club members who may question non-members on courts.

The cost to book a court is \$46 + gst per hour.

Some of the more social members of the club who don't enter the competitions believe this is too cheap, and if four people play the cost is only \$11.50 + gst each. They are thinking of resigning and just paying the casual rates.

In 20X2, 450 hours were booked, and in 20X3, 469 hours. This averages out to around 25 hours per week over the season's 18 weeks. Most of the play occurs during the week days and on Sundays, with not too much distraction to the normal membership.

The income of \$20,700 in 20X2 and \$21,574 in 20X3 has no direct expenses, except the wear and tear on the synthetic courts.

Expenses

Vertical analysis

The vertical analysis for expenses is expressed as a percentage of total expenses.

EXPENSE ITEM	\$ 20X3	% OF EXPENSES	\$ 20X2	% OF EXPENSES
Audit	2,500	1%	2,500	2%
Bad debt	696	0%	-	0%
Bank fees	300	0%	300	0%
Cleaning	6,000	3%	5,500	4%
Depreciation	30,765	18%	32,769	21%
General expenses	3,561	2%	6,779	4%
Insurance	2,200	1%	2,100	1%
Interest	3,600	2%	4,000	3%
Electricity	24,600	14%	22,650	15%
Printing	1,200	1%	800	1%
Rates	2,300	1%	2,150	1%
Repairs & maintenance (courts)	18,804	11%	10,127	7%
Repairs & maintenance (building)	2,485	1%	5,600	4%
Telephone/Internet	1,400	1%	1,200	1%
Wages & Salaries	75,000	43%	60,000	39%
Total expenses	175,411		153,975	

Horizontal analysis

The horizontal analysis shows the percentage increase in expenses from 20X3 (base year) to 20X2.

EXPENSE ITEM	\$ 20X3	\$ 20X2	% CHANGE
Audit	2,500	2,500	-
Bad debt	696	-	-
Bank fees	300	300	-
Cleaning	6,000	5,500	9%
Depreciation	30,765	32,769	-6%
General expenses	3,561	6,779	-47%
Insurance	2,200	2,100	5%
Interest	3,600	4,000	-10%
Electricity	24,600	22,650	9%
Printing	1,200	800	50%
Rates	2,300	2,150	7%
Repairs & maintenance (courts)	18,804	10,127	86%
Repairs & maintenance (building)	2,485	5,600	-56%
Telephone/Internet	1,400	1,200	17%
Wages & salary	75,000	60,000	25%
Total expenses	175,411	156,475	

Repairs and maintenance of courts is a concern and shows an 86% increase from 20X2 to 20X3 in the horizontal analysis.

Wages and salary has increased due to the employment of a part-time bar staff member.

In analysing the vertical and horizontal expenses, attention should be paid to the percentage increases, although some items might display a large percentage increase, but a relatively small dollar amount.

Similarly, some items like bad debts, show no change however this is just because there is no base amount to compare it with. This should also be investigated depending on the item and dollar value.

We need to determine why there are significant changes, and whether- such as in the case of repairs and maintenance for the tennis courts - this trend is going to continue.

1.8 ANALYSIS OF STATEMENT OF FINANCIAL POSITION

WORKING CAPITAL

Working capital is the difference between the current assets and current liabilities.

In 20X2 there is \$24,650 of current assets less \$23,500 of current liabilities. This means there is an excess of current assets of \$1,150 (\$24,650 – \$23,500).

For the 20X3 year, current liabilities exceed current assets by \$18,073.

Further analysis of the working capital for 20X3 presents a problem.

The operating bank account as at 30 June 20X3 contains \$21,432, which is less than the grant of \$30,000. No separate bank account has been set up to tag these funds, which means the funds have been combined with the operating bank account. The grant received has been used to pay operating expenses and other costs, which is a serious financial position to be in.

We can further analyse working capital as follows:

Current Ratio

This ratio assesses our ability to pay our current liabilities from our current assets.

Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$:1	Ideal ratio is 2:1 (\$2 of current assets to \$1 of current liabilities)
20X3	$\frac{35,632}{53,705}$	= 0.66:1	This means there is 66 cents of current assets for every \$1 of current liability
20X2	$\frac{24,650}{23,500}$	= 1.05:1	This means there is 1.05 dollars of current assets for every \$1 of current liability

Quick Asset Ratio

Inventory is removed from this calculation as, in a situation where cash is needed in a hurry, selling inventory would likely lead to reduced selling prices, which might damage the organisation even further.

Quick asset ratio	$\frac{\text{Cash + accts rec} - \text{inventory}}{\text{Current liabilities}}$:1	The ratio assesses the entity's ability to pay its current liabilities with inventory removed. Ideal ratio is 1:1 (\$1 of current assets to \$1 of current liabilities)
20X3	$\frac{31,632}{53,705}$	= 0.59:1	This means there is 59 cents of current assets for every current liability dollar
20X2	$\frac{18,350}{23,500}$	= 0.78:1	This means there is 78 cents of current assets for every current liability dollar

Debt to Equity

This shows the funding provided by creditors versus accumulated funds. An organisation should, as a general rule, own more of itself than its creditors do.

Debt to equity ratio	$\frac{\text{Total liabilities}}{\text{Accumulated funds}}$:	1	Ideal is to have more equity than debt
20X3	$\frac{133,705}{296,379}$	=	0.45:1	This means there is 45 cents of liabilities to an accumulated funds dollar
20X2	$\frac{113,500}{331,150}$	=	0.34:1	This means there is 34 cents of liabilities to an accumulated funds dollar

While the ratio is less than 50 cents of total liabilities to accumulated funds, the trend is unfavourable and movsupwards from 0.34 to 0.45.

Liabilities to Assets

This measures the percentage of assets funded by liabilities.

Liabilities to assets	$\frac{\text{Total liabilities}}{\text{Total assets}}$	X	$\frac{100}{1}$		Ideal ratio is <50%
20X3	$\frac{133,705}{430,084}$	X	$\frac{100}{1}$	= 31.1%	This means assets are 31.1% funded by liabilities
20X2	$\frac{113,500}{444,650}$	X	$\frac{100}{1}$	= 25.5%	This means assets are 25.5% funded by liabilities

While the organisation's assets are funded with less than 50% liabilities, a concern is the increase from 20X2 to 20X3.

Equity Ratio

This is the inverse of the total liabilities to total assets percentage and shows the percentage of assets funded by the club.

Equity ratio	$\frac{\text{Accumulated funds}}{\text{Total assets}}$	X	$\frac{100}{1}$		Ideal ratio is >50% equity or ownership of assets
20X3	$\frac{296,379}{430,084}$	X	$\frac{100}{1}$	= 68.9%	This means the organisation owns 68.9% of its assets
20X2	$\frac{331,150}{444,650}$	X	$\frac{100}{1}$	= 74.5%	This means the organisation owns 74.5% of its assets

Although the ratio is above 50%, from 20X2 to 20X3 the percentage has worsened, with the club now owning 5.6% less of its assets.

Unrestricted Net Assets Ratio

Due to the uncertain nature of non-profit organisations (unanticipated decrease in revenues or increases in expenses), reserves are sometimes held to cushion the impact. Hampden Tennis Club has no reserves set aside in a bank account for this purpose. It does have a Pavilion Reserve Fund of \$10,500 for the building – but these funds are not held in a separate bank account.

If an organisation is creating a reserve out of its own funds, best practice is to ring-fence them by opening a separate bank account. That way the money does not get mixed up with the normal operating bank account.

During 20X3 Hampden Tennis Club received a grant of \$30,000 towards the new pavilion. This is restricted to being used for pavilion funds only. This remains a liability until it is spent on its restricted purpose, at which point it transfers from being a liability to income. However, similar to the club's own pavilion fund, the \$30,000 has been included in the normal bank account and, as noted above under working capital, this is undesirable to say the least.

The unrestricted net assets ratio measures the amount of net assets not subject to restrictions as a percentage of operating expenses.

Unrestricted net assets ratio	Unrestricted net assets		X	$\frac{100}{I}$	Ideal is >100%
	Total operating expenses				
20X3	$\frac{265,379^*}{229,363}$	X	$\frac{100}{I}$	= 116%	*Net assets less pavilion fund less restricted grant (\$296,379 - \$10,500 - \$30,000 = \$265,379)
20X2	$\frac{320,650^*}{184,728}$	X	$\frac{100}{I}$	= 174%	*Net assets less pavilion fund (\$331,150 - \$10,500 = \$320,650)

The unrestricted net assets to operating expenses in 20X2 is good at 174% of expenses, i.e., the net assets of the organisation cover well over a year's worth of expenses. However, in 20X3 this worsens to 116%.

Days of Cash on Hand

This measures the number of days of cash that an organisation has to pay its current obligations.

Days of cash on hand	Cash & cash equiv* Total operating exp – depn	X 365	Ideal ratio is at least 90 days
20X3	$\frac{21,432}{229,363 - 30,765}$	X 365	= 39 days
20X2	$\frac{11,100}{184,728 - 32,769}$	X 365	= 27 days

*Cash and cash equivalents include term deposits (if any)

While this ratio looks healthy and increases from 20X2 to 20X3 – the bank account figure contains restricted cash – i.e., \$10,500 for the pavilion reserve in both 20X2 and 20X3 – and in 20X3 there is a \$30,000 restricted grant that has been deposited.

If we remove the restricted reserve (\$10,500) and cash grant item (\$30,000), the days of cash on hand looks like this:

20X3	$\frac{21,432 - 10,500 - 30,000}{229,363 - 30,765}$	X 365	= -35 days
20X2	$\frac{11,100 - 10,500}{184,728 - 32,769}$	X 365	= 1 day

The days of cash on hand now moves from 1 day to negative -35 days, which of course is a very serious situation and means it is unable to pay its obligations.

1.9

EXERCISE 1

FINANCIAL ACCOUNTS ANALYSIS

The Tuki Tuki Greens Golf Club Inc. is a non-profit golf club, which has had ups and downs financially in recent years.

The club has 194 members in 20X3 – up from 190 in 20X2. Due to the very low membership numbers, which are capped at 200, club members occasionally contribute financially to the club. They are quite happy to do that, as no bookings are required to play the course because of the low membership numbers for a golf course of this quality.

From the start, the club has leased the golf course from a nearby farming family trust, but owns all of the improvements such as the club house and maintenance equipment sheds.

To save cash handling and bank fees, club members must use their club membership cards to purchase items from the bar, which means all sales are on credit and are entered through the club's computer system. At the end of the month members are emailed a statement and expected to settle in full within 20 days.

A committee member of the golf club's management team has approached you for help to analyse the accounts as he is concerned about the club's financial position, especially as he may get some tricky questions at the annual general meeting coming up.

Additional information

- The club levied members an extra \$110,000 during the year to pay for fairway irrigation and replacement fixed assets.
- The level of both Inventory and Accounts Receivable remained stable throughout 20X2, so the closing balance figures at year end can be used as an average.
- The loan, which was taken out on 1 October 20X2, is an interest-only loan, and repayable in five years' time. Interest is payable at 8% per annum.
- The interest rate payable on the mortgage is 10% per year and the mortgage was increased on 1 October 20X2.
- The club is very unhappy with the financial position for 20X3, given the successful efforts to increase bar sales and to raise the capital from members.

TUKI TUKI GREENS GOLF CLUB INCORPORATED

Statement of Financial Performance for the year ended 30 September 20X3

	\$		\$	
	20X3		20X2	
Member subscriptions (all credit)		291,000		285,000
Sales (all credit)	230,000		160,000	
Less cost of sales	126,500		95,000	
Gross Profit		103,500		65,000
Rent Received		10,000		10,000
Total Revenue		404,500		360,000
Less operating expenses				
Course maintenance	286,700		264,000	
Administration	80,000		70,000	
Financial	16,800	383,500	6,000	340,000
Surplus		21,000		20,000



TUKI TUKI GREENS GOLF CLUB INCORPORATED

Statement of Financial Performance for the year ended 30 September 20X3

	\$ 20X3	\$ 20X2
Accumulated Funds		
Capital from members	71,000	50,000
Reserves	110,000	
Surplus	20,000	20,000
Total	201,000	70,000
Current Assets		
Cash	2,000	-
Prepaid expenses	8,000	-
Accounts receivable (subscriptions)	61,000	25,000
Accounts receivable (bar sales)	50,000	15,000
Inventory (bar stock)	80,000	30,000
Total	201,000	70,000
Non-Current Assets		
Buildings	110,000	116,000
Course improvements	126,000	34,000
Machinery	64,000	50,000
Total Non-Current Assets	300,000	200,000
Total Assets	501,000	270,000
Current Liabilities		
Bank overdraft	35,000	80,000
Accounts payable	63,000	45,000
GST payable	22,000	15,000
Total Current Liabilities	120,000	140,000
Non-Current Liabilities		
Loan	60,000	
Mortgage	120,000	60,000
Total	180,000	60,000
Total Liabilities	300,000	200,000
Net Assets	200,000	70,000

02

BUDGETING

2.1 BUDGETS

A budget can be defined as a quantitative or financial plan that estimates revenue and expenses for the next financial year or beyond. It can be set on an accrual basis, that is, when the expense is incurred or revenue earned, not necessarily paid or received in the bank, or on a cash basis, when the expense is paid or revenue received in the bank. It's helpful to ensure the organisation has a clear mission statement and strategic plan prior to setting the budgets.

Mission statement and strategic plan

An organisation's mission statement should identify the reason why it exists, e.g., Hampden Tennis Club's is: "To provide facilities and support for our members and non-members to play tennis."

A strategic plan then builds on this to define the process for how to achieve the mission statement. This is set by the organisation's governing body (such as a board or committee), and, should be the basis for setting the budgets.

Operational budget

The task of preparing the operational budget may be delegated by the board, for example to a budget committee or treasurer/accountant or, in the case of Hampden Tennis Club, the manager.

Once the budget has been prepared, the governing body should review the prepared budget, and either adopt it or ask that changes be made until it is accepted.

The task of executing the strategic plan using the resources provided by the operational budget is then delegated by the governing body (or in the case of Hampden Tennis Club, by the committee) to the manager.

Other types of budget

A capital budget lists fixed assets that the organisation wishes to purchase along with the intended means for funding the purchases.

Budgets can also be non-quantitative – or non-financial based – and include things such as the number of tennis tournaments held, golf course bunkers repaired or badminton clinics staged.

Monitoring the budget

At periodic meetings (usually monthly or quarterly), progress against budgets should be reviewed by the governing body, which is ultimately responsible for the financial performance of the organisation

Yearly budget allocations should be broken down into monthly figures to reflect when amounts are expected to be received or spent.

These budgeted figures are then compared against the actual results. In a perfect scenario, if a budgeted amount of \$400 was allocated for electricity in July, the actual amount spent would be the same. This would mean a variance of zero, i.e., the difference between actual and budget. This is illustrated below:

	ACTUAL JULY	BUDGET JULY	VARIANCE
Electricity	\$400	\$400	-

Actual amounts equaling budgeted amounts are often uncommon, and in practice variances are more likely to occur.

Variances can be favourable or unfavourable. A favourable variance (F) occurs when an actual expense is lower or revenue higher than the budgeted amount. An unfavourable variance (U) occurs when revenue is lower or expense higher than budgeted. These two types are illustrated below:

	ACTUAL JULY	BUDGET JULY	VARIANCE
Electricity	\$479	\$400	\$79U
Subscription revenue	\$4,670	\$4,210	\$460F



Setting budgets should be the responsibility of the board or committee. The board or committee then gives the authority to a person(s) to implement the budget.

Variances can occur for several reasons. There can be permanent variances, which occur when the actual revenue or expense exceeds, or is below, the budgeted amount. This could be caused by, for example, electricity usage being higher due to an unexpected tariff increase or a rise in activity which has resulted in more use.

A timing variance is a variance caused by revenue or an expense not received or spent in the month or year expected. For example, a marketing campaign of \$2,300 to promote the organisation to increase membership was timed for August but did not occur until September.

	ACTUAL AUGUST	BUDGET AUGUST	VARIANCE
Marketing campaign	-	\$2,300	\$2,300F

	ACTUAL SEPTEMBER	BUDGET SEPTEMBER	VARIANCE
Marketing campaign	\$2,300	-	\$2,300U

As shown above, there is a timing difference in the expenditure from August to September. If August and September were combined, the variance would be zero.

The addition of a year to date column in our monthly reporting will eventually smooth out any monthly timing differences that may occur during the year as shown.

	ACTUAL AUGUST	BUDGET AUGUST	MONTHLY VARIANCE	ACTUAL YEAR TO DATE	BUDGET YEAR TO DATE	VARIANCE YEAR TO DATE
Marketing campaign	-	\$2,300	\$2,300F	-	\$2,300	\$2,300F

	ACTUAL SEPTEMBER	BUDGET SEPTEMBER	MONTHLY VARIANCE	ACTUAL YEAR TO DATE	BUDGET YEAR TO DATE	VARIANCE YEAR TO DATE
Marketing campaign	\$2,300	-	\$2,300U	\$2,300	\$2,300	-

When presenting the financial information to the governing body, it is good practice to highlight reasons for variances, whether they are favourable or unfavourable. In the examples of electricity, subscription revenue and marketing campaign variances, we could state the reasons as shown.

Permanent differences

	ACTUAL JULY	BUDGET JULY	VARIANCE	VARIANCE EXPLANATIONS
Electricity	\$479	\$400	\$79U	Increased charges from electricity company
Subscription revenue	\$4,670	\$4,210	\$460F	Two more winter members joined than expected

Timing differences

	ACTUAL JULY	BUDGET JULY	VARIANCE	VARIANCE EXPLANATIONS
Marketing campaign	-	\$2,300	\$2,300F	Campaign due to start in September for the same amount as budgeted

Fixed and variable expenses

In setting budgets there are three types of expenses that can occur.

Fixed - which do not change regardless of the organisation's activity, such as rates paid to the local city council.

Variable - which depend on a level of activity, e.g., if winter night tennis became more popular, electricity costs for floodlights would increase.

Mixed costs are a combination of fixed and variable, such as leasing a photocopier, where there is a monthly rental for the machine, and variable costs for paper, ink etc.

While fixed costs should be able to be budgeted with a degree of certainty, variable costs can fluctuate according to activity – and this can be disadvantageous to the organisation if they exceed budget with no corresponding offset in revenue. Variable costs, therefore, should be monitored closely, especially as by their nature they can be difficult to budget accurately.



Variable expenses can move in line with variable income, so an increase in variable costs isn't necessarily bad.

For example, electricity has increased by 50% for the winter months due to an increase in night tennis. However, this is offset by an increase in revenue from court hire, which exceeds the electricity cost increase.

Secured and unsecured income

Few organisations can survive on revenue from their members alone and need other sources of income, not only to meet operating expenses, but to purchase assets.

Examples of funding sources for non-profit sporting organisations are subscriptions, grants, donations, gifts, contracts, fundraising, loan financing, hireage and trading activities.

Secured income is income which has been confirmed and will be received in the current financial year.

Unsecured income, for example, might be \$100,000 worth of grants the organisation has applied for, but is not yet approved.

It goes without saying that the unsecured income could pose a financial threat to an organisation, and therefore needs to be closely monitored. One way of doing this is an income risk register, and an example is shown below.

	ACTUAL JULY	BUDGET JULY	VARIANCE	ACTUAL JULY	BUDGET JULY
ABC Trust	-	-\$50,000	\$50,000	Low	Confirmed to be received August 20X3
DEF Gaming Trust	\$10,000	\$10,000	-	Low	Received July 20X3
Eastern Community	-	-\$50,000	\$50,000	High	Funder advised grant unsuccessful. Another funder being approached
Western Trust	-	\$50,000	\$50,000	Medium	Grant application sent to replace unsuccessful Eastern Community application. Funder says we should be successful

2.2 EXAMPLE 1

EXEMPLAR MANAGEMENT REPORT

The governing body of any organisation needs to be provided with relevant financial information to fulfil their obligation of monitoring and making decisions as part of the governance process.

Governing bodies should be supplied with enough information on which to make decisions, and have it presented in an easy-to-understand format. This is especially relevant in a non-profit sporting context, as many who are on governance boards may not have had financial experience.

In the example of the Hampden Tennis Club in Section 1.0, financial reports of the year's actual activity are shown.

The club's committee receives monthly management reports, which compare the actual results against budget. The following management report is for the 12 months to 30 June 20X3. The report shows actual versus budget figures, and any variances are expressed in dollars and percentages.

This report can be presented differently to the Statement of Financial Performance. In this case the bar (less wages), wine sales and court bookings are presented as their net revenue figure. Grants are also included as its important for the management team to be able to compare what has been received against budget, even if the grants cannot yet be recognised as revenue in the Statement of Financial Performance.

Variances are shown with red, orange and green flags.



Positive variances or negative variances of 5% or less have a green flag which indicates the results are as expected



An orange flag indicates the negative variance is between 5% and 10% and may require attention



A red flag indicates the negative variance is 10% or greater and needs attention or explanation

Although only negative variances are represented with an orange or red flag, an unusually good variance, may still need some explanation if it was unexpected.

The follow-up actions in respect of timing variances should be stated. For example, if 40% of subscriptions are overdue, what steps are being taken to collect the money?

More permanent variances, which can be more serious, for example, a grant application being declined, would require a comment on how this would be dealt with. This might include applying to another source or delaying the expenditure until funding has been secured.

MANAGEMENT REPORT

For the 12 months ended 30 June 20X3

CURRENT MONTH

CURRENT MONTH JUNE 20X3	\$ ACTUAL	\$ BUDGET	\$ VARIANCE		% VARIANCE	N
REVENUE						
Grants - conditional	-	-	-			
Grants - non-conditional	-	20,000	(20,000)	U	-100%	●
Member subscriptions	600	2,000	(1,400)	U	-70%	●
Tennis lessons	-	-	-		-	
Court bookings (non-members)	1,980	1,000	980	F	98%	●
Wine sales fundraiser	-	-	-		-	
Bar	267	1,000	(733)	U	-73%	●
Total Revenue	2,847	24,000	(21,153)			
EXPENSES						
Audit fees	-	-	-		-	
Bad debts	696	-	(696)	U	-	●
Bank fees	25	25	-	F	-	●
Cleaning	530	500	(30)	U	6%	●
Depreciation	3,265	2,500	(765)	U	31%	●
General expenses	256	200	(56)	U	28%	●
Insurance	-	-	-		-	
Interest	1,800	1,800	-	F	-	●
Electricity	1,600	1,500	(100)	U	7%	●
Printing	-	-	-		-	
Rates	-	-	-		-	
Repairs & maintenance (tennis courts)	12,300	5,000	(7,300)	U	146%	●
Repairs & maintenance (building)	2,485	2,000	(485)	U	24%	●
Telephone/internet	110	100	(10)	U	10%	●
Wages & salaries	5,500	5,500	-	F	-	●
Total Expenses	28,567	19,125	(9,442)			
Budget surplus/(deficit)	(25,720)	4,875	(30,595)			

MANAGEMENT REPORT

For the 12 months ended 30 June 20X3

YEAR ENDED

\$ ACTUAL	\$ BUDGET	\$ VARIANCE		% VARIANCE		N
30,000	100,000	(70,000)	U	-70%	●	1
-	80,000	(80,000)	U	-100%	●	2
66,435	72,500	(6,065)	U	-8%	●	3
52,800	35,200	17,600	F	50%	●	4
16,574	15,000	1,574	F	44%	●	5
174	5,500	(5,326)	U	-97%	●	6
4,657	20,000	(15,343)	U	-77%	●	7
170,640	328,200	(152,569)				
2,500	2,500	-	F	-	●	
696	-	(696)	U	-	●	8
300	300	-	F	-	●	
6,000	5,500	(500)	U	-9%	●	9
30,765	30,000	(765)	U	-3%	●	
3,561	4,000	439	F	11%	●	
2,200	2,100	(100)	U	-5%	●	
3,600	3,600	-	F	-	●	
24,600	22,000	(2,600)	U	-12%	●	10
1,200	1,000	(200)	U	-20%	●	11
2,300	2,250	(50)	U	-2%	●	
18,804	5,000	(13,804)	U	-276%	●	12
2,485	2,000	(485)	U	-24%	●	13
1,400	1,200	(200)	U	-17%	●	
75,000	75,000	-	F	-	●	
175,411	156,450	(9,442)				
(4,771)	171,750	(176,521)				

N: Notes

I. Grants – conditional

During the year \$100,000 was set as a target to raise enough finance to begin the first stage of the pavilion project. The club was only successful in getting one grant of \$30,000. This was not enough to begin the project. Of concern is that there are funds of \$21,432 in the bank and this \$30,000 may need to be repaid if insufficient funding is raised to build the pavilion within two years.

2. Grants – non-conditional

To subsidise the club's operating costs, grants of \$80,000 to various trusts were applied for. Unfortunately, these were unsuccessful. This was due to the funders' reluctance to subsidise operating costs when it appeared this would be an ongoing requirement for the club, not a one-off.

3. Member subscriptions

The club has, for a number of years, seen a decrease in the number of members. This issue has already been identified by the club, and needs to be addressed.

4. Tennis lessons

These have been a success owing to the services of our contract professional. However, he has asked for a profit share on top of his contract rate and this is on the meeting agenda for discussion.

5. Court bookings

While the club membership is declining, hireage of the court for social games is on the increase.

6. Wine sales fundraiser

The general manager purchased a large quantity of wine at a bargain price from a local winery, which would soon be past its use-by date. The idea was for members to sell this at a profit of \$10 per bottle. However, a lack of co-operation from members in this activity meant that most of the wine became out-of-date and had to be discarded.

7. Bar sales

The revenue shown of \$4,657 is before bar wages of \$15,000 are deducted. This is also on our meeting agenda to review the bar's future.

8. Bad debts

For the first time in many years, two subscriptions were not paid and attempts to recover the amounts from these new members have been unsuccessful.

9. Cleaning

As the bar employee did not wish to clean around the bar area, the commercial cleaner has undertaken this work on Sunday mornings in addition to the regular cleaning of the club house.

10. Electricity

Increased hire of the courts at night has meant increased power costs for the floodlights. This has been offset by increased revenue in court booking for non-members.

11. Printing

Pamphlets for a letter box drop to canvas for new members (by the manager) were not budgeted.

12. Repairs & maintenance (tennis courts)

When the contractors began scheduled maintenance of two tennis courts in June, they discovered some serious issues with the synthetic grass on court five, which meant total replacement.

13. Repairs & maintenance (building)

A hot water cylinder burst in June, which meant total replacement. Because of this, other maintenance has been deferred.

2.3 EXERCISE 2

MANUKA DISTRICT INDOOR COMMUNITY SPORTS ARENA TRUST

The Manuka District Council operates an indoor sports arena for the benefit of the community under the umbrella of a trust. The Council donated the land and buildings. The arena contains four squash courts and a gym, with separate fitness areas where national franchise fitness courses are run.

As a newly elected District Councillor, you have been placed on the Trust by the Mayor, because of your sporting prowess as a Commonwealth Games bronze medallist. The mayor is concerned about the governance of the Trust in terms of the control over the club.

You find out the following information:



The membership has been declining over several years.

There has been no increase in squash lesson or fitness class fees for three years.

15%

In response to the declining membership, fees have been budgeted to increase by 15%, and had been increased by 10% in the previous two years.



Management prepares the budget, and it is approved by the board as long as it is projected to make a surplus for the year.



The national franchise fitness programmes in recent years have increased the variety of types of classes.

40%

Some 40% of the membership participates in at least two fitness classes or squash lessons per month.



Approximately 80% of the membership uses the gym at least three times a month. Over half of the membership uses the gym at least twice per week.



The Trust has the latest gym equipment and spends significant sums of money to keep it that way, based on the decisions made by the staff on what equipment to buy. Some of the equipment is only used for two years before being replaced.



Having the best trained employees is important to the Trust, and it pays out bonuses and annual pay increases to retain them.



The Trust's employees have free access to the gym, fitness classes and squash courts, and are heavy users of all the facilities.

The following table shows the actual financial results for 20X0 and budget for the upcoming year of 20X1, which has been prepared by the Arena Manager.

	\$ ACTUAL 20X3	\$ BUDGET 20X4
CASH REVENUE		
Member subscriptions	355,000	395,000
Squash lessons	53,000	56,000
Fitness classes	112,000	122,000
Total Cash Revenue	520,000	573,000
CASH EXPENSES		
Arena Manager salary	81,000	86,000
Squash professional	44,000	47,000
General expenses	67,000	72,000
Electricity and gas	31,000	32,000
Gym equipment	30,000	91,000
Sports arena staff wages	175,000	195,000
Total Cash Expenses	428,000	523,000
Cash Surplus	92,000	50,000

2.4

EXERCISE 3

MATARIRI GOLF CLUB

Management report for the 12 months ended 30 June 20X3

CURRENT MONTH

	\$ ACTUAL	\$ BUDGET	\$ VARIANCE	% VARIANCE
REVENUE				
Grants – Pub Charity	3,000	-		
Grants – Eastern Trust	12,000	12,000		
Member subscriptions	11,000	13,000		
Golf lessons	900	1,500		
Corporate golf days	1,980	1,000		
Club room hire weddings	-	500		
Bar surplus	4,500	4,000		
Total Revenue	33,380	32,000		
EXPENSES				
Audit fees	-	-		
Bad debts	500	-		
Bank fees	30	25		
Cleaning	750	700		
Depreciation	2,500	2,500		
Gift vouchers (prizes)	-	-		
Insurance	-	-		
Rubbish fees	900	700		
Electricity	1,900	2,000		
Printing	100	300		
Computer expenses	600	300		
Maintenance supplies (course)	10,500	600		
Maintenance (building)	900	300		
Telephone/internet	190	200		
Wages & salaries	18,500	18,000		
Total Expenses	37,370	25,625		
Budget surplus/(deficit)	(3,990)	6,375		

YEAR TO DATE

\$ ACTUAL	\$ BUDGET	\$ VARIANCE	% VARIANCE
40,000	45,000		
18,000	20,000		
284,000	296,000		
26,500	34,000		
21,565	15,000		
1,000	6,000		
74,500	65,000		
465,565	481,000		
6,500	6,000		
6,000	8,000		
360	300		
9,000	8,500		
30,000	30,000		
3,561	4,000		
4,500	4,200		
9,200	8,600		
11,500	13,500		
3,200	3,600		
2,300	3,600		
17,000	9,000		
3,100	3,600		
2,600	2,400		
222,000	220,000		
330,821	325,300		
134,744	155,700		

03

FINANCIAL SUSTAINABILITY

3.1

FINANCIAL SUSTAINABILITY

This section on financial sustainability covers: diversification of organisation revenue, timing of revenue compared to costs, creation of financial reserves, working capital policy, and options in a financial crisis.

DIVERSIFICATION

The purpose of non-profit sporting organisations is to make positive change in the communities they serve. Your organisation should have a plan that sets out what it wants to achieve, by when, for whom and how. For more assistance please go to:

<https://sportnz.org.nz/managing-sport/search-for-a-resource/guides/planning-in-sport->

These activities will need resources – both financial and non-financial.

Subscriptions from the organisation's members can be enough to cover operating costs. Even if this is the case, it is a good idea to diversify revenue where possible.

This means creating other revenue sources apart from subscriptions, such as grants, donations, special events, sponsorship and fundraising.

Organisation revenue may not be reliable; therefore an organisation should continually assess (as part of a risk management programme) how likely its income sources are to continue, even if it has already diversified.

Some revenue sources are mostly predictable, such as subscriptions, but others may be affected by competition for grants and sponsorship; economic climate; reduced availability of grant money; or poor performance by the organisation.

HAMPDEN TENNIS CLUB

Operating revenue report for the 12 months ended 30 June 20X3

CURRENT MONTH

	\$ ACTUAL	\$ BUDGET	\$ VARIANCE		% VARIANCE	
REVENUE						
Grants	-	20,000	(20,000)	U	(100%)	●
Member subscriptions	600	2,000	(1,400)	U	(70%)	●
Tennis lessons	-	-	-			●
Court bookings (non-members)	1,980	1,000	980	F	98%	●
Wine sales fundraiser	-	-	-			●
Bar	267	1,000	(733)	U	(73%)	●
Total Revenue	2,847	24,000	(21,153)	U		

YEAR TO DATE

	\$ ACTUAL	\$ BUDGET	\$ VARIANCE		% VARIANCE	
REVENUE						
Grants	-	80,000	(80,000)	U	(100%)	●
Member subscriptions	66,435	72,500	(6,065)	U	(8%)	●
Tennis lessons	52,800	35,200	17,600	F	50%	●
Court bookings (non-members)	16,574	15,000	1,574	F	10%	●
Wine sales fundraiser	174	5,500	(5,326)	U	(97%)	●
Bar	4,657	20,000	(15,343)	U	(77%)	●
Total Revenue	140,640	228,200	(87,5690)			

A vertical analysis to find the percentage of net operating revenue items to total revenue compared with the budgeted percentage is presented.

The vertical analysis reveals members' subscriptions as 46% of the total actual revenue, which was budgeted to be 32% of the total revenue. As the other sources of revenue did not occur as budgeted, subscriptions ended up being a higher percentage of revenue.

Although the club has a plan of revenue diversification in place, the failure to secure non-conditional grant money, sufficient subscriptions, bar profit and fundraising income has meant the club has received \$87,560 (\$228,200-\$140,640) less income than budgeted.

Tennis lessons and court bookings were above budget, but not enough to cover the other revenue decreases.

HAMPDEN TENNIS CLUB

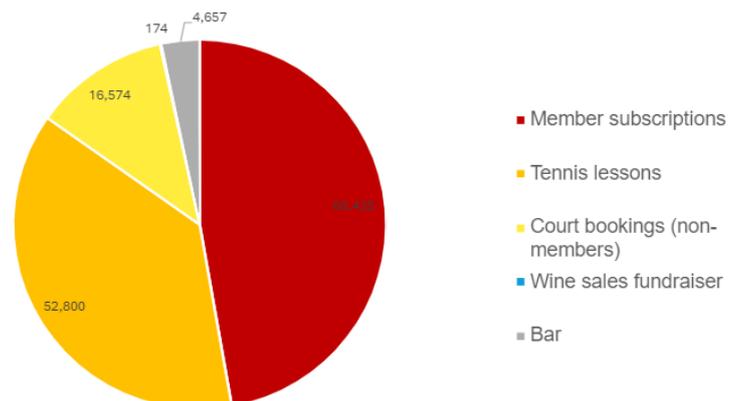
Vertical operating revenue analysis

YEAR TO DATE

	\$ ACTUAL	% TOTAL	\$ BUDGET	% TOTAL
REVENUE				
Grants - non-conditional	-	-	80,000	35%
Member subscriptions	66,435	46%	72,500	32%
Tennis lessons	52,800	36%	35,200	15%
Court bookings (non-members)	16,574	15%	15,000	7%
Wine sales fundraiser	174	-	5,500	2%
Bar	4,657	3%	20,000	9%
Total Revenue	140,640	100%	228,200	100%

The following pie chart graphically shows Hampden Tennis Club's actual operating revenue for the year.

Hampden Tennis Club actual revenue year ended 30 June 20X3



3.3 EXAMPLE 2

Example of a secure, diversified revenue organisation.

MAYGENVALE BADMINTON CLUB

Operating revenue report for the 12 months ended 30 June 20X3

YEAR TO DATE

	\$ ACTUAL	\$ BUDGET	\$ VARIANCE		% VARIANCE	
REVENUE						
Member subscriptions	79,000	80,000	(1,000)	U	(1%)	
Investment income	12,600	12,000	600	F	5%	●
Sponsorship	7,000	6,000	1000	F	17%	●
Total Revenue	98,600	98,000	600			

MAYGENVALE BADMINTON CLUB

Vertical operating revenue analysis for the 12 months ended 30 June 20X3

YEAR TO DATE

	\$ ACTUAL	% OF TOTAL	\$ BUDGET	% OF TOTAL
REVENUE				
Member subscriptions	79,000	80%	80,000	82%
Investment income	12,600	13%	12,000	12%
Sponsorship	7,000	7%	6,000	6%
Total Revenue	98,600	100%	98,000	100%

- If the normal operating expenses to run the Maycenvale Badminton Club are \$86,500 per year, the actual surplus in 20X3 is \$98,600 – \$86,500 = \$12,100.
- The club has no debt apart from accounts payable due for payment next month.
- The investment account of the club has \$150,000 in it, and has built up over many years of financially prudent management. It is invested conservatively.
- Sponsorship is for the annual club tournament held each August.
- As can be seen, membership fees are 80% of total revenue received. The investment income is secure every year and is invested in conservative or lower interest-bearing accounts.

Emergency financial reserves

- Sometimes events can happen beyond the control of an organisation which adversely affect financial performance. This can also occur because of organisational financial mismanagement.
- In the event of a financial emergency, if an organisation has an emergency reserve fund this can be accessed to provide much-needed funds.

3.5 EXAMPLE 3

The Fenchurch Ski Club accounts show the following:

FENCHURCH SKI & SNOWBOARDING CLUB

EMERGENCY RESERVE EXAMPLE

Statement of Financial Position (Excerpt) as at 30 June 20X2

	\$ ACTUAL
CURRENT ASSETS	
Bank cheque account	\$14,122
Emergency fund bank account	\$40,000
ACCUMULATED FUNDS	
Emergency Reserve Fund	\$40,000

As can be seen, there is a separate bank account containing \$40,000, which is the same as the emergency reserve fund in Accumulated Funds.

FENCHURCH SKI & SNOWBOARDING CLUB

Statement of Financial Position (Excerpt) as at 30 June 20X3

	\$ ACTUAL
CURRENT ASSETS	
Bank cheque account	\$2,102
Emergency fund bank account	\$28,000
ACCUMULATED FUNDS	
Emergency Reserve Fund	\$28,000

If during the next year the club needs to withdraw \$12,000 (due to their ski slope bus breaking down), the Statement of Financial Position will now look like this.

The emergency bank account has decreased by \$12,000 to \$28,000 and the emergency reserve fund has also decreased by the same amount. Reserves can also be held for special projects and treated in the same way as in the example above.

Working Capital Policy

Working capital, as we have seen in Section I, is the difference between our current assets and current liabilities.

In order to pay our current liabilities, we need to have sufficient cash to do so. If we have accounts receivable and inventory, we should convert these to cash as quickly as possible.

The ideal ratio for working capital is 2:1 or better, i.e., for every \$1 of current liabilities we have \$2 of current assets.

A non-profit sporting organisation struggling with its working capital will have difficulty paying the monthly accounts.

An organisational policy for working capital might require an organisation to have enough cash to cover three months of expenses. That means if average monthly cash expenses are \$6,000 there would be \$18,000 worth of cash in the bank account.

A constantly large bank account compared to our normal monthly cash expenses may indicate we are not using our cash resources effectively. A 12-month buffer of cash to meet monthly expenses, i.e., maintaining a \$72,000 bank account to pay \$6,000 worth of monthly expenses, illustrates this.

Financial Distress

Organisations for one reason or another, at times, can struggle financially, i.e., have insufficient cash to pay their expenses.

The consequences of this are obvious. Changing leisure patterns in the last few decades, for example, have meant some organisations' member numbers have dropped.

A sporting organisation with cash flow difficulties, regardless of the cause, will have to take action – sometimes urgently.

Some options are to:

- Convert accounts receivable to cash as soon as possible
- Make arrangements with creditors to have a longer payment time, or delay payment
- Arrange or extend a bank overdraft
- Sell surplus, non-strategic assets
- Reduce expenses
- Increase revenue

Activity Analysis

An obvious way to correct financial distress is to reduce costs, as this can be a quicker option than trying to increase revenue. However, we don't want to cut expenses which will financially worsen the organisation or make it difficult to achieve its mission. One way to find out the impact of cutting expenses is to perform an activity analysis.

An activity analysis identifies an activity and then links expenses and revenues associated with it to attempt to find a realistic cost or profit.

3.6

EXAMPLE 4

HAMPDEN TENNIS CLUB ACTIVITY ANALYSIS EXAMPLE

Serving of drinks in the Hampden Tennis Club bar is an activity and the direct costs are wages and inventory purchases. The direct revenue from this activity is drink sales.

Some costs, such as inventory purchases, are easy to identify, but others, like bar-related electricity on one metered account, are more difficult.

Reasonable estimates will have to be made in such cases.

If we were to perform an activity analysis to get a true cost to operate the bar, it might look like this.

ACTIVITY	\$ REVENUE	\$ EXPENSES	NOTES
Bar sales	36,522		
Cost of sales		31,865	
Wages		15,000	
Electricity		1,230	1
Insurance/Rates		460	2
Building Repairs and maintenance		248	3
Total	36,522	48,803	
Deficit	(12,281)		

Notes:

- 5% estimate on electricity costs of \$24,600
- 10% of rates \$2,300 = \$230 + bar insurance of \$200 + general building insurance \$30
- 10% estimate on building repairs and maintenance of \$2,485

If we eliminate the bar activity, it appears we would save \$12,281. However, some of the costs which are allocated to the activity may not be able to be eliminated.

The variable costs, revenue and fixed costs directly related to the activity (known as avoidable costs) can be eliminated. These are bar sales, cost of sales, wages, insurance on bar plant, and electricity (even though electricity is an estimate, non-use of ice machine, bowers and bar lights etc. will reduce this cost).

Rates, building repairs and building insurance relating to the club building are allocated to the bar because of the space used by the bar – BUT eliminating the bar activity will not make these costs disappear.

This is because these costs – known as unavoidable costs – occur regardless of whether an activity is carried on or not. For example, the Hampden City Council will not reduce the rates account just because the bar is no longer operating in that space. The club still occupies the property and that is the driver of that cost.

=If we deduct the unavoidable insurance/rates and building repairs costs, then eliminating the activity of bar sales would save \$11,773.

ACTIVITY	\$ REVENUE	\$ EXPENSES
Bar sales	36,522	
Cost of sales		31,865
Wages		15,000
Electricity		1,230
Insurance		200
Total	36,522	48,295
Deficit	(11,773)	

Stopping activities that are unprofitable may not be the only course of action. Other creative solutions may be able to be found – so an unprofitable activity does not necessarily mean it should be automatically stopped.

Other activities at Hampden Tennis Club

It would make no sense to cut the tennis lesson activity cost of \$15,000 as \$67,800 worth of revenue would be eliminated. An activity analysis can still be performed to see if there are any strictly variable costs that can be applied against this revenue.

Another activity is court booking fees for non-members. Allocation of maintenance costs and rates against this activity could be made, but if costs are unavoidable it makes no sense to take these into account to see

whether an activity should be eliminated or not. The electricity costs incurred for lighting the courts at night would be relevant if they could be accurately measured.

Fixed costs

Fixed costs that cannot be allocated to an activity support the infrastructure of the club, and these include cleaning, bank fees, building maintenance, printing, telephone, and audit fees. These costs can be examined to see if any savings can be made.

The single biggest cost for the club is the manager's salary of \$60,000. The main task the manager was asked to perform was to generate income. However, this was not successful, and the wine fundraiser, non-conditional grants, and conditional grants were nowhere near budgeted expectations.

The reason why the manager has not performed to budget expectations needs to be examined closely. This is to eliminate placing blame unfairly where the circumstances are beyond the control of the manager.

If the club needs to make drastic cuts in expenditure to survive, it may decide to eliminate the position of the manager and form a management committee to take over this function.

Sensitivity analysis – revenue

Sensitivity analysis, or “what if”, shows the impact, for instance, if the club raises its subscription fees to members, or increases non-member court fees or tennis pro lesson fees.

An easy solution might be just to raise the charges for revenue activities at the Hampden Tennis Club. However, if price sensitivities exist this may cause a “death spiral” if members decide to leave the club due to the increases or go elsewhere for court-hire and tennis lessons.

Therefore, any attempts to increase revenue should be carefully considered, as the last thing an organisation wants is to make the situation worse by losing revenue.

Value for money, nearby tennis clubs, economic conditions and socio-economic groups are just some of the factors a club needs to consider before increasing its fees.

3.7

EXERCISE 6

MOTEO CROQUET CLUB ACTIVITY EXAMPLE

The Moteo Croquet Club was established in 1921 and has 5 hectares of land with 1ha in the croquet grounds, and another in car parking and club buildings. The other 3ha are leased to an organic squash grower.

When the club first started it was 2km from the outskirts of the town, but urban sprawl has meant houses surround the club in a now very desirable and affluent neighbourhood. The population of the town is 12,000, and most residents in this dormitory suburb are wealthy retirees.

Each member pays the same subscription.

The club's greens were called the best in New Zealand last year by Croquet Player magazine.

Most of the members are retired, and the average age is 69.

The club's revenue budget for the current year presented to the 240 members showed subscription revenue of \$48,000, donations/grants of \$17,000 and lease revenue of 3ha to an organic squash grower of \$6,000.

The expense budget is rates of \$8,500 for the area the club uses and \$4,500 for the unimproved leased land to the organic squash grower; association levies of \$900; insurance \$2,200; audit \$2,000; croquet lawn care \$49,000; electricity \$4,900; club house expenses \$1,400; repairs and maintenance \$2,600; and telephone \$1,200.

REQUIRED:

- Draft up a budget for Moteo Croquet Club (ignore GST).
- Are there any items for which an activity analysis can be performed?
- Make any suggestions for improving the financial performance of the club, including making reasonable assumptions as to a sensitivity analysis.

* Suggested solutions are in Chapter 5.0

3.8 CASH

CASH FLOW MONITORING

As the saying goes, “cash is king”. That is, without cash we cannot pay expenses to operate our organisation. Therefore, it is obviously very important to monitor our cash position. The responsibility to monitor cash normally falls to the organisation’s treasurer, and it is their responsibility to keep a watchful eye, and alert the governance board if any problems with cash flow occur – sooner, rather than later.

In Section 2, the importance of budgeting was examined. The budgets for Hampden Tennis Club were prepared on an accrual basis – that is, recording transactions when they were expected to occur, not when they actually happened.

For instance, the club sent out all of its subscriptions on 1 September 20X2 for payment by 30 September 20X2. We record this in our accrual budget as this is when the subscriptions are due. Does this mean we will receive all of the subscriptions by 30 September 20X2? Unlikely! In practice, the subscriptions will be spread over several months, and some may remain unpaid.

The accrual budget is therefore not an appropriate tool for monitoring cash flow.

CASH FLOW BUDGET

A cash flow budget monitors our cash flow by estimating realistically when revenue is received and expenses paid.

It begins with the current bank balance and estimates the timing of revenue and expenses going in and out of the bank account resulting in an estimated closing balance.

This closing bank balance then becomes the opening bank balance for the next month.

In order to be an effective tool, cash flow budgets require careful monitoring of when revenue will be received and when costs are paid. Cash flow budgets should be updated frequently – usually monthly – to reflect any changing circumstances.

An accurate cash flow forecast can allow an organisation to predict, with reasonable confidence, its cash position and may give some time to react to an upcoming period of cash flow issues.

On the next page is an example of a cash flow budget for three months of the Hampden Tennis Club. These can be completed as simple Microsoft Excel or similar spreadsheets.

The cash flow budget shows a healthy closing bank balance and is covering expenses easily.

The governance body should review the cash flow statement monthly to ensure there are sufficient funds available – or to take corrective action, if need be. The organisation’s accountant/treasurer should review the cash flow more frequently.

However, this is the beginning of the tennis season and when the bulk of the club’s income from subscriptions, tennis lessons and court bookings from non-members is received.

If we look at the cash flow budget for the last three months of the financial year, we see a completely different picture.

Important:

The club’s \$30,000 cash grant for the building of the new pavilion is budgeted for October. As we have seen from previous example’s we know the club has used this to pay some of their operational expenses.

This has put them in a bad position for when they need to start building the pavilion, or in case they must return the grant. Ideally this would have been deposited in a separate bank account and therefore would not usually be included in an operational cash flow budget.

HAMPDEN TENNIS CLUB

Cash Flow Budget for the 3 months ended 30 November 20X2

	\$ SEPTEMBER	\$ OCTOBER	\$ NOVEMBER
Beginning Bank Balance	7,630	57,065	103,825
CASH INWARDS			
Grants – conditional	-	30,000	-
Grants – non-conditional	-	-	-
Member subscriptions	48,800	9,965	3,320
Tennis lessons	16,800	14,300	12,000
Court bookings (non-members)	6,500	7,800	5,700
Wine sales fundraiser	-	-	-
Bar profits	2,000	9,000	10,000
Total Cash Inwards	74,100	71,065	31,020
CASH OUTWARDS			
Audit fees	2,500	-	-
Bar purchase	600	4,000	4,500
Bank fees	25	25	25
Cleaning	530	520	520
General expenses	1,400	300	500
Insurance	-	-	2,200
Interest	-	-	-
Electricity	1,900	1,700	2,200
Printing	1,200	-	-
Rates	-	1,150	-
Repairs & maintenance (tennis courts)	5,500	-	-
Repairs & maintenance (building)	-	-	-
Telephone/Internet	110	110	110
Wages & salaries	7,500	7,500	7,500
GST payments	3,400	-	9,200
Equipment purchase – ride-on lawn mover	-	9,000	-
Total Cash Outwards	24,665	24,305	26,755
Closing Bank Balance	57,065	103,825	108,090

HAMPDEN TENNIS CLUB

Cash Flow Budget for the 3 months ended 30 June 20X3

	\$ APRIL	\$ MAY	\$ JUNE
Beginning Bank Balance	32,500	8,135	2,280
CASH INWARDS			
Grants – conditional	-	-	-
Grants – non-conditional	-	-	-
Member subscriptions	-	-	-
Tennis lessons	-	-	-
Court bookings (non-members)	1,200	1,700	1,500
Wine sales fundraiser	-	-	-
GST refund	-	-	200
Bar profits	600	500	300
Total Cash Inwards	1,800	2,200	2,000
CASH OUTWARDS			
Audit fees	-	-	-
Bar purchase	-	-	-
Bank fees	25	25	25
Cleaning	530	520	520
General expenses	1,400	300	500
Insurance	-	-	-
Interest	-	-	-
Electricity	600	600	600
Printing	-	-	-
Rates	-	-	1,150
Repairs & maintenance (tennis courts)	12,000	-	-
Repairs & maintenance (building)	2,500	-	-
Telephone/Internet	110	110	110
Wages & salaries	6,500	6,500	6,500
GST payments	2,500	-	-
Equipment purchase – ride-on lawn mover	-	-	-
Total Cash Outwards	26,165	8,055	9,405
Closing Bank Balance	8,135	2,280	(5,125)

Compared to the cash flow budget for the three months ended 30 November 20X2, the three months ending 30 June 20X3 show a different story, with a projected negative closing balance of (\$5,125).

If the cash flow statement is prepared in enough time, it can give a warning – as it has done in this case – that the bank balance will be in overdraft.

Arrangements can then be made in advance to have a temporary overdraft if reducing or delaying payment of expenses - or other appropriate action - is unsuccessful.

If further cash flow budget analysis shows the negative cash flow is ongoing, a more serious issue may be apparent.

04

STRATEGIC MANAGEMENT

4.1 STATEMENT OF SERVICE PERFORMANCE

Strategic management accounting is the provision of information to support the long-term strategic decisions in an organisation.

If an organisation is a New Zealand registered charity or Incorporated Society under the new Incorporated Societies Act 2022 (other than a small society, there is a requirement to supply non-financial information under Entity information and the Statement of Service Performance (SSP) in the entities financial statements. This includes for Tier 3 (operating expenditure of less than \$2 million) and Tier 4 (operating expenditure of less than \$140,000) entities.

The aim of the non-financial information is to give accountability for the resources used by an organisation in achieving the reason for their existence – or mission.

For Tiers 3 and 4 the following information about the organisation must be supplied:

- A. The legal name of the charity, the legal basis and type of entity and its registration number.
- B. The charity's purpose or mission.
- C. The structure and governance of the charity.
- D. The main sources of the charity's cash and resources.
- E. The main methods used by the charity to raise funds.
- F. The charity's reliance on volunteers and donated goods or services.
- G. Contact details.
- H. Any other information on the charity that it wishes to disclose to readers.
- I. Description of the entity's outcomes (optional for Tier 4) – what the entity is seeking to achieve in terms of its impact on society.
- J. Define the charity's outputs, and quantify these to the extent practicable. These outputs are goods or services delivered during the year (a charity should put in place systems to record actual outputs delivered).
- K. New SSP requirements are being brought in for reporting periods starting from 1 April 2024 but an entity is able to adopt the standard now. The new changes are largely related to the terminology and removes the terms outcomes and outputs. Tier 4 charities will need to describe the main activities undertaken during the financial year and quantify these where they can. Tier 3 charities need to expand on this with further detailed quantity and quality measures of the entities activities during the year*.

*If you are unsure of the reporting requirements applicable to your organisation always consult your accountant or financial advisor in the first instance or for the latest reporting standards refer to the XRB website /www.xrb.govt.nz/standards/accounting-standards/not-for-profit-standards/tier-3/

4.2

ORGANISATIONAL OUTCOMES AND OUTPUTS

Although the terms outcomes and outputs are not going to be used going forward, they are still a useful way to quantify an entities activities and achievements so have continued to be used below.

OUTCOMES

are what a charity hopes to achieve through its activities, and relates to its mission or purpose.

OUTPUTS

are the significant activities that the charity has been involved in during the year.

For example, as an outcome, the Hampden Tennis Club wishes to engage the 65+ age group in playing midweek tennis to improve their fitness, and as a social outing. The output the club is hoping to achieve is at least 30 members attending, on average, every Wednesday morning.

The resources the club has estimated it needs to achieve this is \$300 in printing costs for a pamphlet drop, and \$300 per year to supply tea and coffee. Some of the members have volunteered to bake biscuits or a cake to bring along for morning tea.

The club manager is given the task of recording the attendees, so at the end of the financial year this output can be presented as part of the SSP to members to determine if the club and volunteer resources have produced a successful outcome.



It is a good idea to set up a system of quantifying the outputs to make reporting easier at the end of the financial year.

4.3

SUFFICIENT RESOURCES

As discussed in Section 2 under budgeting, it should be the responsibility of the governing body in setting the budget to determine what resources are needed to achieve the outcomes of the organisation. In addition to basic infrastructural costs, which enable an organisation to exist – such as building electricity, telephone/internet, insurance and rent – additional resources will be needed to achieve the outcome(s) and output(s).

The Hampden Tennis Club was embarking on a project to build a new pavilion.

The outcome was to provide a facility where members could change and shower. This building would also contain a small grandstand to provide seating for planned exhibition tennis matches.

The output the club was trying to achieve was to raise from grants \$100,000 to purchase materials for stage one of the project, and to use club volunteer building labour.

Unfortunately, the club only managed to raise \$30,000 for this, which was insufficient to begin the project. This has placed the club in a serious position as they have not ring-fenced this money in a separate account and improper use of funds has taken place by using it to pay other operating expenses.

It is therefore crucial for ambitious outcomes to have a plan for securing the resources required to complete it and to produce outputs.

In the example on the previous page for the Hampden Tennis Club, the resources required were not significant in either financial or non-financial terms. However, some outcomes can involve more significant resources.

An output reporting register

The Hampden Tennis Club's outcomes for the 20X1 year were to:

“Recruit more 65+ age group members for midweek tennis to improve their fitness and social well-being.”

“Encourage the competitiveness of junior tennis.”

“Improve the amenities for members.”

“Diversify club revenue apart from member subscriptions.”

“Reduce the falling membership by encouraging a social aspect to the club.”

4.3 SUFFICIENT RESOURCES

These outcomes can be presented at year end in table form, and of course should be tracked by the governing body during the year. The SSP does not require budgeted outputs to be reported on – that is, what they hoped to achieve.

This is the Hampden Tennis Club's list of significant outputs for the 20X1 year:

ACTIVITY DESCRIPTION (OUTPUTS) (REQUIRED)	ACTUAL THIS YEAR (REQUIRED)	BUDGET THIS YEAR (OPTIONAL)	ACTUAL LAST YEAR (REQUIRED)
Average attendance of 20 members at midweek 65+ tennis over 40 weeks	12	20	14
Hold two area junior tennis tournaments	2	2	1
Encourage socialising at the bar after Saturday tennis, with an average of 50 members participating per week over the summer season	27	50	45
Succeed in obtaining 8 grants needed to raise \$100,000 for the pavilion	1	8	N/A
Refurbish two of the courts during winter	2	2	0
Increase the adult membership by 20	(6)	10	(8)
Increase revenue from tennis lessons by 25% in 20X1	25%	57.5%	N/A

Providing outputs from the stated outcomes of the club reveals what has been achieved (or not) with resources provided to the organisation. It is one thing to show the financial results of an organisation and another to show just what has been achieved. It is possible to have a solid financially performing organisation, but one that is not achieving the reason for its existence – either poorly or not at all.

4.4 KEY PERFORMANCE INDICATORS

Key performance indicators or KPIs, are a quantifiable measure used in the evaluation of an organisation. They are also associated with targets, such as strategic outputs.

It is important to measure only those KPIs that are crucial to the success of the organisation.

Hampden Tennis Club's KPIs include the following:

- Annual profit
- Gain/loss of members – junior, midweek and adult
- Fundraising return on investment
- Average number of adult members participating in club days
- Successful grant applications for the pavilion
- Club member satisfaction ratings
- Number of court hours used by non-members



4.5 DASHBOARD

In recent times a dashboard approach to displaying KPIs has been common. This lists an organisation's KPIs infographically.

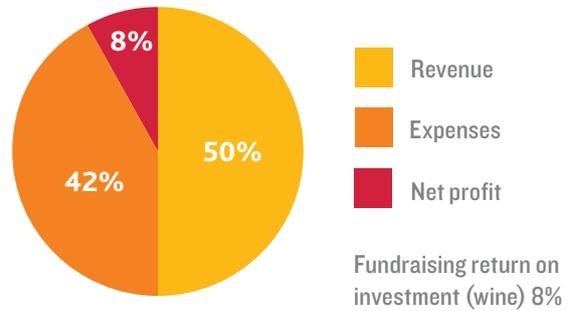
These can be handed out as part of management reports or given to members at annual general meetings.

Shown below is an example of a dashboard for Hampden Tennis Club based on its KPIs.

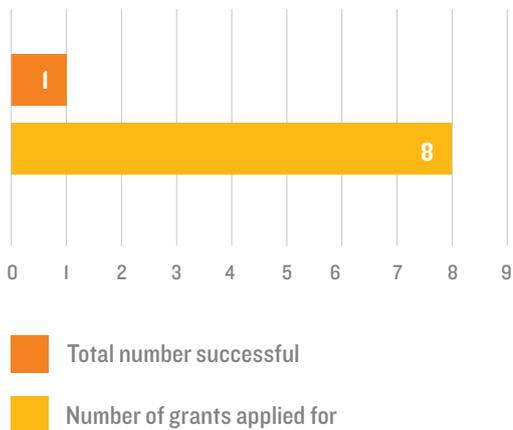
Annual profit (loss)



Wine fundraising



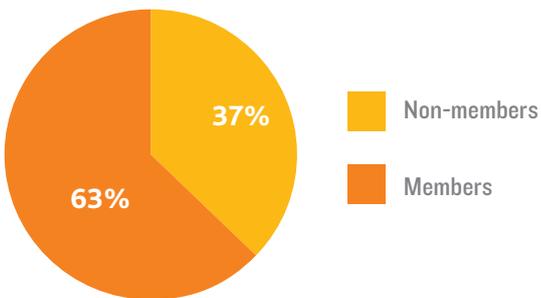
Grant applications for pavilion



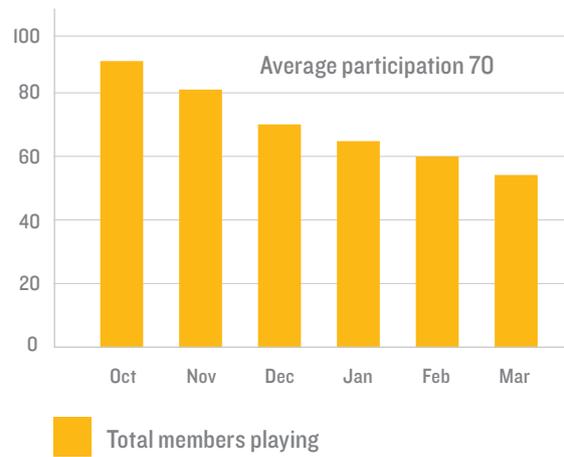
Member satisfaction



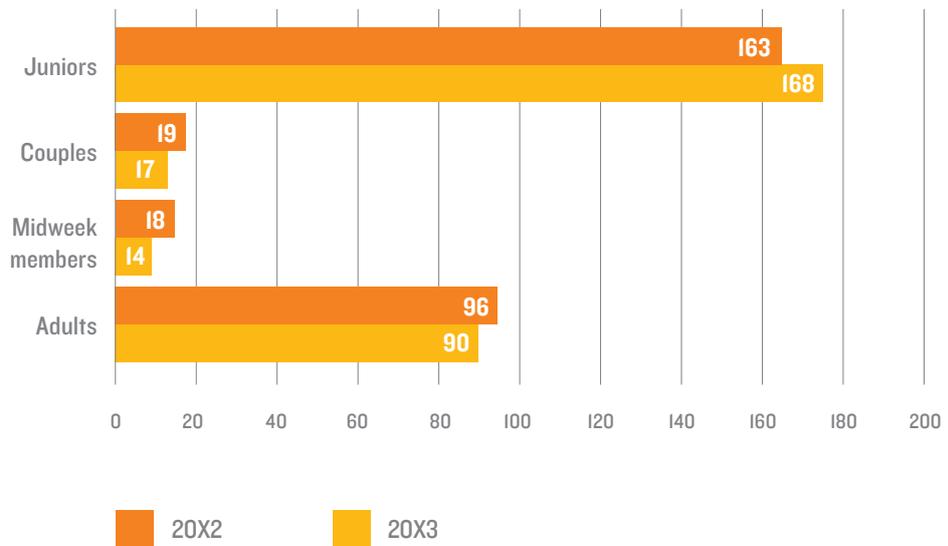
Percentage use by non-members vs members



Participation of adult members in club days



Club membership



05

SUGGESTED SOLUTIONS

5.1

EXERCISE 1

CHAPTER 1.0

A: RATIO ANALYSIS

RATIO				20X3	20X2
Gross profit margin	$\frac{103,500}{230,000}$	X	$\frac{100}{1} =$	45.0%	
	$\frac{65,000}{160,000}$	X	$\frac{100}{1} =$		40.6%
Mark-up	$\frac{103,500}{126,500}$	X	$\frac{100}{1} =$	81.8%	
	$\frac{65,000}{95,000}$	X	$\frac{100}{1} =$		68.4%
Net profit margin	$\frac{21,000}{404,500}$	X	$\frac{100}{1} =$	5.2%	
	$\frac{20,000}{360,000}$	X	$\frac{100}{1} =$		5.6%
Inventory turnover	$\frac{126,500}{50,000}$		$=$	2.5	
	$\frac{95,000}{30,000}$		$=$		3.2
RATIO				20X3	20X2
Average collection period (bar sales)	$\frac{35,000}{230,000}$	X	365 =	55.5 days	
	$\frac{15,000}{160,000}$	X	365 =		34.2 days
Average collection period (subscriptions)	$\frac{36,000}{291,000}$	X	365 =	45.2 days	
	$\frac{25,000}{285,000}$	X	365 =		32 days
Working capital	Current assets			201,000	70,000
	Less current liabilities			120,000	140,000
	Working capital			81,000	(70,000)
Current ratio	$\frac{201,000}{120,000}$		$=$	1.7:1	
	$\frac{70,000}{140,000}$		$=$		0.5:1
Quick assets ratio less bank OD	$\frac{113,000}{85,000}$		$=$	1.3:1	
	$\frac{40,000}{60,000}$		$=$		0.7:1
Quick assets ratio (including bank OD)	$\frac{113,000}{120,000}$		$=$	0.9:1	
	$\frac{40,000}{140,000}$		$=$		0.3:1

RATIO				20X3	20X2
Expense Control					
Course maintenance	$\frac{286,000}{404,500}$	X	$\frac{100}{1} =$	70.9%	
	$\frac{264,000}{360,000}$	X	$\frac{100}{1} =$		73.3%
Administration	$\frac{80,000}{404,500}$	X	$\frac{100}{1} =$	19.8%	
	$\frac{70,000}{360,000}$	X	$\frac{100}{1} =$		19.4%
Financial	$\frac{16,800}{404,500}$	X	$\frac{100}{1} =$	4.2%	
	$\frac{6,000}{360,000}$	X	$\frac{100}{1} =$		1.7%
Interest cover	$\frac{37,800}{16,800}$			2.3	
	$\frac{26,000}{6,000}$				4.3
Equity ratio	$\frac{201,000}{501,000}$	X	$\frac{100}{1} =$	40.1%	
	$\frac{70,000}{270,000}$	X	$\frac{100}{1} =$		25.9%
Liabilities to assets	$\frac{300,000}{501,000}$	X	$\frac{100}{1} =$	59.9%	
	$\frac{200,000}{270,000}$	X	$\frac{100}{1} =$		74.1%

B: ANALYSIS

The committee member is right to be concerned about the financial viability of the club. The gross margin went up, but the net profit margin went down from 20X2 to 20X3. A higher level of bar sales, assets and investment has failed to see any improvement in the club profitability.

The gross profit margins have been good, with an increase in the gross profit rate from 40.6% to 45.0% being an improvement in the last 12 months. Offsetting both these positives is a 13% increase in the expenses. Interest expenses are acceptable but course maintenance expenses and administration have both increase.

Most indicators of financial stability have improved. The level of accumulated funds has improved considerably from a very poor level of 25.9% in 20X2 to 40% in 20X3. This is largely due to the \$110,000 injection of the members' contribution in 20X2. The ratio of liabilities to assets has also decreased from 74.1% to 59.9%.

The extra capital injected has also caused a marked improvement in short-term solvency with both the liquidity ratio and current ratio well up on poor 20X2 levels. The quality of the current assets is not as good as it could be – with a large amount in accounts receivable that is taking between 45 and 56 days to pay little actual cash, and a declining rate of stock turnover.

Interest cover has also deteriorated, reflecting the fact that borrowing has increased without extra funds resulting in any improvement in overall profit.

Stock turnover seems to be a problem area – with a stock decline from 3.2 times a year to 2.5 times a year and increased inventory on hand.

The age of debtors worsened slightly as well, with members' subscriptions and bar sales accounts on average taking an extra twelve days to pay from 20X2 to 20X3.

C: POSSIBLE RECOMMENDATIONS FOR PROBLEM AREAS

Poor stock turnover

- Review sales patterns and cut back on purchasing slow-moving stock.
- Identify "dead" stock and discount prices to sell it.

High age of debtors

- Tighten credit criteria.
- Consider offering discount for prompt payment and charge interest for late payment.
- Follow up on overdue debtors.

Low profitability

- Identify the increase in course maintenance and administration costs and take appropriate steps to reduce the problem.

5.2

EXERCISE 2

CHAPTER 2.0

A:
MANUKA DISTRICT
INDOOR COMMUNITY
SPORTS ARENA TRUST

1

Separate membership classes and fee structure would likely be appropriate once the costs of running the fitness classes, gym, squash lessons and courts are known. This would stop cross-subsidisation and may stop the loss of members due to the increase in subscriptions for members who do not wish to do fitness classes or play squash, but just use the gym.

2

The Arena Manager prepares the budget; therefore, the process is controlled by the manager and employees. There does not appear to be a review by the trust Board.

As the general expenses are nearly 16% of the expenditure, a breakdown of these costs should be provided to see if savings could be made.

More information is needed about the costs of running the fitness classes and any other costs for the squash lessons. The membership fees may be subsidising the fitness classes, which means small classes can be run even if they are not well supported.

3

A review should be made of the number of fitness classes offered. What are the most popular and why? Try and copy that formula (e.g.) Is it the person taking the class? Get customer feedback) or cancel the least popular classes.

4, 5, 6

As there has been a constant increase in the membership fees and most of the members use the gym, not the classes, there is a danger members may leave the club. This is because the fee increases are to cover the costs of the classes, which are only used by 40% of members – and infrequently.

7

The club has a strategy of having the best gym equipment and fitness classes available. However, it appears the employees are running the arena for their own benefit.

A policy should be put in place about the purchase of the gym equipment by the Board, as it appears this is left to the staff. Some of the equipment is only being used for two years before being replaced – and likely has many years of use left. What is happening to the equipment that is being replaced? This is not appearing as a revenue item.

The amount spent on maintenance will likely be low due to the new equipment purchases. A cost benefit analysis should be completed for the costs of maintenance versus the replacement of equipment.

8, 9

As the staff are well paid, wage decreases could be applied if this would not seriously affect the operation of the club. Or employees could be offered discounted use of facilities and classes, rather than free use.

Employees should be questioned about their use of the equipment during peak times (also used by members). Are they using the equipment during their hours of employment? If they are, a policy on acceptable times of use might be needed.

5.3

EXERCISE 3

CHAPTER 2.0

A:
MATARIRI GOLF CLUB
MANAGEMENT REPORT
FOR THE 12 MONTHS
ENDED 30 JUNE 20X3

CURRENT MONTH

	\$ ACTUAL	\$ BUDGET	\$ VARIANCE	% VARIANCE	
REVENUE					
Grants – Pub Charity	3,000	-	3,000	-	F
Grants – Eastern Trust	12,000	12,000	-	-	F
Member subscriptions	11,000	13,000	(2,000)	(15)	U
Golf lessons	900	1,500	(600)	(40)	U
Corporate golf days	1,980	1,000	980	98	F
Club room hire weddings	-	500	(500)	(100)	U
Bar surplus	4,500	4,000	500	13	F
Total Revenue	33,380	32,000	1,380	(45%)	F
EXPENSES					
Audit fees	-	-	-	-	
Bad debts	500	-	(500)	-	U
Bank fees	30	25	(5)	(20)	U
Cleaning	750	700	(50)	(7)	U
Depreciation	2,500	2,500	-	-	F
Gift vouchers (prizes)	-	-	-	-	
Insurance	-	-	-	-	
Rubbish fees	900	700	(200)	(29)	U
Electricity	1,900	2,000	100	5	F
Printing	100	300	200	67	F
Computer expenses	600	300	(300)	(100)	U
Maintenance supplies (course)	10,500	600	(9,900)	(1650)	U
Maintenance (building)	900	300	(600)	(200)	U
Telephone/internet	190	200	10	5	F
Wages & salaries	18,500	18,000	(500)	(3)	U
Total Expenses	37,370	25,625	(11,745)	(1932)	
Budget surplus/(deficit)	(3,990)	6,375	13,125	1887%	

YEAR TO DATE

\$ ACTUAL	\$ BUDGET	\$ VARIANCE	% VARIANCE	
40,000	45,000	(5,000)	(11)	U
18,000	20,000	(2,000)	(10)	U
284,000	296,000	(12,000)	(4)	U
26,500	34,000	(7,500)	(22)	U
21,565	15,000	6,565	44	F
1,000	6,000	(5,000)	(83)	U
74,500	65,000	9,500	15	F
465,565	481,000	(15,435)	(72)	U
6,500	6,000	(500)	(8)	U
6,000	8,000	2,000	25	F
360	300	(60)	(20)	U
9,000	8,500	(500)	(6)	U
30,000	30,000	-	-	F
3,561	4,000	439	11	F
4,500	4,200	(300)	(7)	U
9,200	8,600	(600)	(7)	U
11,500	13,500	2,000	15	F
3,200	3,600	400	11	F
2,300	3,600	1,300	36	F
17,000	9,000	(8,000)	(89)	U
3,100	3,600	500	14	F
2,600	2,400	(200)	(8)	U
222,000	220,000	(2,000)	(1)	U
330,821	325,300	(5,521)	(35)	
134,744	155,700	(9,914)	(37)	

B:

While percentage variances can be large, dollar amounts can be relatively minor, and so not give cause for serious concern. However, we can also have small percentage variances, but significant dollar amounts – which should be reported on under most circumstances.

Revenue variances:

Unfavourable: Grants – Pub Charity and Eastern Trust, member subscriptions, golf lessons and club room hire.

Favourable: Corporate golf days and bar surplus.

Expenses:

Unfavourable: Maintenance supplies (course) and wages.

Favourable: Electricity.

C.**POSSIBLE REASONS FOR VARIANCES****Revenue**

Grants Pub Charity and Eastern Trust: Total grants applied for not given. The manager has tried to replace this revenue by applying to other trusts for the funds. The club will report on the progress of these applications each month.

Member subscriptions: Member resignations; over-optimistic about club member growth.

Golf lessons: Golf pro away for a period of time with no replacement; over-optimistic about projection of lessons.

Corporate golf days: Two unexpected events, planned events more popular than expected.

Bar surplus: Corporate golf day extra events with free bar tab on two full playing fields meant increased bar sales.

Expenses

Maintenance supplies (course): Unexpected maintenance due to weather conditions; or incorrectly budgeted expense.

Advertising: Total budget not spent due to cancellation of a promotion.

Rubbish fees: Increased court hire to the public has led to increased rubbish to be disposed of.

Wages: Overtime was paid to the manager to cover for the bar staff in times of sickness or absences.

Electricity: Changing to a supplier that gave a free hour of electricity every week lowered the cost for the floodlights for night tennis.

5.4

EXERCISE 4

CHAPTER 3.0

The individual subscription fees may be comparable to other clubs and therefore not a bargain, and other revenue sources will be needed as raising of subs is not a viable option.

If the subs are perceived by members and potential members as being value for money, it might lead to them staying or joining the organisation; however, a significant amount of revenue is needed to make up the shortfall to cover expenses.

If an organisation has secure, diverse sources of revenue, the low level of subscriptions might be acceptable to the organisation.

However, if the sources of revenue are contestable every year, or not reliable, then an unacceptable risk might have been introduced to the organisation by having such a low percentage of members' subs.

5.5

EXERCISE 5

CHAPTER 3.0

Creation of an emergency reserve fund should involve transferring or depositing cash to a separate bank account designated as an emergency or reserve fund account. At the same time a book entry is created which reflects this amount in Accumulated Funds as an Emergency Reserve Fund.

Unless the governance Board passes a resolution to the contrary, this fund can only be accessed in times of financial emergency. That is, the organisation needs extra funds to pay its accounts.

The problem with the Hei Hoi Indoor Bowling Club is that they are showing an emergency reserve of \$30,000 but have only \$8,652 in the bank account.

If at some point there was a physical \$30,000 that was set aside and used in an emergency, this has not been adjusted in Accumulated Funds as it is still showing.

The accounts are showing \$30,000 set aside as an emergency fund in Accumulated Reserves, but not reflected in the assets as cash.

5.6

EXERCISE 6

CHAPTER 3.0

A:

MOTEO CROQUET CLUB	\$ BUDGET
REVENUE	
Subscriptions	48,000
Donations/grants	17,000
Lease of land	6,000
Total Revenue	71,000
EXPENSES	
Rates	13,000
Levies	900
Insurance	2,200
Audit	2,000
Croquet lawn care	49,000
Electricity	4,900
Club house expenses	1,400
Repairs & maintenance	2,600
Telephone	1,200
Total expenses	77,200
Deficit	(6,200)

B:

One area for activity analysis is the lease of the 3ha to the organic squash grower. It was noted that the club's land was originally 2km from the outskirts of town. The rates for the property have increased as a result of rezoning. The lease of the 3ha is \$6,000, and if we deduct rates for 3ha of \$4,500 we have a profit of \$1,500.

C:

The club subscriptions total \$48,000 and there are 240 members. Assuming they all pay the same subscription – this would be $\$48,000/240 = \200 each.

The subscription appears to be good value considering the facilities are named by Croquet Player magazine as the best in New Zealand. Also, the club members are relatively financially well off.

A simple sensitivity analysis might be conducted after putting a proposal to members explaining the financial position of the club. The proposal asked the members' opinion on various subscription increases.

SUBSCRIPTION	INCREASE	RESISTANCE
\$200	-	None
\$220	10%	None
\$240	20%	Little
\$260	30%	Minor
\$280	40%	Some
\$300	50%	Considerable
\$320	60%	Major

Based on the results, the club increased the subscriptions by 30%. (Club members may of course be able to afford a 60% subscription increase but wanting to pay it could be a different matter.)

The revised budget provides a surplus of \$8,200 as subs increased by 240 members x \$260 = \$62,400.

MOTEO CROQUET CLUB	\$ BUDGET
REVENUE	
Subscriptions	62,400
Donations/grants	17,000
Lease of land	6,000
Total Revenue	85,400
EXPENSES	
Rates	13,000
Levies	900
Insurance	2,200
Audit	2,000
Croquet lawn care	49,000
Electricity	4,900
Club house expenses	1,400
Repairs & maintenance	2,600
Telephone	1,200
Total expenses	77,200
Surplus	8,200

The 3ha of land, as calculated in (B), gives a net return of \$1,500 after the rates cost of \$4,500 is taken away from the \$6,000 lease income.

A land valuation reveals that this land is worth in excess of \$1 million. If the land is sold and invested at a low risk rate of 3%, this would return at least \$30,000 per year. The revised budget would be as follows:

MOTED CROQUET CLUB	\$ BUDGET
REVENUE	
Subscriptions	62,400
Donations/grants	17,000
Lease of land	30,000
Total Revenue	109,400
EXPENSES	
Rates	8,500
Levies	900
Insurance	2,200
Audit	2,000
Croquet lawn care	49,000
Electricity	4,900
Club house expenses	1,400
Repairs & maintenance	2,600
Telephone	1,200
Total expenses	72,700
Surplus	36,700

Note that with land the rates would drop to \$8,500.

The surplus of \$36,700 can provide a cushion against the need to find donations/grants each year and allow for any assets or improvements the club wishes to make.

A comparison of last year's results to the proposed budget would show any movements in the expenses. All expenses seem reasonable for a club that size, but a further breakdown of the croquet lawn care expense might be required to see if any savings can be made.

What has been explored in this fictitious exercise is not uncommon in many sporting clubs. Some golf clubs, for instance, have sold off excess land or subdivided it as lower participation in the sport has meant they are asset rich, but cash flow poor.

Raising of subscriptions in clubs, even if members are in the higher income bracket, can still meet with resistance, especially if the perceived value of belonging at that cost is questioned.

Communication with members is therefore important to keep them informed.



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