FACILITY MANAGEMENT MANUAL

7 Financial Management

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The Facility Management Manual has been developed for managers of any recreation, sport or leisure facility. It provides detailed information covering the management and operation of a recreation, sport or leisure facility.

This document is a companion document to the Aquatic Facility Guideline, which can be found on the Sport NZ website and the NZRA website: http://nzrecreation.co.nz/index.php/facilities-home/facilities-guidelines

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1 Introduction

Communities, councils, businesses, community trusts and funding agencies all contribute significant resources to the development and operation of sport and recreation facilities. In return there are expectations of a sound social return on the investment and increasing focus on sustainable financial performance.

Investment in all parts of a facility and its operations (staffing, programming, asset management) needs to be assessed from the perspective of financial impact and benefit. The challenge is to optimise investment and ensure that the level of service achieves the desired financial, community and asset management objectives for the facility. The role of a contemporary facility manager is to structure budgets, manage costs, establish pricing, target investment for the best return and monitor performance.

Most facility managers rely on the professional accounting services of others. This does not absolve them of the responsibility of knowing the facility's financial position and performance. Financial managers (not facility managers) generally have low levels of understanding of how a facility works. Good communication and an understanding of sport and recreation facility management are important. Develop a close relationship with a financial advisor or accountant so that any technical questions can be quickly resolved.

Financial management can be area of weakness for many facility managers, yet is crucial to effective facility management, planning and decision-making. Invest in further development if this is an area of under performance. Most leisure facilities require long-term sustainable financial practices to ensure their success.

This chapter has been prepared to provide a general guide only and should be supplemented by consulting professional advisers such as chartered accountants, organisational finance departments or staff of business development centres.

This section links with the following Facility Management Manual chapters:

Chapter 3 - Human Resources

Chapter 6 - Programming

Chapter 8 - Risk Management

Chapter 9 - Monitoring

Chapter 11 - Asset Management

1.1 Legal and statutory obligations

The following laws and standards are relevant to the responsibilities and accountabilities of facility managers.

- Charities Act 2005
- Companies Act 1993
- Finance Act 1995
- Financial Reporting Act 2013
- Holidays Act 2003
- Income Tax Act 2007
- Local Government Act 2002

Further information:

http://legislation.govt.nz

1.2 Policies

All facilities should have policies relating to the financial process. These could include but are not limited to:

- Asset management
- Cash handling, payments and invoice management
- Conflict of interest
- Financial authority and delegation levels
- Financial condition and activities
- Financial planning and budgeting
- Fundraising
- Grants and contracts
- Investments
- Payroll processing
- Remuneration and benefits.

2 Reviewing Performance

2.1 Self-review

Prior to using this chapter, do a quick check on how the facility is performing in financial management.

Financial management self-review

Description	Self assessment
Financial planning and budget systems The strategic and business plans include: • Three year financial forecasts • Annual budgets • Sources and uses of funds (grants, sponsorship and contracts). The current year budget includes: • A cash flow forecast • Clear assumptions • Quarterly reviews and revisions.	
Financial reporting Monthly financial accounts: • Are prepared within five working days of the end of the month • Include year to date activity • Provide a comparison of the year to date or annual budget by line item against budget and previous year • Include an analysis of variance on a $ and % basis. The facility manager monitors: • Daily and weekly revenue reconciliations • Current and forecast financial position and performance • Monthly, quarterly and annual reports • Areas for remedial action • Monthly financial performance for each programme or funding source.	

Risk management Organisational risks are assessed and contingencies included in budgets and reserves. Sound internal control and risk management There is clear ‘separation of duties’ between: • Authorisation functions • Recording functions • Cash handling • Review and verification functions Clear financial delegation of accountabilities and responsibilities Written policies and guidelines for processing payroll, purchases, accounts payable, accounts receivable. Conflicts of interest, competitive tendering and financial compliance are managed.	
Audit Accounting and audit policies and procedures are in place. Review of the annual audit and report.	

2.2 Key performance indicators

Recreation, sport and leisure facilities have a range of published performance indicators to track and report against. Those with a financial focus (cost and revenue, energy utilisation) are outlined below. A comprehensive set of indicators is included in FMM Chapter 9: Monitoring and Evaluation.

The New Zealand Recreation Association (NZRA) and Sport New Zealand have partnered to develop a high level benchmarking tool with a set of key performance indicators utilising the Yardstick platform, established by NZRA. The benchmarking tool is made available at no cost provided facilities register through NZRA and enter their relevant facility information.

The following five performance indicators provide the basis for facilities to measure themselves against similar facilities and the national medium on an annual basis:

- Utilisation
- Membership
- Net costs
- Operational costs
- Revenue.

Indicator	Possible expression
Utilisation	
Total facility number of visits per floor area	# per m^2
Aquatic visits per area of pool water	# per m^2
Fitness centre visits per floor area	# per m^2
Stadium/gymnasium/arena visits per floor area	# per m^2
Catchment usage ratio	Visits / catchment population
Membership	
Membership retention rate	% retained
Financial – Net cost	
Net direct cost per admission total facility	$ per admission
Net cost per area – total facility	$ per m^2
Aquatic net cost per admission	$ per admission
Fitness centre net cost per admission	$ per admission
Stadium/gymnasium/arena visits net cost per admission	$ per admission

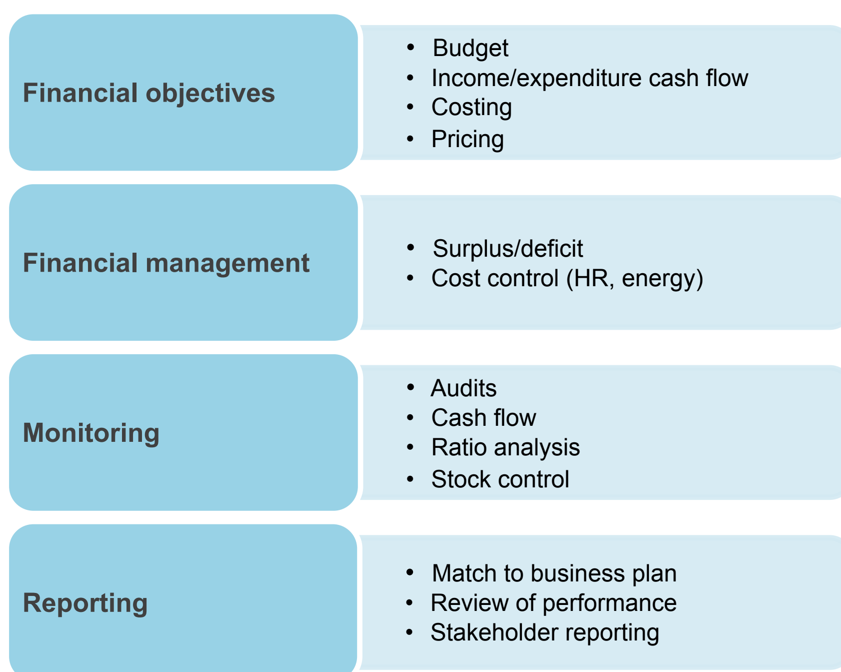
Indicator	Possible expression
Financial - Operational Cost	
Total operation cost per total area	\$ per m^2
Energy cost per total area	\$ per m^2
Staff cost per total area	\$ per m^2
Repairs and maintenance cost per total area	\$ per m^2
Financial - Revenue	
Total revenue per FTE	$ per FTE
Revenue as a percentage of staff cost	%

3 Financial Planning and Budgeting

3.1 Financial objectives

Establishing financial objectives should be part of the strategic planning process. Financial objectives for the business plan will flow out of the strategic planning process discussed in FMM Chapter 4: Strategy and Planning. Most recreation, sport and leisure facilities will include social objectives in their plans which are supported by the financial objectives.

3.2 Financial management overview



3.3 Budgeting

Strategic and business plan

A facility's purpose provides direction on how to move from its present position to where it wants to be in the future. This strategic direction is dependent on the resources available and the environment in which it operates.

The annual plan breaks down the strategic plan into manageable timeframes and sets targets within those timeframes. Therefore the annual plan and budget should show a clear link with strategic plan or goals.

Budgets

Preparing budgets is an essential task for all facility managers.

A budget allocates resources to implement the annual plan, defines objectives in financial terms and is used to monitor the facility's financial performance. Budgets need to be structured to provide useful information based on sound costings, accurate user and membership data, and have forecast anticipated income

balanced with forecast anticipated expenditure. Budgets should reflect current market conditions and use realistic estimates of facility attendance.

Effective budgets identify each separate profit centre and have different accounts for each income and expenditure category.

Budget advantages

- Objectives are clearly defined in financial terms
- Performance measures are defined
- Priorities for action can be allocated
- Early warning of problems is given so that correct action may be initiated.

Budget evaluation

- Actual figures compared with budget to track performance
- Managers are expected to explain any variance between budget and actual
- Budgets prepared in consultation with employees who will work with it are likely to be more realistic.

Budgets are forecasts and cannot take into account special or unforeseen events, such as abnormal weather conditions, plant failure or closure due to public health concerns. Therefore, if the centre or its programmes and services can be significantly affected by events such as bad weather, financial strategies for coping with significant decreases in income need to be developed.

It is not possible to predict accurately which programmes and services will be successful, therefore do not project unrealistic profit levels. For new programmes, allow sufficient time for the programme to develop its own customers.

The budget process

Budget preparation will involve several drafts until the final budget is completed. For ease, it is strongly recommended financial management software or a computer spreadsheet is used. There are several commonly used financial packages that calculate budgets quickly, significantly reducing preparation time and that can also provide real-time and scenario (what if) views of budgets.

Preparing budgets must begin several months prior to the end of the current financial year and should involve all staff with responsibilty for income generation or expenditure. The preparation of key budget guidelines ensures managers are working to the same guidelines and timetable.

Any assumptions made should be detailed in the budget. These could include when customers pay for services and programmes, discounts provided to regular customers or groups, terms of payment to suppliers, salary and wage increases, anticipated increases in operating expenses or capital equipment or plant purchases or leases.

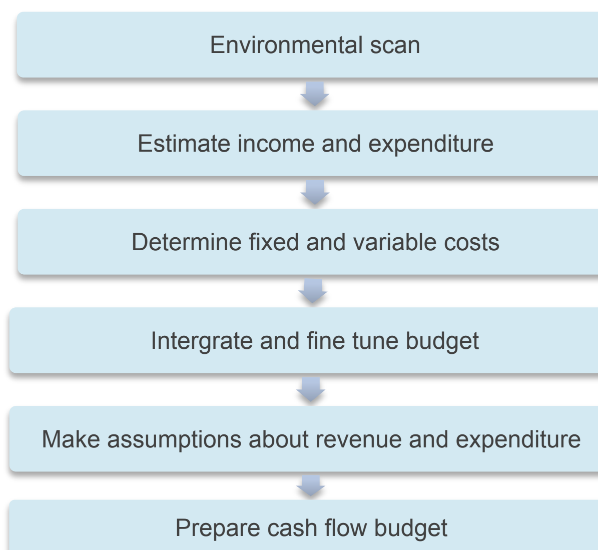
It is important that the budget, along with the strategic direction, be revised regularly to adapt to a changing environment. For this reason, managers must establish a process that enables early review and if necessary revisions of a budget. If a budget is revised it is recommended that the original budget be retained as a reference point. Revisons need to be approved and documented.

Budgeted income and expenditure should be allocated in the same format as the organisation’s chart of accounts so that when the actual expenditure occurs, it can be charged to the same code as the corresponding budget.

For organisations that require **reallocation of corporate costs or overheads**, the amounts or process may need to be negotiated prior to inclusion in individual budgets.

Draft budgets should be prepared by individual budget holders and presented to their managers for approval and where necessary negotiate changes. The draft budgets will be consolidated into an overall budgeted income and expenditure statement for the facility, which will be presented, with the individual budgets, to the Executive for approval.

Six steps to budgeting



Environmental Scan	Assess the impact of **internal and external factors** e.g. internal funding, political support, employment levels and economic trends. Determine **constraints** e.g. wage costs, budget caps, subsidy target, capital expenditure limits. Review against **current financial performance**; budget holders to review expenditure, with a view to necessity and efficiency. Review **income sources** and allocate income to accountability centres. Disregard income linked to contingencies. Identify **separate profit centres** and the programmes and services offered in each area.
Estimate income and expenditure for each profit centre	**Forecast income** based on estimated attendance and the fee structure, using GST exclusive data if GST registered. Include gross profit or 'mark-up' from resale of goods. **Estimate direct costs** e.g. wages and materials.
Determine fixed and variable costs	Determine **fixed costs** and overheads based on historical data. Determine **variable costs** such as changes in the number of participants, opening hours or changes in activities.

Integrate and fine-tune the budget	**Combine the budgets** from all the profit centres into one budget including all overheads and depreciation. **Adjust** the full budget to meet financial objectives, or to identify unrealistic financial goals. This process can identify what happens if prices are increased or attendances are below projections.
Make assumptions about revenue and expenditure	**Divide budget projections** into monthly periods e.g. energy account due quarterly, management salaries monthly, 50 % of swimming pool income received between December and February. **Estimate the time difference** between when a programme or service is sold and income is received e.g. casual revenue gathered at time of participation, regular hall hirers invoiced monthly in arrears, memberships paid in advance or in monthly instalments, MoE payments made quarterly with a mix of payments in advance or arrears. **Estimate time lag** between when an account is received and payments made e.g. wages paid in weekly arrears, accounts paid within 20 days of the end of the month.
Prepare cash flow budget	**Cash flow** will be based on when income is received and expenditure made. A cash flow budget will identify when there will be cash shortages (and an overdraft may be needed) or alternatively when there will be a cash surplus (and funds can be invested). **Split the budget** into monthly or seasonal budgets, with income and expenditure slotted into the months when they are expected to occur.

Cash flow forecast

A cash flow forecast is an estimate of receipts and payments, and the resultant position for a certain period of time, including purchase and sale of assets, loan drawdowns or repayments.

A cash flow forecast is prepared for the following reasons:

- Budgets are an important form of control, and a cash flow forecast can provide information about performance
- Adjustments for seasonal fluctuations can be made
- Weaknesses in debt collection policies can be revealed.

Preparation of a cash flow worksheet

Figures for a cash flow forecast are based on past experiences and future expectations. For example, most facilities know their:

- High and low months for subscriptions
- Memberships and programmes
- Relationship between scheduled maintenance closures and membership
- Account payments
- Normal wages bill
- Other normal operating expenses.

4 Costing and Pricing

Some facilities do not set fees and charges but still need to understand the relationship between accessibility and community engagement.

Council policies on funding sport, recreation and leisure services will, in many instances, result in some fees being charged to users of the services.

User pricing systems make the real costs of service provision apparent to those who benefit from the service or programme. A variable pricing structure is an effective way of rationing use at peak times, encouraging use to be spread more evenly and allowing facilities and services to be used to full capacity for a greater percentage of time. FMM Chapter 5: Marketing, addresses the topic of pricing.

4.1 What is a pricing/funding policy?

Pricing policies provide options for recovering costs and can result in the rationing of services and encourage efficient resource allocation.

If operating in a Council, a funding policy may be set (for example, 35% user pays/cost recovery/65% rates funded). Once the budget is set, it is worthwhile calculating income and expenditure to check that the facility is forecast to meet the funding policy.

Subsidy of programmes and services can align with a business and customer growth strategy. Some services lend themselves to cross selling, and drive up utilisation and revenue. In some cases, one part of the business e.g. fitness classes subsidises other loss making services e.g. new programmes.

Case study: Wellington City Council funding policy

Sports fields

Who benefits

Sports fields provide significant benefits for individuals and sports clubs. Fields are sometimes booked by sports clubs and other users, but are also available for informal, individual use.

Who should pay

The council recognises the importance of the grounds and therefore believes it is important for the community as a whole to cover most of the costs. It is also recognised that it is not desirable to levy clubs to the extent that organised sport is discouraged or that fees are charged creating barriers to participation for low-income earners.

Whole community via general rates 90%; User groups 10%.

Artificial grounds

Who benefits

Artificial grounds are more heavily used by individual sports and therefore attract a higher user payment but there is still some benefit to the wider community in health, economic and social benefits.

Who should pay

Combination of individuals, sports clubs and the wider community.

Whole community via general rates 60%; User groups 40%.

4.2 Establishing a cost

Costing programmes and services leads to pricing decisions, including how to create formulas for the subsidy of certain programmes and services. Any pricing should align with business and customer growth strategy, and can include strategies such as cross selling, cross subsidy, and incentivising.

A rational pricing policy cannot be established until the full cost of providing a service is known. Direct and indirect costs of providing a service need to be identified, as well as the value of assets involved. When the full cost is determined, a price can be established in relation to the full cost and with consideration of the pricing objectives.

Marginal cost

This is the cost of adding another unit to the service e.g. the marginal cost of adding another student to the class. It is important to know both the average cost and the marginal cost as this helps with effective decision making about future activities and allows good use of resources and generation of income.

Pricing methods

Once pricing objectives have been determined and prioritised, decide which method of pricing will best meet the criteria for a specific service or facility.

Pricing methods	Description
Full cost recovery	**Full costs plus a profit margin** are included in price. • Services only benefit the users and there is no benefit to the community • In recreation, sport and leisure facilities full cost recovery is typically used for services such as personal trainers and retail sales.
Partial cost recovery	**Part subsidy of costs** allowing for efficiency and equity. The subsidy will come from other revenue or rates. • Based on knowledge of full costs so extent of subsidy can be quantified.
Variable cost recovery	Based on **direct operating and maintenance expenses**. • Price does not contribute towards fixed costs.
Marginal cost recovery	Based on **additional cost caused by individual use** of the service. • Difficult to implement as calculating marginal costs requires detailed data which is difficult to collect • Considers no other objective than efficiency • Does not allow the full recovery of costs.

4.3 Setting price

Going rate/market pricing

Going rate, or market pricing may be relevant where facilities provide services in competition with each other, or with other private or public agencies. This is a simple approach which usually requires the collection of information about prices being charged for similar services by other organisations. In setting prices using the going rate it is necessary to consider the extent to which it deviates from full costs, and the level and quality of the service being provided in relation to competitors. Setting a higher price would require an appropriate marketing strategy to be developed. Typically fitness centres within recreation, sport and leisure facilities are priced to match the market.

Differential pricing

Differential pricing involves charging different prices to different groups for essentially the same service. It is important that differential pricing be based upon an explicit rationale which can include the following criteria.

Differential pricing	Rationale
Participant	Recognises that some groups may have difficulty paying the established price. Price reductions should be offered to participant groups in a manner that does not cause them embarrassment. *For example: children, senior citizens and low income earners can access Leisure Card, Community Services Card, Gold Card, Student ID.*
Product	Allows provision of a basic level of service, while allowing those who are able or willing to purchase a higher level or service. This allows the public to 'purchase' their preferred level of service. *For example: pool entry with access to spas and hydro slide a separate rate; fitness club membership with extra payment for a personal trainer.*
Place	This applies to seats in an auditorium, sports ground or theatre but is also commonly applied by charging lower prices to residents. Where ratepayers are funding services the rationale for this differential may be clear. *For example: resident rates for swimming in pools in tourist destinations such as Taupo and Hanmer Springs, member and visitor rates for golf clubs.*
Time	This strategy can be used to encourage efficiency through a more even spread of use over peak and non-peak times. *For example: off-peak memberships for fitness clubs, peak season rates for outdoor activities.*

Differential pricing	Rationale
Quantity of use	Discounts on bulk purchases of services can be used to encourage increased use at the same time as reducing the costs of meeting increased levels of demand. *For example: one-off venue hire compared to seasonal hire by a sports code, family membership.*
Incentives	The offer of reduced fees for first time users can be an effective way to encourage people to try a service and persuade them to become regular users. Such incentives, however, must be carefully controlled to prevent abuse and dissatisfaction among established users. *For example: one-week free, bring a friend deals.*

Where services are used predominantly by high income groups, introducing user charges would ensure that lower income groups are not paying for services that they do not use. The result of this may free up resources to provide services which are more appropriate to their needs.

Where services are used by both high and low income groups it is preferable to reduce or waive fees for those to whom they are a barrier, rather than offer the service at a universally reduced rate. This may be achieved by:

- Reducing prices for selected customers
- Securing external funding and using this to susbidise
- Allowing extended payment schedules
- Membership or card subsidies (e.g. Community Services Card or the Wellington City Council Leisure Card)
- Discounts for volume purchasing
- Reduced fees for donated time.

Wherever possible, the application for assistance in paying fees should be managed in such a way as to avoid embarrassment for individuals involved.

Revenue production

User pays can alleviate financial pressure by increasing revenue and reducing costs in the case that charging for services reduces usage. If the pricing objective is revenue production consider the extent to which user participation is likely to be affected by price changes and avoid a situation whereby increasing prices results in decreased participation and revenue is reduced!

Three factors influence the effect of price on participation:

- The **relative price** of substitute services or alternatives
- The **proportion of direct costs** that the direct use price of a service represents (i.e. if user price is small in comparison to travel and time costs, its increase is unlikely to substantially effect participation)
- The **affluence of the target market**.

Decide whether increased revenue is worth reduced participation rates by balancing the objective of revenue production against the competition, direct costs and target market.

4.4 Attracting alternative resources

Most transactions involve money. However with creative thinking it is possible to attract additional resources without using valuable cash resources. Three main ways of attracting additional resources are through sponsorship, trade exchange and tapping into community resources.

Sponsorship

Sponsors invest money, goods and services for one of two main reasons:

- As a form of advertising, public relationship and marketing
- To contribute something to the community.

In times of economic constraint the latter form of sponsorship is significantly reduced. Most sponsors are seeking a return on their contribution.

It is possible to acquire some resources through contra deals. By doing this the requirement to spend money while providing goods and services of the same value to suppliers is reduced.

Trade exchange

Local exchange of services can be agreed to where supply of goods or services to the facility can be exchanged in place of a financial transaction. This would apply more to Community Trust and non-profit run leisure centres.

Community resources

Within the community there are a number of resources which can be used by facility managers. Although they may not be free they can provide a high quality service at a substantially lower cost. Tapping into intern programmes offered by local universities, subsidised training and business development services can all add to the resource pool of the facility.

Multi-use of recreation, sport and leisure facilities

One of the major problems facing recreation, sport and leisure facilities is low utilisation at off peak times. Solutions to this include:

- Establishing a partnership model for facility development e.g. Sportvilles or co-location with schools
- Niche and complementary programming
- Tenancies that attract off peak use (cafes, physiotherapy, dance companies).

This problem can be significantly alleviated through the development of facilities which are jointly financed and maintained by a range of stakeholders, for example the Ministry of Education and local authorities. Such an arrangement avoids costly duplication of resources and ensures facilities are used to their maximum. For example the Graham Condon facility is co-located on a school site, using carparking and access through a shopping mall, and funded, in part through the Christchurch City Council. The trend towards ‘Sportsvilles’ is another partnership

where clubs and groups work collectively to share facilities to reduce costs and improve service levels. More information on sportvilles is available from Sport NZ.[1]

Another avenue is to develop niche programmes for off-peak or low use times eg: older adults generally prefer day time activities, mental health consumers generally prefer visiting facilities during quiet times.

Consider complementary programming designed to increase use of multiple yet complementary customers e.g. short adult fitness programmes during childrens classes or programming that does not compete with other local offerings for the same market.

Further infomation

Sport NZ at www.sportnz.org.nz

FMM Chapter 13: Facility Development

FMM Chapter 6: Programming

[1] http://www.sportnz.org.nz/our-partners/Territorial-Authorities/Community-Sport-and-Recreation-Hubs-and-Sportsvilles/

5 Financial Management

This section provides simple explanations of technical language and key principles for financial management including an overview of accounting systems, managing income, procedures for cash and credit sales, purchasing procedures, payroll procedures and managing expenditure.

5.1 Financial management in facilities

Each recreation, sport and leisure facility handles its finances differently but regardless of the type of organisation, a facility manager must understand the basic concepts of financial management. Some examples of the different financial focuses are:

Local government facilities

- Will have a finance department handling all financial matters and policy
- Greater emphasis on monitoring performance against the budget through tight cost control and focus on achieving customer targets. Lower emphasis on cash flow
- Equipment is typically purchased outright, rather than using leases or loans, although some high maintenance equipment (e.g. copiers, exercise machines) are leased.

Trust or community based organisations

- More likely to have a volunteer treasurer, with the facility manager handling most financial transactions
- Management will primarily be focused on cash flow and bank balances
- Most equipment is purchased from accumulated funds or grants, rather than using leases or loans. Loans are used to fund major capital expenditure (e.g. hockey turf).

Commercial sport, recreation and leisure facilities

- Owner or managers are responsible for all aspects of the facility's finances
- The major concerns are cash flow and structuring finances. Achieving revenue targets is crucial, and costs are closely monitored.

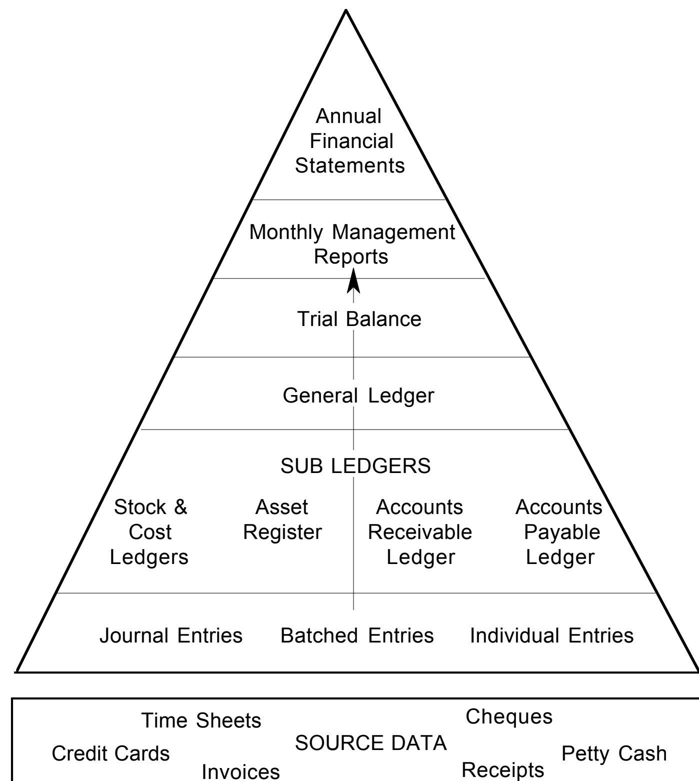
5.2 The chart of accounts

The Chart of Accounts sorts financial transactions into categories which reflect the organisation's operations. This enables information to be extracted to answer future questions and meet reporting needs. Sufficient time and thought should be devoted to the design of the Chart of Accounts and selecting the financial management and accounting system that suits the facility's needs. Future growth, development and diversification of the organisation should also be considered and allowance made for the possibility of additional codes.

To ensure that funds received are correctly and efficiently used, it is necessary to process data relating to financial transactions.

Accounting systems overview

Most systems are based around the financial management pyramid.



Data is converted into financial reports such as: financial performance (profit and loss) statements; cash flow statements; and financial position statements (balance sheets). Managers must monitor these financial reports to make sure the centre is operating according to the budget. If deviations from the projected budget are identified, corrective action must be taken.

5.3 Managing income

Cash management involves receiving money from a variety of sources and spending it to keep the facility operating.

Sources of cash

Generating sufficient funds at the time they are needed is a major task of a manager. There are four major sources of finance; sales, loans and leases, grants and subsidies and owner's funds.

Sales to customers

- Cash sales, where customers pay immediately for a product or service e.g. a casual entry to a swimming pool or purchase of a drink at the centre kiosk
- Credit sales, where customers are invoiced for a product or service and payment is made at a later date e.g. when a sports club or association hires a sports hall, they may be sent an account at the end of each month.

The facility's income can by improved by:

- Eliminating bad debts (i.e. those that are not paid)
- Receiving payment as soon as possible
- Generating as much money as possible in the form of cash sales or electronic (EFTPOS) sales.

Speed up payment by:

- Requiring a deposit on all facility hire
- Offer an incentive for early payment or add an 'accounting fee' if payments are more than 30 days late
- Receive membership payments on a four-weekly rather than monthly basis
- Using automatic payment (AP) or direct debits
- Offer credit card facility. Although a charge is levied against the facility, funds are received quickly.

Loans and leases

The main types of finance available to facilities are:

- Overdrafts on a cheque account
- Leases used to buy plant and equipment
- Medium term loans can be used to purchase some items of plant and equipment, and are often repaid over periods of between three and 10 years
- Long term loans are not as readily available as short or medium term finance and are mainly used for the purchase of land and buildings.

Grants and subsidies

Grants and subsidies are usually once only allocations for specific projects, including:

- Wage subsidies
- Training subsidies
- Programme grants (e.g. holiday programmes)
- Operating subsidies (e.g. from Council to a trust or committee of management, from the Ministry of Education towards Early Childhood Education services)
- Equipment.

Grants and subsidies are a valuable source of finance for new projects. Make sure that the grant is worth more than the time spent in applying for the funding.

Income

Control over income and other areas of the finance function is achieved by separation of duties. That is, separate people are responsible for collecting, receipting and banking of cash and reconciling the bank account. For smaller organisations, this is not always possible and controls will need to be adapted to suit circumstances.

Ideally, mail that is likely to contain payments should be opened in the presence of two people. Money and cheques received should be listed a permanent book and signed prior to being passed on for banking.

All income should be receipted either through the till or in a receipt book which includes a copy for retention by the facility. Where staff collect money out in the field, they should be issued with a receipt book and all correspondence regarding such activities should encourage people to request receipts. The finance function should account for all receipts and reconcile to the bankings.

An important control, particularly for smaller organisations unable to have separation of duties, is to have a good knowledge of expected income. Actual income can then be monitored against budget and variances investigated.

Cash sales procedures

Most sales in recreation, sport or leisure facilities are cash sales and large amounts of cash can accumulate. Strict procedures must be developed to ensure that all money can be accounted for.

BEWARE: Petty pilfering and theft regularly occurs when a large amount of cash is handled by many people.

Each recreation, sport or leisure facility must develop its own cash handling procedures, to suit its particular circumstances including using fully programmable cash registers to record all cash received. These cash registers record the number of sales per income category, thereby providing information on:

- The number of people using the centre
- Cash received for each income category.

Cash registers and eftpos can be directly linked to a computer based accounting programme, which provide fast and accurate information.

At the end of each shift:

- Reconcile the cash amount in the cash register with the cash register tape or electronic record. Records should be kept via the cashier system and on a daily cash register summary sheet. Count cash in a separate room away from public area
- Record the cash amounts against the individual income accounts on a daily summary sheet including any discrepancies between the cash and the cash register tape
- Give cash and daily summary sheet to supervisor for recounting
- Store the money in a safe on the premises, for banking the next day.

On a weekly basis compile the daily summary sheets into a weekly summary sheet. This provides a summary of all income received per income category on a daily basis, petty cash expenditures, and amounts banked. Depending upon the accounting system used and the resources available to the facility, it is usual to input data from the weekly summary sheet into the accounting system.

Ensure a staff member separate to the person who cashed up does a regular reconciliation.

Processes should protect the facility from staff theft and protect staff from speculation and accusation.

Credit sales procedures

Credit sales are made to regular customers, with an invoice raised and sent at the end of each month.

The key points to include in credit sales procedures are:

- Negotiate terms of payment with each customer prior to sending the invoice. Terms of payment and use details should be confirmed in writing prior to use. Require payment within, seven days and impose late payment penalties or accounting fees if another invoice has to be sent
- Send an invoice as soon as possible after the hiring, for example send all monthly accounts on the last day of each month.

- Keep a close check on creditors to make sure that accounts are paid promptly. Follow up slow payers to find out why they have not paid, and be wary of extending credit to these groups.

5.4 Managing expenditure

Timing is also an important factor in the disbursement of funds. A good cash management programme regulates payments by scheduling payments when it is best for the budget. Do this by placing all bills in a priority list, and take advantage of any credit terms or discounts for early payments.

The four main areas of expenditure are trade creditors, payroll, finance repayments and profit share.

Trade creditors	Credit is available from suppliers. Before purchase, negotiate with suppliers the best credit terms. Discounts offered for early payment e.g. a discount of 5% for seven days payment means if payment is received within seven days the account will be reduced by 5%.
Payroll	Salaries and wages are a major cost.
Finance repayments	All loans and leases must be repaid on or before the due date as penalty interest is incurred on late payments.
Profit share	The objective of commercial facilities is to return a profit on the money invested by the owner. The dividends are paid according to the number of shares owned by each shareholder.

Payroll procedures

Payroll should be computerised to help with financial management and record keeping.

It assists cash flow to pay staff on a fortnightly or monthly basis. It may therefore be easier to pay all staff, regardless of their terms of employment, at the same time.

Keep a record of each staff member's holiday and sickness leave entitlements by recording applications for all types of leave on a standard 'Application For Leave' form and entering into the computerised database. Information about managing staff including requirements of the Holidays Act and Employment Act are included in FMM Chapter 3: Human Resource.

5.5 Purchasing procedures

The vast majority of purchases will be done through preferred suppliers, with small purchases using petty cash.

Preferred suppliers	Some larger organisations have selected preferred suppliers and have their details loaded into their financial management systems. Larger projects will be allocated an order or purchaser number. When placing orders, clearly specify what is to be ordered, the quantity and cost and the order number. A record of the order should be retained and crosschecked with the invoice once the goods are received, before payment is approved. A record of payment, including date and method of payment used should be kept.
Petty cash	Petty cash can be used for minor expenses and can be up to $200. Ensure all receipts are retained, kept with the petty cash form and documented including the cost centre to which it is to be debited. To ensure good security, it is recommended that there is limited staff access to the float and petty cash.

Payment and cheque management

Wherever possible payments should be made by direct credit or cheque.

All payments must have prior approval of the appropriate budget holder and be linked to an order number. If this is not always possible, a full listing of payments made should be reported to management at regular intervals.

Cheques should require two signatories, one of which should not be connected with the financial administration function and could be a board member.

Blank cheques should be kept in a secure place and always left unsigned. In the rare circumstance where it proves necessary to pre-sign a blank cheque, risk can be minimised by crossing the cheque and writing along the top of the cheque, wording as follows: “Amount not to exceed $xx”.

It is important to ensure that the business name on invoices, statements and other demands for payment, matches the name of the organisation’s bank account otherwise the bank may not allow cheques to be deposited into the organisation’s account.

An important control is to ensure that the bank account is reconciled regularly (weekly or monthly) between the bank statements and the cashbook per the financial system. The reconciliation should then be reviewed and signed off by a different person, who should ensure that it is correct and complete and question outstanding items such as old unpresented cheques.

Documentation supporting payments should be cancelled with a ‘paid’ stamp, and the cheque number or transaction number written in. This is a precaution against the document being used more than once to support a request for payment.

6 Internal controls

The risk of fraud, error and waste exists in all organisations. It cannot be prevented 100% of the time but there are a number of steps that can be taken to reduce the risk. The most important of these steps is to create an operating environment which is conscious of management controls, and which conveys clearly to everyone that policies and procedures exist for the good of the organisation, and that adherence is expected.

Support for internal controls must come from the top. The following are some management control mechanisms to consider when designing operating and financial systems.

Area	Management control mechanisms
Delegation levels	The maximum levels up to which individuals or groups can commit expenditure. Expenditure where an individual could be seen as the sole beneficiary e.g. entertainment, should be subject to review and authorisation by a higher level of delegated authority.
Budgets and goals	Setting budgets and performance targets holds individuals accountable for their actions.
Financial feedback	Regular feedback of actual financial performance against budget. Using detailed transaction listings so individuals check that only legitimate expenditure has been charged against their budget.
Personal transactions	Personal transactions in the workplace should be strongly discouraged. If necessary they should be conducted in an open manner and in accordance with set policy.
Motor vehicle use	Policy covering motor vehicle use, whether owned by the organisation, private cars or hired cars. Consider insurance, running costs and availability.
Credit cards	Credit cards should only be issued to senior staff that need them. Place limits on each card to minimise potential liability. Use of the card should be for work only. Cash advances should be forbidden, and where possible this card function disabled.
Travel expenses	Travel should be preapproved where appropriate. Limits on the type, size and cost of airfares, accommodation and car hire.
Conflicts of interest	Policies and procedures should be created for dealing with actual and potential conflicts of interest at all levels of the organisation.

Area	Management control mechanisms
Fixed asset control	Keep a register of non-current (fixed) assets. Periodically crosscheck against the physical assets to ensure all assets can be accounted for. Further information is included in FMM Chapter 11: Asset Management.
Unusual transactions	Transactions that are out of the ordinary and/or likely to be controversial should be referred to a higher level of authority before proceeding with the approval process and decision documented.
Human resources	The rights and obligations of both employer and employee should be clearly stated in contracts of employment and/or the policy manual. Further information is included in FMM Chapter 3: Human Resources.

7 Monitoring Performance

7.1 Accounting principles

Accounting practice provides a means of explanation to others, and consistent information on which to base choices. The information from financial accounting is contained in four main financial reports:

- Statement of financial position
- Statement of financial performance
- Statement of cash flows
- Statement of movements in equity.

Since the information is for internal use, it can take any form that is useful to the organisation, and may involve collecting additional information that is useful in making business decisions.

To manage business effectively, managers need:

- An understanding of the basic accounting processes
- Knowledge of the accounting records in their own business
- Training in using accounting information as an effective management tool.

The production of regular information throughout the year is of prime importance to managers. This information should include details of income, expenses, assets, liabilities and key indicators of the business performance. It should cover the most recent accounting period (normally the previous month) and include figures for year to date, comparison to budget and may also include a comparison with previous-year figures.

To set up the accounting records to provide the required information, managers should ensure that:

- **Requirements are clear** and staff are informed about suitable accounting systems
- **Standard monthly procedures** are established, such as preparing a series of standard monthly entries so that proper accrual, depreciation and other accounting adjustments are dealt with regularly
- Staff are set an **adequate framework of accounting processes**, including setting deadlines for monthly routines and having controlled procedures so that all transactions are up to date and entered into the system correctly
- **Effective checking procedures** are installed, including information reviews to give assurance that the figures are reliable (completing bank reconciliation, reconciling or agreeing debtors or subscription ledgers).

Budgets and financial information should be structured in a way that enables information and reports to be extracted to assess true total costs, revenue patterns and general facility performance. As with any data, the quality and accuracy of information is paramount, and recording the correct level of detail to meet facility financial information needs to match the usage information collected.

Defining and more importantly implementing best practice becomes more challenging when it is tempered with commercial reality. The amount of resource put in to the HR systems, risk management, asset management, customer care

programmes, community consultation activity, facility programming all needs to link to the financial impact/benefit.

Consider those parts of the facility operation that are critical regardless of cost. These might relate to customer services, supervision standards or risk management.

Carefully consider the level of service in relation to the level of investment required to achieve the facility's financial, community and asset management objectives. There is no standard model of best practice because recreation, sport and leisure facilities exist in a social, political and commercial context that is unique.

Performance indicators

Financial statements are prepared on a monthly basis, but income and expenditure should be reviewed on a weekly basis otherwise problems can develop and be undetected for a significant time.

Identify a series of key indicators which provide insight into the viability of the centre on a day to day basis, review them each week and compare them against the corresponding week in previous years (refer to Section 2.2, Key financial indicators). Examples of key indicators are cash banked each day and week, total weekly wage bill or weekly energy usage.

Stocktaking

Sport, leisure and recreation facilities have a range of stock types covering food and drinks, clothing, equipment for sale and cleaning supplies.

Undertake an inventory of stock on a regular basis to:

- Check the value of goods in the facility e.g. consumables, like stationery, shop merchandise
- Calculate the profit and loss on goods for resale
- Identify goods that are or aren't selling well.

A stocktake is a time consuming task and therefore can be done on a quarterly basis for resalable items and annually for all items.

With all forms of inventory it is important to: make sure that levels are not too high as this represents valuable capital, adjust cost prices in line with increases, and separate inventory into categories according to profit centres e.g. food lines, drinks, confectionery, clothing, equipment for sale, equipment for hire, cleaning chemicals and material. The use of a computer programme to calculate the inventory levels will automatically calculate total values and save valuable time.

8 Interpretation of Financial Information

Techniques available to assist in the interpretation of financial information include:

- Variance analysis: identifies and explains the difference between actual and budgeted performance
- Comparative analysis: compares performance with previous years and against similar facilities
- Ratio analysis: ensures the analysis is relative to the size of the facility.

8.1 Variance analysis

For 'good' financial management it is important that reporting and the required feedback on performance occurs on a regular and timely basis. Reports should be set up to highlight actual results, budgeted results and the difference between them. Management should then analyse the reports and explain the items that have significant variances or deviations from the budget.

Having defined the difference between actual and budgeted performance, the reasons for significant variations should be identified and isolated.

By concentrating attention on the areas of significant variation, management can isolate where the organisation's goals are not being met. This is called **exception reporting**. To be most effective, management needs to regularly receive and review comprehensive reports for their area of control.

Variances can be calculated in two different forms: as a percentage of the budget or as a dollar amount. Meaningful reports show both dollar and percentage variances.

Analysing variances

It is useful to look at both the percentage variance and dollar value of the variance as a small percentage variance in a large expenditure item can mean a significant impact on the overall performance of the facility.

Example: Variance analysis

	Actual ($)	Budget ($)	Variances ($)	Variances (%)
Stationery	400	300	(100)	33%
Salaries	62,500	60,000	(2,500)	4%

Stationery has a variance of 33% against budget; this however has a dollar value of only $100. Salaries however have only a 4% variance against budget, but represent a budget blow out of $2500 – significant for many organisations.

It is useful for organisations to set guidelines like "we will investigate and report on all variances that are plus or minus 10% or over (say) $1000". This ensures that all variances which have a significant impact on the net expenses are investigated.

Permanent or timing variances

In analysing variances it is useful to ascertain whether the variances are:

- Permanent – the rent was budgeted to be $250 per month and the lease has been renegotiated and the new rent is $300 per month
- Timing – $10,000 income was budgeted from a training camp in August and the dates were changed to November.

With regard to permanent variances, there is usually very little that can be done about the figure as facilities are often locked into this expenditure. Therefore, there will be a permanent variance until there is a formal re-budget or the start of a new financial year.

With regard to timing variances, these occur because the actual income and expenditure has happened at a different time to that established in the budget. This will hopefully correct itself over time. The budget was phased incorrectly.

'Good' and 'bad' variances

Variances provide information to management on how expected performance differs from actual performance. Variances are valuable for management decision making as they highlight:

- Changing conditions
- Inappropriate policies
- Areas of potential inefficiencies or areas of great efficiency
- Other problems for which there may be no immediate explanation.

It is important to investigate all variances. Favourable or good variances may indicate areas of increased efficiency or effectiveness that could be adapted to other areas of the organisation. Investigation of unfavourable or bad variances explores problem areas and may reveal errors. Managers should ensure that all significant variances are investigated as they contain information which is useful for the future operation of the facility and organisation.

8.2 Comparative analysis

Financial statements should be compared with the figures for previous years and with financial statements of other facilities. Integration of financial statements involves quantitative and qualitative techniques. The quantitative approaches will include financial ratios and they can help evaluate a facility's profitability and financial strength and determine its ability to meet financial obligations.

They can analyse performance allowing trends to be identified which will assist management in planning future operations and may be of use in assessing the reasonableness of projected financial statements.

A comparison of ratios with those of competitors may indicate differences which, if addressed, will increase efficiency. Yardstick uses compartive analysis by comparing year on year across similar facilities.

Various methods of analysis or interpretation of accounts are used.

- Horizontal analysis allows trends to be calculated over time

- Vertical analysis provides comparisons with other items in the same or different timeframes, using ratios and percentages.

Surplus/deficit

A surplus means the facility has operated within its income. A deficit in any one particular year may not be bad provided it was planned and there are sufficient reserves to cover it. A series of deficits would be something to worry about because the facility will be running down its reserves, borrowing or both.

Dependency

Breaking down the facility's income into the major sources and comparing over several years is a good gauge of the facility's dependency on the various sources of income. The ratio of external funds (grants and sponsorship) to internal funds (membership fees) can be used as a measure of the facility's ability to leverage membership into a larger income base.

Expenses

Expenses can be analysed over the years, with undesirable trends picked up, and corrective action taken.

8.3 Ratio analysis

Ratio analysis allows comparisons to be made in a relative sense so that the effects of different sized facilities, or profit centres within a facility, can be eliminated. Ratios are useful in measuring performance as they are useful for setting goals and objectives. Within the recreation, sport and leisure industry no large scale analysis of operating costs has been undertaken therefore ratios must be developed and used cautiously. Some ratios have ben used as KPIs in section 2.2.

Before looking at the ratios there are some cautionary points concerning their use:

- Actual financial statements being analysed should be current and up to date
- Consider the dates of the financial statements
- The accounts being compared should have been prepared on the same basis
- A group of ratios should be used and the ratios used preferably compare at least three years of information.

When using financial ratios the following should be remembered:

- Financial ratios seldom provide answers but they do help to ask the right questions
- There is no national standard for financial ratios
- Be selective in the choice of ratios. Different ratios often tell similar things
- Find a benchmark for assessing the facility's financial position. It is usual to compare financial ratios with ratios from earlier years and with the ratios of other organisations in the same or similar business.

Efficiency ratios

Another set of ratios looks at the use of facility money and resources in relation to the facility goals.

Ratio	Formula	Description
Gross profit margin	Gross profit / sales = X%	Calculate the mark-up on the cost of goods or services sold.
Costs as a percentage of sales	Costs / sales = X% General and administrative costs = X% of sales Finance costs = X% of sales	The proportion of sales that is spend on various categories.
Net surplus (loss)	Total income – total expenditure = net surplus	Money available to carry over. Deficit that will need to come from reserves. The profit or loss made.
Funding streams	Largest funder / total income = X%	Dependence on a primary income stream can cause issues if this falls or stops. A balanced income/fundraising plan brings in income from users, services, donations, sponsorship, business partnerships, government and philanthropic grants, and special events. Work out the proportion of income from each source, that which is more controllable and the income that is at risk of change.
Overheads to cost of service	Overheads / direct services cost = X : 1	Costs associated with running the facility and its services. Work out the ideal ratio of overheads to actual ‘service’. Establish a benchmark for the facility over time. Track change and improvements in the ratio.
Wages as a percentage of expenses	Wages / total expenses = X%	Track relative cost of wages against total expenses to obtain insight into the proportion of wage costs.

Productivity ratios

The focus of these ratios is on productivity, and these can be useful for managers.

Ratio	Formula	Description
Income per unit of output	Income / user = $ income per user	The cost of providing a particular service per user.
Overhead per unit of output	Overhead / user = $overhead per user	The cost of overheads per user of a particular service or facility.
Employee costs	Staff costs / income = X% Staff costs / number of FTEs = $ cost of staff member.	Total budget spent on staff (employee costs to income). Average (full-time-equivalent, or FTE) staff member cost.
Profit centre contributions to revenue	Kiosk gross profit is X% of revenue Swimming pool generates X% of revenue Sports hall generates X% of revenue Health and fitness studio generates X% of revenue.	Income categories as a percentage of revenue indicate the relative importance of various profit centres within the facility.

Variance ratios

Ratio	Formula	Description
Percentage variance	(actual – budget) / budget x 100 (1000 – 800) / 800 x 100 = 25%	X % Variance % = 25% over budget
Dollar variance	$ actual – $ budget = $ $1000 - $800 = $200	$200 over budget
Quantity variance		There are five staff employed, not four as per budget.

Financial performance and position ratios

Ratio	Formula	Description
Liquidity	Current assets - current liabilities = net working capital	$X
Activity	Number of sales (patrons) against the value of the asset	N/$
Profitability	Return on investment = net surplus/value of the asset	X%

8.4 Audit

Role of the auditors

The appointment of internal auditors is discretionary. They are employed by the Council, Board or executive management and report on a day to day basis to management. Their function is to:

- Review and appraise the facility's internal controls
- Focus on risk, loss or inefficiencies
- Assist external auditors where required, normally at peak audit activity to reduce the overall cost of the annual audit
- Provide independent and objective reports to the board and management on the facility's activities.

External auditors are appointed by the members to review the statutory accounts. This review is to enable the auditors to comment on the truth and fairness of the results and financial position reported in the accounts. Their role is to:

- Ensure the Statement of Financial Position, Statement of Financial Performance, Statement of Cash Flows and Statement of Movements in Equity represents a true and fair view, that they do not mislead the reader or give a false picture of the facility
- Make sure procedures are in place that will ensure transactions are recorded correctly, including the review of accounts and reconciliations.

The audit report

Councils (as public sector agencies) and the constitution of most non-profit organisations and/or the Charities Act will require the annual accounts to be independently audited and minuted as having been presented and accepted at a general meeting. Audited accounts are usually one of the pre-requisites for public funding.

It is not the job of the auditor to uncover fraud, but the auditing process by its very nature is likely to uncover fraud if it exists. It is a good idea to have an engagement letter setting out the scope of the audit, the responsibilities of the auditor and the responsibilities of the organisations governing body and management.

All audits should be carried out in accordance with auditing standards and guidelines set down by the External Reporting Board and Chartered Accountants Australia and New Zealand. These guidelines require the auditor to issue either an **'unqualified opinion**' or a '**qualified opinion**', the latter of which must detail the exceptions leading to the qualification. The fact that a set of accounts have been audited and an audit report is attached, is not a guarantee that all is well. It is important that members of the governing body and its members, actually read the audit opinion and question the implications of any qualifications.

For smaller organisations, a common but acceptable qualification is in respect to control over income, and generally goes as follows:

"In common with other organisations of a similar nature, control over income prior to its being recorded is limited and there are no practical audit procedures to determine the effect of this limited control."

Monitoring of cash flows

The monitoring of cash flows enables problems or opportunities to be forecast as they occur. Monitoring cash flows is one of the most important management tasks undertaken in organisations today and the updated cash flow forecast should be tabled at every board meeting.

It is vital that prior to any expenditure being incurred, that they know that there are sufficient funds available to meet these accounts when they are due for payment.

Check financial statements

While the management accounts are 'hot off the press', compare the actual against the budget item by item. If a variation occurs, immediately find out the reason why. If an explanation is not obvious it may be necessary to undertake further research and analysis.

9 Financial Reporting

Stakeholders want to be kept informed of how their investment or that of the community is being looked after. The formal reporting is usually by way of the annual report that would contain the following audited financial statements:

- Statement of financial performance
- Statement of financial position
- Statement of cash flow
- Statement of movements in equity.

As well as annual reporting the Board or senior management need to receive monthly management reports using the same information and other non-financial or statistical information so they can take appropriate action.

Sport NZ has resources available on its website which can assist with monthly financial reporting.

Further information

http://www.sportnz.org.nz/managing-sport/tools-and-resources/board-reporting-tool

9.1 Reporting

To ensure the faciltiy is making satisfactory progress as intended in the annual plan and the budget, performance monitoring and reporting is essential. To be useful, progress reports (management reports) must be timely, reliable and meaningful. Increasingly they're presented as a 'dashboard' of indicators that managers can read and respond to easily and quickly.

Timeliness

Management reports should be produced at regular intervals and as soon as possible after the event. For most facility's the reporting interval will be monthly and appropriate reports should be prepared within 5 days if possible.

Reliable

The information contained within management reports should be accurate and factual, and presented in a simple understandable format that may include graphs and diagrams. The dollars should have been coded to the correct account code category and charged against the correct budget line. Reasonable estimates can be used (accrual accounting), particularly when time is important. Estimates or subjective comments should be clearly stated as such whenever used.

Meaningful

Management reports must serve a purpose and assist management decision making. The concept of 'management by exception' should be practiced – highlight important variances.

Monitoring monetary targets	Quarterly reporting of actual expenditure against budget Indicate the adequacy of the budget estimates Assess variances between actual and budget will be assessed Consolidated statement of financial performance showing actual versus budget, including both current month and

year to date figures.

Monitoring performance targets	Performance against agreed output targets, (qualitative and quantitative), monitored monthly.
Monitoring the statement of financial position	Monitor and manage the statement of financial position to ensure that it can continue to operate as a going concern. There may be personal liability implications for senior management and board members who let an insolvent organisation continue operating and incurring debt. The statement of financial position should be reported to the Board monthly. Someone should be responsible for debtors and creditors. A member of the management team should regularly review a listing of these to ensure they are at a manageable level, and outstanding amounts followed up. Where relevant, stock needs to be monitored to ensure they are at appropriate levels.

9.2 Statement of financial performance

The statement of financial performance summarises the facility's financial operation over the specified period of time: month, year to date and annual. It consists of three major sections detailing sources of income, how it has expended its financial resources, and whether there is a surplus or a deficit for the period.

9.3 Statement of financial position

Commonly known as the balance sheet, this statement is a snapshot of the facility's assets (what the facility owns) and liabilities (what the facility owes) at a particular point in time.

Where assets exceed liabilities the facility is said to have reserves (accumulated funds). Where liabilities exceed assets the facility is said to be technically insolvent.

Assets = Liabilities + Equity

Assets consist of current and non-current assets, investments and intangibles. Non-current assets are tangible items owned by the facility that are not for sale, such as: land, buildings, furniture, fixtures, equipment, motor vehicles and plant.

Working capital

This is the lifeblood of a facility. To calculate working capital:

Working capital = current assets – current liabilities

Positive working capital enables smooth running of a facility because there are enough current assets to meet outgoings. Negative working capital indicates additional financing may be required and can have serious ramifications for Board members, trustees and management. Details about this are outlined in the section on ratio analysis.

9.4 Statement of cash flow

The statement of cash flow is prepared using information from three areas. The main objective is to highlight the operating, investing and financing activities during a period in cash terms (what came in and what went out).

Better management decisions should result because the links and fund flows can be more easily seen by management. Funds are all resources (cash or cash equivalents) which pass between the facility and some outside accounting entity. The statement of cash flow is split into the following areas:

Statement of cash flow	
Operating activities	Sources of funds are: grants, charges for products and services. These funds are disbursed mainly to pay for the supply of services for the same outputs, and to pay the day-to-day costs of running the facility.
Investing activities	Cash provided from: sale of fixed assets, term deposits maturing, investment or asset sales. The cash outflow in this area is applied to the purchase of new fixed assets or term deposits and investments.
Financing activities	In the not for profit sector this area has few entries; relating primarily to capital contributions from or repayments to the Crown or short-term debt settlements. Borrowing or repayment of a loan to develop facilities would be included in this area.
Statement summary	Each of the above activities has a net contribution to the total cash flow of the facility. When the total of these three are added to the cash at the beginning of the period then the closing balance is calculated. This figure can be found on the statement of financial position as a current asset.

Note: Some smaller not-for-profit organisations will take advantage of the exemption under the framework for differential reporting, and not produce this report for publication.

9.5 Statement of movements in equity

This statement is the link between the statement of financial performance and the statement of financial position. It shows how the surplus or deficit for the period has affected stakeholder's equity (accumulated funds). The statement details the changes in reserves not disclosed elsewhere.

9.6 Accounting policies and notes to the accounts

As part of a published set of annual accounts a statement like the following will appear:

"The attached statement of accounting policies and notes to these financial statements should be read in conjunction with and form an integral part of the accounts."

These are split into two sections:

- Statement of accounting policies
- Specific numbered notes to the accounts.

Reading of the notes in conjunction with any annual report is critical as it is often within these notes that you pick up vital information about performance not apparent in the very summarised financial statements.

9.7 Analysis and interpretation of accounts

A set of financial statements has true value when it is appropriately analysed and interpreted. Ratio analysis is covered in detail elsewhere however the following table provides some option for action.

Ratio analysis	Ratio rising	Ratio falling
Income / expenditure	Did the facility make or lose money over the year? Did it make more than last year? You should be becoming more efficient at what you do.	If the facility is making less money than last year then either times are getting tougher or your getting slacker, or both. Enquiring minds want to know.
Largest funder / total income	If a single funder makes up a large part of the total income, you're vulnerable and if they are becoming ever more important, you need to look around for new sources of funds.	If funding is made up of a number of different streams, you're partially insured against a reduction in any one area.
Income / unit of output	Are you managing to get more out of your money or are you working harder to stay in the same place? What's the marginal cost of your next client?	Greater efficiency is the equivalent of free money. That's one donation you don't have to hustle for, or one grant you don't have to get.
Overhead / unit of output	It's often been pointed out that administration costs have a tendency to creep up. It's your job to keep this under control.	If you're actually managing to keep administrative costs down, good. Remember that there are limits; new developments may require large up-front costs.
Annual income / total assets	If income is rising and assets are staying the same, financial productivity is going up and you're able to do more with what you have.	Even if financial productivity is falling this may be because it's necessary to assemble the resources that are needed to lift productivity in other areas.

10 FAQs

Q: Financial management is not my strength and initially I will need to rely heavily on advisors. Who might I use and what should I focus on?

A: If you are a Council owned facility, you will have access to internal financial expertise and systems. If you are a private company or community owned, you will probably have a combination of financial expertise that you can draw on from your Board, your staff and external contractors. Focus your attention and questions on the following areas:

- Cost control – where is money being spent and what are the options for further efficiencies? Energy and staff are likely to be your biggest expenses, so this is a good place to focus.
- Return on Investment – where are key resources being invested (people, time, money, equipment). Are they giving the best return on investment? See the chapter headings on Efficiency, Productivity and Variance Ratios for more on this.
- Financial performance measures – what are the financial goals of each part of the operation? Are they appropriate and are they being met? If not, why not?
- Risk – what processes are in place to protect the organisation from such things as loss, fraud, error, market place competition, changes in the economy or over-investment in one area.

Q: My facility budget is unrealistic in the current environment, and our price-setting policies are not helping us. What should I do?

A: There are a range of different policies and price setting models to choose from. Find out what models and assumptions underlie your organisation's policies. If you feel your current policies are not helping your facility, you can prepare yourself for re-negotiating these by:

- *Checking whether the underlying assumptions in the policies are relevant to your facility. The six steps to budgeting may help with this.*
- *Checking what your organisation's policy is on cost recovery for different parts of the operation i.e. profit, break-even or loss leader. Are they appropriate? If not, why not?*

Q: I've always just operated by bottom-line accounting – so long as it all squares up in the end, she'll be right won't she?

A: Sure – you want your bottom line to come out well. The best way to do that is to understand your financial performance across the business and within each cost centre. If you want/need one area to subsidise another, then you will need to know exactly what the consequences are for both areas before you commit.

11 Glossary

Key terms	Explanation
Accounting period	The span of time covered by a statement of financial performance.
Accountability	A relationship between two parties in which one party grants to the other some level of authority to act in order to deliver the agreed set of goods and services. Preconditions for accountability include: • Clear specification of the performance which is expected • Command over the resources necessary to achieve the desired performance • Access to rewards and sanctions which provide the incentives to achieve the desired results • Information to monitor the performance.
Accounts payable (creditors)	A current liability, which usually results from the purchase of goods or services on credit rather than by paying cash. Amounts owed to outside parties.
Accounts receivable (debtors)	A current asset, which is money owed, normally as a result of the sale of goods or services on credit rather than for cash.
Assets	What an organisation owns, for example: buildings, office equipment and the right to collect money owed by debtors.
Audit	A systematic examination of financial statements usually by an independent chartered accountant, with the objective of expressing an opinion on the truth and fairness with which the statements present the financial position and results of operations.
Bad debts	Uncollectable accounts receivable. These are losses, which should be written off, showing a reduction of current assets and as an expense.
Balance sheet	See statement of financial position.
Break even	Where revenues for a period equal expenses.
Budget	A budget expresses the goals and objectives of an organisation or part of an organisation in terms of the financial resources required to achieve the required results. It is part of the annual plan.
Capital costs	The investment in non-current or fixed assets.
Capital expenditure	Expenditure which is expected to benefit a future period, and which is carried forward as an asset at the end of the period.

Key terms	Explanation
Cash book	A combination of a cash payments journal and cash receipts journal in which a running balance of the amount of cash at the bank is recorded.
Cash flow forecast	An estimate of all the money that is expected to come in and go out during a period. No distinction is made between capital and operating costs.
Cost centre	A unit of activity or an area of responsibility within an organisation for which costs are accumulated.
Creditor	A person or firm who is owed money.
Current assets	Assets that can be quickly turned into cash (cash, debtors, stock).
Current liabilities	Obligations for which cash is expected to be paid within one year.
Debtor	A person or firm who owes money.
Depreciation	The allocation of the cost of a non-current asset to the periods in which services are received from the asset. The likely salvage or residual value of the asset is deducted from the purchase price and the remaining cost is allocated over the lifetime of the asset. Depreciation is entered as an expense in the statement of financial performance, and deducted from the value of an asset as recorded in the statement of financial position. The two most common methods of depreciation are: Straight line – the same charge each year Diminishing balance – a percentage is taken off the opening cost of the asset to give the first year's charge. The same percentage is then taken off the reduced balance, the book value. In the third year, the percentage is taken off the remaining book value.
Equity	Shareholders' funds Share capital and reserves Owners' equity Total shareholders' funds and liabilities
Financial accounting	A subset of accounting which specialises in preparing and presenting published financial results which conform to standards set by Chartered Accountants New Zealand and Australia.
Fixed costs	Expenses, which cannot by easily varied in line with reductions in income (e.g. a long- term lease for office space).
Income and	See statement of financial performance.

Key terms	Explanation
expense statement	
Ledger	A systematic collection of individual accounts into which entries are posted. When brought together, they form the general ledger.
Liabilities	What an organisation or individual owes. Current liabilities are those owed within one year (e.g. payments for goods purchased). Non-current liabilities are those due for repayment in more than one year (e.g. bank loans, mortgages).
Management accounting	A subset of accounting, which has as its primary aim the reporting to management of information needed for decision-making, planning and control.
Management reports	Monthly financial statements reporting against the annual plan and budget.
Net deficit	Net loss
Net surplus	Net profit
Non-current assets	Fixed assets Term assets Fixed and long-term assets
Non-current liabilities	Term liabilities Long-term liabilities Term borrowings
Operating costs	Inputs that are needed to run the organisation on a day-by-day basis and which are consumed within one year.
Overhead	Those costs related to the operation of the organisation but which cannot be directly related to the service provided or product sold (e.g. rent, building insurance).
Prepayment	These are expenses related to future periods and have been paid in advance (e.g. rent in advance, annual subscription, annual insurance).
Profits and loss	The income produced after paying all direct and overhead expenses. It can be divided into surplus before tax and surplus after tax. Retained profits are held back instead of being paid out as dividends. Retained profits are a major source of funds for future investment.
Provisions	Money aside for expected payments (e.g. tax due, depreciation, doubtful debts).

Key terms	Explanation
Qualified audit report	An auditor's report, which expresses reservations or disagreement on matters of concern to the auditor.
Ratio analysis	A technique used to calculate key performance indicators based on figures from the statement of financial performance and statement of financial position.
Reconciliation	The matching of individual transactions recorded in different source documents to determine completeness, accuracy and/or the balance carried forward.
Reserve	A portion of accumulated funds not available for distribution.
Solvency	The ability to pay one's debt organisations as they fall due.
Statement of financial performance	Shows the activity carried out by the organisation during a particular period. Profit or loss statement Earnings statement Income and expenditure statement Revenue statement Statement of income
Statement of financial position (balance sheet)	Also known as the balance sheet, this is a financial 'snapshot' of an organisation at a point in time. It shows what the organisation owns (assets) and what it owes to other parties (liabilities) and the equity or accumulated funds.
Statement of movements in equity	Profit and loss appropriation account Appropriation account Statement of related earnings
Variable costs	These are costs, which respond proportionately to changes in the volume of activity. Not all variable costs are direct costs – they may also be overheads, which are affected by the volume of activity.
Variance	The difference between the actual and standard or planned inputs/income and outputs/expenditure.
Working capital	The dollar difference between total current assets and total current liabilities. Positive working capital enables smooth running of a facility because there are enough current assets to meet outgoings. Negative working capital indicates additional financing may be required.

12 Questions for Educational Context

Financial management overview

In the overview of financial management these four stages are noted: setting financial objectives including creating a budget, financial management, monitoring and reporting. Identify several reasons why creating and managing a budget is a crucial element of good financial planning.

Budget process

Six steps are identified in the budgeting process. What are they, and what action do they involve?

What are the main benefits to a business in conducting a cash flow forecast?

Internal controls

What are internal control mechanisms in relation to finances? Why should a business have effective internal control mechanisms and what can happen if they are not there, or are not working properly?

13 References and Further Information

13.1 Further information

Board Policy samples http://www.community.net.nz/resources/community-resource-kit/contents-of-the-community-resource-kit/#FinancialManagement

External Reporting Board: http://www.xrb.govt.nz/Site/Home/default.aspx

Financial Literacy for Community Groups: Guide for Community Board Members. http://www.westpac.com.au/docs/pdf/bb/guide_communityboard.pdf

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