

Chapter 1.4

The financial plan

Benefits of this chapter

Making sense of your finances

Finances are the lifeline of any sporting organisation. Without a general understanding of them, your federation will not be able to survive.

Good bookkeeping is essential not only from an internal point of view, but also from an external one. Being able to report your financial management keeps your leaders aware of your internal financial balances and maintains good relations when dealing with FINA and other external parties.

If you plan the financial aspects of your federation accurately, you will be able to track your day-to-day actions and implement a long-term development plan to ensure that revenues are accounted for and your federation can start to grow and just as importantly start to win.

This chapter will explain the basics of what your federation should know in order to function smoothly from a financial point of view. Keeping your financial records balanced can help you plan for your aquatics future.

Introduction

Good finances are the key to running a healthy federation. For this reason it is important that your federation has a basic understanding in financial management.

This section will give your federation the tools it needs to make informed decisions for the success of your future. Just like in a water-polo match or diving competition, a score is kept to determine a winner. In terms of your finances, you must also keep score. Being informed of your financial gains and losses is the only way to know if you are keeping up with the competition or competitors.

But before you start to compete, you must first learn the right techniques. Basic skills in financial management start with cash management and bookkeeping processes.

Accounting system

The goal of an accounting system is to ensure that financial data are properly recorded and that financial reports are easily accessible. An accounting system has two main parts – accounting records (check-books, journals, ledgers, etc.) and processes and procedures assigned to staff, volunteers, and/or outside professionals.

Components of your accounting system

Traditionally, the accounting system should include the following 4 components:

1/ Accounts and chart of accounts

Each transaction should be recorded and assigned to a category or account. Each account should be associated with a number of filing purposes.

A chart of accounts is a listing of all the accounts in your general ledger. It will tell you what account number should be used when entering a transaction. The accounting system of your aquatics federation can have its own chart system with different account numbers, as long as the system remains consistent within your organisation.

The chart usually has five areas:

- 1/ Assets accounts
- 2/ Liabilities accounts
- 3/ Equity accounts
- 4/ Revenues accounts
- 5/ Expenses accounts

The account numbers should depend on the particular kind of revenue and expenses you expect to have most frequently. (Please refer to the example in Annex A)

2/ Journals and subsidiary journals

Journals, also called the original point of entry, are used to systematically record all accounting transactions before they are entered into the general ledger. Journals organise information chronologically and by transaction type (receipts, disbursements, other). For example, you have ordered the warm-ups of your national swim team, the payment of this order must be recorded in your financial journal.

There are three primary journals:

- The Cash Disbursement Journal: a chronological record of checks that are written and categorised using the chart of accounts, i.e.: The purchase of the national team warm-ups.
- The Cash Receipts Journal: a chronological record of all deposits that are made, categorised using the chart of accounts, i.e.: Funding which you have acquired from your National Olympic Committee, FINA or Olympic Solidarity.
- The General Journal: a record of all transactions which do not pass through the check-book, including non-cash transactions (such as accrual entries and depreciation) and corrections to previous journal entries, i.e.: Depreciation of timing equipment used by your national teams.

As your aquatics federation matures and handles greater numbers of financial transactions, you may develop subsidiary journals to break out certain kinds of activities from the primary journals noted above.

The most common examples of subsidiary journals include:

- The Payroll Journal: records all payroll-related transactions. This may be useful as the number of payroll transactions within your federation grows and becomes too large to handle reasonably within the cash disbursements journal.
- The Accounts Payable Journal and Accounts Receivable Journal: tracks income and expense accruals. These are useful for grouping income and/or expense accruals which are too numerous to track effectively through the general journal. Some accounting packages require you to set up all bills as accounts payable and all revenue as accounts receivable, eliminating the cash disbursements and receipts journals altogether. This may be a suitable way to keep your federations debit and credit accounts in check as you expand and become more successful.

The process of transferring information from the journals to the general ledger is called posting.

3/ General ledgers

The general ledger organises information by account and usually includes accounts for items such as current assets, fixed assets, liabilities, revenues, expenses, etc. The general ledger is divided into two columns – left and right. The left hand lists all debit transactions such as purchasing equipment for your national teams, and the right-hand side lists all credit transactions such as receiving funds from your governmental partners. The chart of accounts acts as the table of contents to the general ledger.

In a manual system, summary totals from all of the journals are entered into the general ledger each month, which maintains a year-to-date balance for each account.

In a computerised system, data is typically entered into the system only once. Once the entry has been approved by the user, the software includes the information in all reports in which the relevant account number appears. Many software packages allow the user to produce a general ledger which shows each transaction included in the balance of each account.

4/ Check-book

In very small federations (with few deposits and disbursements), the check-book may serve as a combined ledger and journal. Most financial transactions will pass through the check-book, where receipts are deposited and from which disbursements are made. Smaller federations find it easier to keep track of financial activity by running all of their financial transactions through a single checking account.

If you find that your aquatics federation has limited accounting expertise, you may choose to outsource your bookkeeping activity.

Budget

A budget is an estimate of income and expenditure, usually for the coming year.

Before writing a budget, it is important to clarify the goals and objectives of your federation (or refer back to them). This planning process will help to focus the proposed expenditures on items which have been identified as being high priority.

Budget amounts are usually divided into major categories, for example:

- Fix costs (rent, electricity, etc)
- Costs of recurring activities (meetings, training, competitions, etc.)
- Costs of various programmes (coaches, referees, etc.)
- Office supplies
- Salaries, benefits

In addition, you need to consider the likely sources of income for the year and to develop a realistic plan for obtaining this money. Compare the possible revenue with your projected costs. Be careful not to overestimate the income and underestimate your spending. If you can raise more money than you propose to spend, think about how you might make extra expenditures. For guidance, you should refer back to the priorities you stated in your strategic plan.

It is good to continuously compare your planned aquatics revenues and expenses to your actual revenues and expenses. This will give you a clear view of whether your goals and objectives are being met or not.

Financial Statements

Financial statements are a tool which can be used to see how your federation is doing. These statements are produced using the information gathered in the bookkeeping. This part will be used by federations which have a lot of accounting transactions.

Financial statements are composed of three primary documents:

- 1/ Balance sheet
- 2/ Income statement
- 3/ Cash flow statement

Yearly financial statement must be part of your annual federation report.

Balance sheet: states your financial position

The balance sheet follows this equation: $\text{Assets} = \text{Liabilities} + \text{Capital}$.

This equation should always hold true. If assets do not equal liabilities plus capital the books are said to be “out of balance.” Be sure to note that the balance sheet is prepared for a specific date. Generally the balance sheet is prepared at the end of the year (December 31st).

1/ Assets

The assets are property that represents a value. Buildings, cash, furniture, accounts receivable, land and equipment are a few of the most common assets and certainly one of the most recognisable of the accounting basics.

2/ Liabilities

They represent the obligations of the business, or money owed. The most common liabilities are accounts payable, the bills owed to your suppliers. You may have loans, notes payable, taxes payable, etc. All are obligations.

The income statement: indicates your profits & losses

This document shows all the membership fees (plus eventually miscellaneous revenues) and the expenses incurred by your federation. Therefore it will report the income (or the loss) of your federation. Be sure to note that the income statement is prepared for a specific period of time such as a month, a quarter or a year).

Cash flow statement: keeps you in control of cash inflow

This document shows the sources and uses of cash for the accounting period. In other words, this is the net of cash receipts and cash disbursements during a specified accounting period. Always keep in mind the concept of cash flow, this will ensure that you will keep only enough money in the current account to meet your aquatics needs.

Everyone knows that if a federation has more expenses than income, sooner or later it will find itself in trouble. However, even if income matches or exceeds expenses in a given year, the cash from the income may not arrive in time to pay the bills as they are due. A cash shortage can be very disruptive to a federation. To avoid disruptions or to take advantage of temporary cash surpluses, cash flow can and should be projected, monitored and controlled.

Cash Surplus

A maximum amount of money should be kept in your deposit or savings accounts. Only the money needed to cover expenses should be transferred to a checking account. If surplus money remains in a savings account it is able to earn interest, which would not be possible in a checking account. Furthermore, you can usually make arrangements with your bank to have 7 days, 1 month, 3 months or 12 months deposits, short-term investment certificates or treasury bills. The longer you keep your deposit, the more interest your federation can earn.

Be careful: you should always keep enough cash on hand to cover expenses and as an added cushion for security. However, it is unwise to keep more money on hand than necessary. That is why the concept of cash flow is complex. The main difficulty which federations face these days is to develop a plan that will provide a well-balanced cash flow for all their aquatics needs.

What reports should be prepared and how often?

The answer will depend on several factors, including the extent to which the organisation is financially stable, the degree and extent to which the financial picture changes during the period, the availability of cash to meet financial obligations, the availability of staff or other professionals to prepare reports, etc. A mid-sized federation in reasonably good financial shape might consider the following schedule of reports:

Monthly Reports

- Balance Sheet (Statement of Position)
- What is your financial health? Can your federation pay its bills?
- Income and Expense Statement showing budget to actual information
How does actual financial experience compare with the budget?
- Narrative report including financial highlights, analysis or other means of managing cash flow

Quarterly Reports

- Cash flow projections for the next six months,
Do you anticipate a cash surplus or shortage?
- Payroll tax reports
- Have payroll tax reports been submitted on time?
- If not, what action is appropriate?

Annual Reports

- Financial statements for the year: balance sheet, income statement.
- Focus: What was your financial performance over the past year?
In what ways and for what reasons was performance different from the budget? What financial implications must be taken into account when planning the upcoming year?
- Audited financial statements (if applicable)

There are certain practices that your federation should follow to ensure that financial transactions are consistently recorded in an accurate manner.

Maintaining the integrity of your accounting system

In a manual system, all balances from the general ledger are established on a monthly basis to make sure that debit balances equal credit balances. Once debits equal credits, financial statements can be prepared using trial balance amounts. Computerised accounting systems almost always produce a trial balance as a built-in report. Many software packages will not allow you to post an entry to the general ledger until the debit and credit balances are equal.

Segregation of duties within your federation

Segregation of duties means that no financial transaction is handled by only one person from beginning to end. For cash disbursements, this might mean that different people authorise payments, sign checks, record payments in the books, and reconcile the bank statements. If your federation is small, managed by volunteers and possibly one staff person, this principle can be hard to put into practice. You might consider having one person, such as the paid staff member, sign checks and assign a different person, such as the board treasurer, to review disbursements, bank statements, and cancelled checks on a monthly basis.

Signatures

Disbursements of large amounts, for example USD 500.00, may require a secondary signature (from your federation's treasurer, for example)

Audit

Another form of financial control is an audit. An audit is a comprehensive analysis, by a professional from outside the federation, of your financial management procedures and activities. It is important that the auditors are independent from your federation. This will ensure that there is no conflict of interest. They will test the accuracy and completeness of the financial statements.

Helpful hints

Financial controls are extremely important. They will ensure that:

- The financial information from your federation is reliable, so that you can make good decisions for your future.
- Assets and records of your federation are not stolen, misused or accidentally destroyed
- Your federation's policies are followed
- Government regulations are met