

Managing Finance



Objectives

After reading this chapter, you should be able to do the following:

- Communicate the need for good financial management and integrate it into the governance system of your OSO.
- Inform the Board of its responsibilities in terms of the OSO's finances.
- Develop a financial plan in line with the strategy of the OSO.
- Prepare necessary budgets to achieve the financial plan.
- Put in place procedures for accounting for finances.
- Monitor and evaluate the success of the financial plan.
- Report the financial performance of the OSO accurately and transparently.



No matter how great the potential within an Olympic Sport Organisation (OSO), how well designed its internal structure or how good the athletes it produces, an OSO with poor financial management will experience problems at several levels. Finances are the lifeblood of an organisation. Simply put, if finances are out of control, so is the organisation.

This chapter is broken into five sections. The first section introduces the financial management cycle and outlines why OSOs need sound financial management. The second section outlines the financial planning process, and then the third section focuses on the key areas of budgeting. The fourth section looks at how you can account for your organisation's finances, followed by the final section, which considers the principles of evaluation and reporting. The chapter concludes with a case study that draws on the experiences of the Swiss Olympic Association in its need to develop a uniform financial reporting system for all of its affiliated sport associations.

SECTION 4.1

GOOD FINANCIAL MANAGEMENT

Financial management can be defined as monitoring and communicating an organisation's cash flow prudently and in accordance with the law. It requires both a broad strategy from a planning perspective and articulate implementation and recording. Financial management is the process by which an OSO conceives, budgets for, implements and reports its activities on a regular basis. Ideally, financial management should be a component of a strategic plan. Managing funds transparently, efficiently and effectively is essential to ensure continued income and growth for your OSO.

This section presents a number of factors that make up the financial management process. It begins by considering the roles and responsibilities of those involved in the finances of an OSO. It then presents the financial management cycle and defines key terms associated with finance. The section concludes with a discussion of the principles of financial management adopted by the Papua New Guinea Olympic Committee.

Roles and Responsibilities

All Board members and staff of an OSO are responsible for its financial management. From the boardroom to a team in the field, everyone has to be attentive to the ethical and accurate use of funds. Few people are more important in the process than the chair of the Board of Directors, treasurer or finance director, executive director, and team manager. Please note that the term "treasurer" will be used in this chapter to describe the person who is managerially responsible for finance in an OSO. This may not be the title you use, and in your OSO the treasurer may also have another role on the Board. The chair of the Board often sets the overall ethical and visionary tone of the organisation. In this regard the chair can affect the manner in which money is allocated. The executive director administers all financial activities in the office at an organisational level. The team manager helps ensure that spending in the field occurs in conformance with official policies. It is, however, the treasurer who has the greatest responsibility for financial management and whose actions in this area have the greatest effect on the organisation.

Treasurers play a crucial role in establishing realistic budgets and keeping them under control. The treasurer, who in many OSOs is an elected member of the Board, must be the principal contributor to the financial planning process and the architect of financial planning. The Queensland Government's Sport and Recreation Initiative (2006) describes the tasks of the treasurer as follows:

- Maintaining accounts and all financial transactions
- Assisting in the preparation of budgets
- Supervising income and expenditures, including acting as a signatory for all expenditures
- Preparing regular bank account reconciliation statements for presentation to the Board
- Preparing and presenting financial statements on a regular basis to Board meetings
- Recommending and managing investment strategies for surplus funds
- Handling payroll and income tax payments for employees, if applicable
- Preparing all necessary financial statements for inclusion in the annual report
- Ensuring that annual returns and audited financial statements are filed with the relevant government departments, if applicable

Although the Board and staff must work together to run an OSO effectively, it is the treasurer who will set the financial tone of the organisation regarding income and expenditure. A good treasurer will ensure that an OSO stays solvent, grow the organisation's assets and strike a healthy balance in the organisation's annual cash flow. Financial management is the responsibility of the entire organisation; however, ultimate responsibility lies in the hands of the treasurer and associated financial staff.

Financial Management Cycle

The financial management cycle can be divided at the macro level into four stages: planning, budgeting, implementation and accounting, and evaluation and reporting. The first two stages concern primarily the OSO Board and lead to the latter two stages, which concern the OSO's stakeholders. Figure 4.1 illustrates the four stages of the cycle, each driven by a commitment to the vision, mission and objectives of the organisation.

The successful execution of the first stage, planning, requires a holistic approach, one that is somewhat intangible but comprehensive in nature. It facilitates functionality, increases performance and is inextricably linked to other aspects of the OSO, such as mission, programming and governance. It is essential that your vision, mission and objectives are in place in order for any spending to occur, because these will show you where to place your funds.

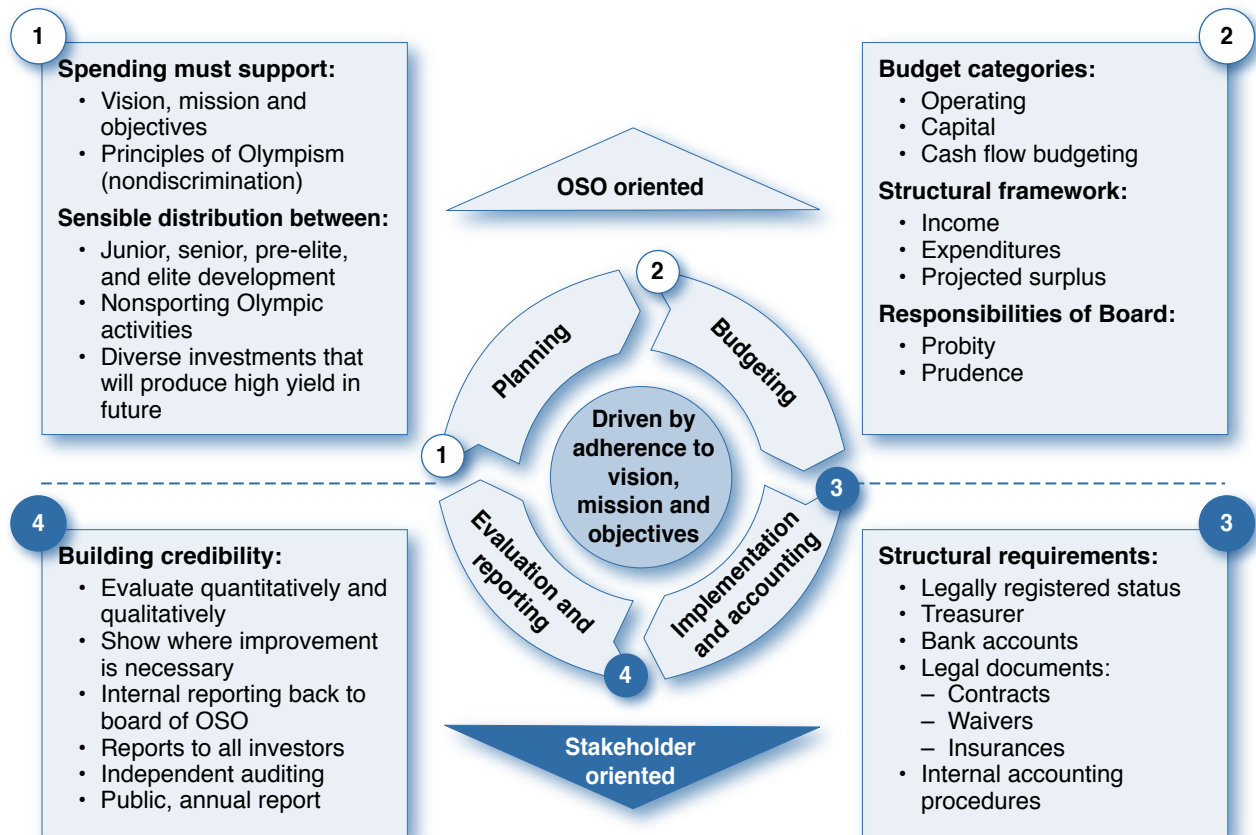


Figure 4.1 Four-stage financial management cycle.

If your organisation is experiencing problems, do not jump to the conclusion that the source of the problems is financial in nature. The financial problems may be symptomatic of more difficult governance or philosophical issues. However, because power is germane to money, good financial practices can help maintain good power structures and thus assist with the governance of the OSO. Therefore, do not try to fix problems by simply increasing expenditure; having a lot of money without a financial plan for its spending can empower problematic individuals or philosophies within your sport system.

How and when does an OSO strike a balance between what it wants to do and how it gets there? The answer lies in

- how the OSO decides to spend its money by developing a financial plan related to belief in its mission,
- how the organisation budgets and its ability to realize a concept financially through funding and implementation,
- how the OSO accounts for spending its money carefully by being accountable to stakeholders, and
- how the organisation evaluates and reports spending, which will reflect the integrity of its governance system.

Effectively managing these four stages will help increase the opportunities your organisation has to function and grow.

Key Definitions

Some of the following definitions will be obvious and well known to you. However, one of the main steps towards good financial management is to have clear understanding of what is being discussed when finances are being reviewed. It is therefore important to ensure that everyone with financial responsibility in an OSO understands the following terms.

- **Assets:** Something of value that the OSO owns or has the use of. These can be current assets, which are only owned for a short time, such as cash, or fixed or long-term assets, such as a building, which the OSO owns for a long time.
- **Liability:** Something owed to someone else; liabilities refer to the debts of the OSO. Again, these can be current liabilities, which must be paid within a fairly short time, such as the money owed to travel agencies, or long-term liabilities, such as the money owed to a bank for a mortgage on OSO headquarters.
- **Overheads:** Costs needed to run an OSO's daily operations. These are not service or project specific and include the cost of heating, electricity and rent.
- **Surplus:** An excess of income over expenditure.
- **Deficit:** An excess of expenditure over income.
- **Liquidity:** The amount of money you can access immediately to pay your debts.
- **Reserves:** The amount of unspent funds at any given point.
- **Balance sheet:** A list of all assets owned and liabilities owed by the OSO at a given date. It is a snapshot of the OSO's financial position at a particular point.
- **Profit and loss account:** A record of income generated and expenditure incurred over a given period. This account shows whether your OSO has a surplus or a deficit.
- **Capital expenditure:** Expenditure that results in the acquisition of fixed assets, such as a building. It can also be expenditure on an improvement in the earning capacity of a fixed asset, such as an extension to a building that can be hired out.
- **Revenue expenditure:** Expenditure incurred on the operations of the OSO or on maintaining the earning capacity of fixed assets, such as maintenance on a building that is hired out.



Photo courtesy of the Comité Olímpico Paraguayo.

An organisation's building is considered one of its assets. Pictured here is the headquarters of the Comité Olímpico Paraguayo (Paraguay Olympic Committee).

KEY RECOMMENDATIONS

- ▶ One person should have overall responsibility for the financial management of your organisation.
- ▶ Make sure that all Board members are committed to good financial management and are aware of their role in this.
- ▶ Follow the financial management cycle in the financial management of your OSO.
- ▶ Be familiar with the terminology associated with finances, which will make your understanding of this key area greater.

The following illustration considers the principles that the Papua New Guinea Olympic Committee has developed to underpin the financial management of the OSO.

Illustration 4.1

Principles of Financial Management: Papua New Guinea Olympic Committee

The 2006-09 strategic plan for the Papua New Guinea Olympic Committee (PNGOC) outlines several principles under which the OSO will operate, and a section on financial management was included in the plan. Clearly, the organisation has a commitment to the principles of good financial management as shown by the following key result area (KRA) of the strategic plan (figure 4.2).

KRA 2: Financial Management

Objective: Increase the amount of financial support to our membership

Rationale: Adequate funding to the membership of the PNGSFOC is vital for ongoing success of PNG sport. We will ensure adequate funding is provided by:

- Capitalising on investment opportunities and increasing the amount of corporate support we receive
- Reducing the reliance on both government and non-government sources of income
- Striving to achieve cost effective utilisation of different sources of income toward our strategic priorities
- Maintaining transparent financial protocols to ensure accountability to our membership

Categories	Strategic priorities	Key performance indicators
2.1 Administration	2.1.1 Maintain sound financial budgeting and reporting practices across the organisation	Develop new and more efficient financial practices
2.2 Accountability	2.2.1 Communicate financial information to relevant stakeholders	Annual budget and financial report distributed to key stakeholders
2.3 Funding	2.3.1 Provision of financial support to our membership	Support provided in 2005 exceeded annual allocation
	2.3.2 Administer and report against funding received more efficiently	Funding policy developed and endorsed
2.4 Investment	2.4 Sustain and grow investment sources	Revenue increased by 10% over 4 years

Figure 4.2 Principles of financial management in the PNGOC. The acronym used in this figure, PNGSFOC, refers to the new name of the NOC, Papua New Guinea Sports Federation and Olympic Committee, pending approval.

(continued)

Illustration 4.1 (continued)

First, the inclusion of financial management in the strategic plan shows an awareness that finances must support the mission and objectives of the organisation. It also shows that the evaluation of financial performance is important to the PNGOC as there are clear key performance indicators associated with the strategic priorities. There is also a statement of the desire for accountability to sponsors and membership, indicating a stakeholder-oriented approach, evaluated by the distribution of the annual budget and financial report to key stakeholders. Although sound practices are in place, there is awareness that these could be more efficient, and this is a key area of future performance. Finally, the PNGOC has committed to ensure that it uses its funding sources in a more effective way, aiming to reduce reliance on external funding.

These clear statements of principled financial management communicate to others that the PNGOC will manage its finances in a sound and prudent manner. This is a very public statement of how the OSO will operate and demonstrates that the OSO will be accountable for its financial dealings. The public nature of these statements shows the strength of the commitment to good financial management within the PNGOC.

SECTION 4.2

FINANCIAL PLANNING

Financial planning is the process that helps you take stock of your organisation's financial situation, determine your goals and objectives and develop strategies to help take control of the organisation's finances in order to achieve its goals. Financial planning starts with the recognition that an organisation has distinct needs and goals. Comprehensive financial planning includes a number of critical areas, including cash management, budgeting, project management, insurance, capital expenditure and tax planning.

This section considers the process of financial planning and begins with a discussion of the need to determine your OSO's priorities in order to guide planning. It goes on to discuss the assets that an OSO might have and then presents some important concepts to assist with the financial planning process. It concludes with a discussion of the financial planning system of British Swimming.

Good financial management encompasses handling money in a manner that advances an organisation's growth. Conversely, financial mismanagement encompasses handling money in a manner that inhibits an organisation's growth. To ensure that your OSO employs good financial management, all four stages of the financial cycle summarised in figure 4.1 should be kept under tight control.

Even when there is tight control, financial mismanagement can occur due to deliberate misconduct. Thus, the integrity of those overseeing the control mechanisms is crucial. However, deliberate misconduct is not the only way financial mismanagement can occur. Although deliberate misconduct poses a serious threat to all OSOs, a systemic attitude problem regarding the availability of money and how it should be spent is often more difficult to overcome.

It is not the obligation of a prospective sponsor to support Olympic activity simply because of the strong brand integrity represented in the Olympic rings. Misspending money for whatever reason is of real concern to any stakeholder regardless of the perceived integrity of the agenda or context. Misspending is particularly threatening because it can happen involuntarily and even without subterfuge at a variety of levels in the OSO simply because the people spending the money are not guided by the organisation's mission or empowered with the information necessary to help them maximise the yield from the resources.

Good financial management is linked to a myriad of nonfinancial factors that make interpreting the financial health of an organisation impossible just by reading a spreadsheet. For example, fraud is not necessarily apparent when reviewing financial accounts because accounts can be doctored. Money must be spent keeping in mind the context in which your OSO operates, both in terms of its membership in the Olympic Movement and the condition and attributes of your country, sport and stakeholders. Only then will you be able to determine the financial integrity of your organisation.

Understanding Your Assets

Your OSO is likely to have various assets that have the potential to generate revenue. Some of these assets will be current and some will be fixed, and the ratio between these needs to be carefully managed so that you have enough cash to run the OSO and deal with any emergencies that arise.

Cash Versus Value In-Kind Assets

Current assets fall in two broad categories: cash and value in-kind. Cash assets are those that arrive to your organisation in the form of cash, cheque or bank transfer and can be used to buy products or services in support of a given activity. Your organisation should distinguish between cash provided for a specific purpose and cash provided for general use. Cash given for a specific purpose must be spent accordingly; otherwise you are engaging in misappropriation. In order to change the way in which such cash is used, you may need to receive written consent from the investor.

For example, the IOC and Olympic Solidarity provide a subsidy for the Olympic Day Run to all NOCs. This subsidy is intended to support any number of costs associated with the run. An administrative subsidy is also provided to all NOCs annually that can be used to cover general overhead expenses. It is good financial practice to keep these two accounts separate in order to avoid using the Olympic Day Run subsidy to pay for general office expenses not associated with the run.



Photo courtesy of Raymond Conzemius.

Olympic Solidarity's value in-kind contributions include MEMOS scholarships. Pictured are MEMOS students at the IOC headquarters in Lausanne.

Value in-kind contributions are those that come in the form of paid-for services, activities or equipment where a third party has been paid directly by the investor or sponsor to support a given budget item. In the case of Olympic Solidarity, value in-kind contributions are those such as scholarships for athletes and coaches, which are paid directly to the training centre, and scholarships for the MEMOS programme. Just because these contributions are not cash does not mean that they do not have value. You must report them in your earnings and should factor them into your financial planning. Always seek to include a broad array of cash and in-kind assets in your financial planning, which creates flexibility and facilitates the ability of the organisation to cover the costs of all services.

Infrastructure

There are other forms of assets that might be in an organisation's possession, such as built infrastructure, that have monetary value as a fixed asset. These assets are of less importance to the discussion in this chapter because it is principally concerned with cash and in-kind assets that are moving in and out of an OSO annually. However, remember that liquidity is always more than what the organisation has in the bank, and your OSO might be confronted with the need to sell fixed assets to pay debt. If you have been monitoring your cash flow carefully, though, this will rarely be needed.

Sources of Income

Be sure to know how much money is actually within your system when you start the financial planning process. You should identify where your revenue comes from, such as Olympic Solidarity, your government, sponsors and members. Then decide which activity is most suitable for each source to support. In some instances you will have no choice since some funds are provided for specific projects and must be used for these projects, as in the Olympic Day Run subsidy outlined earlier. Try to determine how much money over time each source has put into the system and gauge how much benefit the stakeholders, including your OSO, have received as a result. This will help you determine whether it is worth pursuing some sources of income or not.

Key Concepts in Financial Planning

Many factors are important in financial planning, and several of these are outlined here. The objective is not to offer you a financial plan; such a plan will be affected by your environment and is therefore something that only your organisation can create. However, the points do highlight some factors that you need to consider regarding the handling of money.

Finance as an Extension of Planning

Ultimately, financial planning is an extension of an OSO's broader planning process. Financial planning must be connected to the design and implementation of the OSO's objectives; otherwise spending will be ad hoc and run the risk of putting the organisation into deficit. A sound strategic plan will serve as a guide for managing finances more effectively (see chapter 2).

Time Frame

The time frame of a financial plan is determined by the agenda outlined in an OSO's strategic plan. NOCs may wish to work on a 4-year cycle in line with Olympic quadrennials, but clubs or leagues may find an annual planning cycle to be more appropriate. However, all finances must be monitored frequently and should be reported at least annually. Certain items have to be realised before others, whilst others are more complex and require more funding, and those should be the items for which the OSO seeks resources most vigorously. It is advisable that OSOs working on a 4-year cycle seek to implement programmes in 1- or 2-year time blocks, unless there are compelling reasons not to do so. This will allow regular evaluation in the 4-year cycle. Even in the event of a long-term development initiative, such as an athlete's high-performance career, it is usually practical to break down the larger time block into smaller components, such as a period ending with a major championship.

Cost Estimating

Once you have decided what the organisation wants to do, you have to decide how much it is going to cost. To estimate costs accurately, you should think about every possible scenario in the OSO's programmes and have a corresponding budget line. If you fail to do this, when an issue arises for which there is no budget line, you will be stuck with the problem of reallocating resources. It is better to run to a surplus than a deficit at the end of the year, although doing this too regularly will call into question the accuracy of your budgeting. The balance of funds can be returned to funders, or with their permission it could be redistributed towards the cost of other programmes or carried over within the same budget line for the next fiscal year.

Programming is always more expensive than at first glance, albeit comparatively affordable to most major infrastructure. Costs associated with running OSO programmes include design, printing, venues, gala dinners, transport, insurance, room, board, mailing, rent, electric, water, training, indemnities, membership dues, legal counsel and medical expenses. So when thinking about your OSO's programmes, consider those that are essential to its function and those that it could survive without.

If the OSO does not have the internal resources to estimate costs accurately, then it should outsource this work to a professional. This will reduce the risk of overspending, especially on infrastructure projects, once work begins on any given activity. Cost estimating for infrastructure projects should be provided by the professional company being hired for implementation. If any of the companies under review does not include professional cost estimating within the scope of services for the project, the OSO should avoid using it.

Once a service provider is selected, you need to negotiate a contract that defends the OSO's ability to stick to the budget. If the project runs over cost, it should be the problem of the contracted professional, not the OSO, to deliver the final product for the agreed-upon amount. It is important to work only with people holding professional registrations or licences to estimate or with significant professional experience in the appropriate field. Your partners should understand the need to estimate and agree contractually upon the cost of any activity in advance of commencing work. It is not advisable to work with any service provider who wants to settle costs after work commences.

Distribution of Resources

Distribution of resources should also be determined by the strategic plan, which, if the plan is sensible, will ensure a broad base of investments. The most essential resources are those that go towards initiatives designed to meet organisational objectives and, in the long-term, the mission of the OSO. For example, high-performance activities tend to be expensive per capita and affect fewer athletes. It therefore may not be appropriate for an OSO whose mission is junior development to put all its resources into a few elite athletes at the expense of its junior development programme.

Types of Expenditure

Another concern is the funding of programmes versus infrastructure. Although infrastructure is necessary in many cases, it is not necessarily the priority. Smaller investments in development programmes, phased in over time, usually produce a higher return on investment in the size and quality of the athlete pool whilst contributing to higher athlete retention. Infrastructure projects require significant resources but do not guarantee any improvement in performance in the absence of sound programming.

Area of Focus

Assuming the Board wants the organisation to perform at both the national and international level, it needs to consider a variety of factors that affect the allocation of finances. At the national level, these factors can include the following:

- Size of junior, senior, elite and masters programmes
- Number of federations and clubs within the system
- Overall income from membership dues
- Total cost of expenditures to support the system
- Resources available to support all stakeholders
- Flow of money between stakeholders within the sport system.

At the international level, factors to consider include the following:

- Other countries that participate in the sport
- How much the other countries spend annually on their sport relative to the number of athletes they have
- Opportunities for international cooperation in training and competition
- Travel and insurances
- Number of events for which the OSO is eligible versus those in which it will actually participate

Regardless of the level at which you work, you will need to be aware of the costs of these factors. If this information is not available, you will need to set up a system for collecting it before you can make many strategic financial decisions about how best to spend money in the future.

Organisational Efficiency

Be sure to evaluate the internal efficiency of your OSO. Pay particular attention to making sure that you have adequate and appropriately skilled human resources and that your marketing and promotion strategies are effective. Organisational structure also affects efficiency, as do the governance procedures under which the OSO operates. The evaluation of organisational efficiency can be done using the principles of auditing outlined in chapters 1 and 2.

KEY RECOMMENDATIONS

- ▶ Ensure that the Board takes responsibility for financial planning.
- ▶ Ensure that financial planning is directly linked to the organisation's strategic plans.
- ▶ Be clear about how much income you have and where it comes from before planning.
- ▶ Be realistic about the costs of your programmes.
- ▶ Ensure that you finance activities that are appropriate for your OSO.

The following illustration outlines the financial planning process followed by British Swimming. It shows how planning occurs on a 4-year process and is linked with a strategic plan.

Illustration 4.2

Financial Planning in British Swimming

British Swimming is the National Governing Body for swimming, diving, disability swimming, synchronised swimming, water polo and open water in Great Britain. The members are the three Home Country Swimming Associations of England (Amateur Swimming Association), Scotland (Scottish Swimming) and Wales (Swim Wales.) British Swimming focuses on the high-performance aspects of the sport and is a member of the European Governing Body (LEN) and the World Governing Body (FINA.)

In line with good practice, British Swimming receives funds from a number of sources. The infrastructure of British Swimming is funded primarily from contributions from the three Home Country Swimming Associations and UK Sport. The performance programme for each discipline is funded primarily from the UK National Lottery fund, which is managed through a subsidiary company of British Swimming: High Performance Swimming Ltd.

The performance funding is awarded on a quadrennial basis against detailed four-year operational plans that link into the overall corporate plan and vision for swimming. The plans are compiled by the technical experts for each discipline, led by the relevant National Performance Director, and full costs are apportioned for each activity resulting in a four-year budget that includes the expected income and expenditure month by month.

The central British Swimming budget is produced annually with an overview of the following three years. The annual budget is broken down into monthly income and expenditures.

Management accounts are produced on a monthly basis by qualified accountants for both British Swimming and High Performance Swimming Ltd and all variances are accounted for. Rolling forecasts are produced for both companies, ensuring all budget holders are confident of the final year-end and quadrennial-end figures. Regular reports are made to UK Sport to show expenditure against the grant.

The accounts for both companies are audited annually by an external audit firm and the final accounts published in the annual report following approval by the Board and acceptance by the members attending the annual meeting. In addition to the annual external audit, an internal audit process has been introduced into the day-to-day operation.

The financial planning of British Swimming demonstrates several of the concepts that have been discussed in this section. Financial planning is linked to the strategic and operational plans, which allow finances to be distributed and managed effectively. The control of finances is good, as they are subject to both an internal audit process and a thorough external audit. Finances are monitored and reported to key funding bodies and the Board on a regular basis. For governance purposes, final accounts must be approved by the Board and accepted by the members before publication. From this description, it would appear that British Swimming carries out sound financial planning.

SECTION 4.3

BUDGETING

Budgeting is the process by which an OSO agrees upon the cost distribution of its programmes and services for any given year or project. It includes planning as an inherent precedent. Effective budgets can only be established once the financial planning has determined the permissible range or type of spending that will occur within the OSO. Once a budget is established, it is crucial to stick to it. For this reason, constant communication between the Board members, especially the treasurer, and other staff, such as the financial controller and project managers, is necessary.

The Board must agree to the budget and communicate its nature and volume to staff if there is to be successful organisational compliance. If an OSO does not adhere to its budget, the delivery of its programmes and services will be negatively affected. Stakeholders are likely to become discontented as programmes and services break down, financial stakeholders will become concerned about a potential decline in reputation, and trust will be broken, thereby making all future actions and relationship building more difficult for the OSO.

This section looks at how to compile a budget and then control it. It considers the types of budget an OSO might have and ends with a discussion of the budgets of the Comité Olímpico Ecuatoriano (Ecuador Olympic Committee).

Compiling a Budget

A budget is probably the most important tool an OSO can have. It provides a plan for not only long-term business operations, but day-to-day operations as well. A budget can help your OSO meet its goals, and it tells stakeholders how much you want to spend and in what time frame. This provides an immediate idea of the degree of reason within your OSO's planning because the budget breakdown gives investors more detail about how the money will be spent. It also allows them to see if your OSO has distributed its budget appropriately.

However, budgets are not just about expenditure. They should also contain the income-generating aspects of OSOs, such as membership fees, competition entries, ticket sales, advertising revenues and broadcasting rights (see chapter 5). Therefore, it is important not to make the budget simply a list of expenses, but to present the information in a manner that meets the needs of all stakeholders, particularly financial ones. The person preparing budgets should be knowledgeable about finances and the OSO. This person could be the project director, a staff member involved with the project or the person who handles the organisation's finances.

The creation of a budget is a relatively straightforward process. You need to determine how much money you have coming in, how much money you are spending and how much money you should be spending. This requires you to identify the following:

- Sources of revenue, or how much money is coming in, including in-kind contributions
- The costs of the services the OSO delivers
- Overhead costs, including salaries, rent and electricity
- Any other costs, such as investment in equipment, maintenance, fringe benefits, employee benefits and payroll taxes

Once you have this information, you can develop a budget, outlining areas where revenue will be spent. When calculating expenditure, remember to consider inflation or increases in costs, such as rent increases or annual salary increases. When developing a budget, most organisations allocate funds to specific "pots of money" with an associated numerical code. For example, a budget for salaries may be created and associated with the number 4421. This becomes known as the budget code for salaries, and all expenditure that is relevant to salaries should be coded as 4421.

You want to avoid

- spending resources without a budget;
- starting initiatives for which there is no budget allotted in the respective calendar year;
- reallocating budget resources from one line item to another, because this denotes lack of financial control;
- asking funders for more resources because you did not estimate your budget accurately;

- multiplying charges to seek additional revenue by having more than one funder cover any given budget item, such as charging travel costs to both the club and the federation;
- large price tags on "miscellaneous/other" budget line items; and
- large overhead budgets, which include unreasonably high salaries or unnecessarily high rent.

Such behaviour sends the signal that your OSO is not fiscally responsible and will lead funders to shy away from investing in it.

You control expenditure of the budget with regular reporting on the differences between actual and budgeted results. The differences are usually called "variances" and are categorised as favourable or unfavourable. This analysis helps you to

- identify quickly whether things are going as expected;
- identify where corrective action is required;
- review plans, policies and decisions in light of performance;
- revise budgets if necessary;
- plan and coordinate the use of resources; and
- predict potential problems.

Budgeting and budgetary control can be effective management tools. The key to making them effective is to ensure that all relevant managers are involved in the process and that the right amount of information is presented, in the right amount of detail, at the right time.

Types of Budgets

The three main categories of budgets the treasurer should assist in developing are the annual budget, project budgets and capital budgets.

Annual Budget

The annual, or operating, budget is the total estimated cost of running an organisation and its programmes in any given financial year. The annual budget is composed of several project budgets plus the overhead of running the OSO. It includes income, expenditures and the net sum calculated from the two. Table 4.1 presents the annual budget of a local badminton club, which shows the budget items required by a small OSO.

Note that the budget is in deficit (expenses are projected to be higher than income). This means that additional funds will have to be found elsewhere. In an organisation of this size, fundraising activities may address the deficit, as will an increase in membership fees. Alternatively, costs could be reduced and perhaps new equipment could be purchased at a later date. In addition, the telephone costs appear high, so there may be a possible reduction in this budget line.

Table 4.1 Operating Budget of a Badminton Club

Category	Amount (AU\$)
INCOME	
Subsidies from municipality	2,000
Membership	1,500
Donations	400
Fundraising	2,000
Sponsorship	1,000
Total	\$6,900
EXPENSES	
Rent	3,500
Equipment	600
Volunteers' expenses	350
Publicity and printing	200
Fundraising expenses	200
Telephone	1,500
Stamps and stationery	300
Insurance	600
Sundry	500
Total	\$7,750
Projected surplus (deficit)	(\$850)

© 2006 State of Queensland (Department of Local Government, Planning, Sport and Recreation).

Project Budgets

Project budgets allot a given amount of financial resources towards the achievement of a stated organisational objective. These budgets are broken into two sections, income and expenditure, which each comprise a variety of budget lines corresponding to cost items. Table 4.2 presents a sample budget for the preparation and participation of a Palestinian national team candidate in the 2006 Senior World Rowing Championship.

You can see that the budget has a line for living expenses and then for each major championship attended during the year. German classes were included as a developmental activity for the athlete, and the bike was essential to keep the costs of commuting between the athlete's residence and the club to a minimum. It is necessary to include all items associated with a project, rather than simply those that are immediately obvious. The budget also includes an exchange rate, which should be included in budgets if funding is received in a currency different from that which is to be used for expenditures.

Table 4.2 Project Budget for 2006 Training Camp and World Championship Participation, Palestinian Rowing Federation

Budget season 2005/06, in €	MONTHS 2005-2006					Comment	Per unit
	Oct.-Dec.	Jan.- March	April- June	July- Sept.	Total		
Rent and living expenses	2,250	2,250	2,250	2,250	9,000	750 per month (in line with average student's allowance)	750
Training camps in winter	1,575	1,575			3,150	Three weeks, 75 per day, including travel, boat transport	
World Championship				2,800	2,800	Assuming the PRF gets into the development programme again—500 for boat transfer, 300 for unisuits. Including jacket for coach, 500 for miscellaneous (i.e., FISA fee, giveaways, etc.), three flights to Eton/London at €500 each—one for athlete, one for coach, one for administrator.	
German language courses	1,200	1,200	1,200		3,600	20 per 45 minutes, 2 hours per session, 3 sessions per week, 30 weeks between November and May	20
Training camp World Championship			1,313	1,313	2,626	Five weeks, 75 per day, including travel, boat transport	75
World Cups			1,000	1,000	2,000		1,000
Travel U.S.–Europe (including insurance)	1,000				1,000	Athlete formerly training in U.S. prior to 2005-06 schedule	600
Club membership	400				400		400
Competitions, Germany		100	100	100	300	Three, 100 each	100
Bike	100				100		
Total	6,525	5,125	5,863	7,463	24,976		
	INCOME FROM GRANTS						
	Oct.	Jan.	April	June			
	6,525	5,125	5,863	7,463	24,976		
	Exchange rate: €				1.25		

Data from the Palestinian Rowing Federation.

Capital Budgets

When you need to spend more substantial funds, a capital budget for a certain period of time, such as a 4-year period subject to annual review, can be used. Table 4.3 shows the capital budget that could be developed for improvements to a club's facilities that are put out for hire to raise revenue. Although this budget includes maintenance items, such as painting, it is a capital budget item because the expenditure will improve the revenue-earning capacity of the clubhouse.

Budget Income

An OSO should be sure to raise its finances from a variety of sources. It should also ensure that each budget line for which it is obtaining resources is targeted at the appropriate source. For example, different items might be covered by government funds, charitable organisations, private investors or supporters, and corporate sponsorship. OSOs should decide what funding they have, how much they need and the degree of difficulty in obtaining each budget line from a given investor. When trying to identify a source of funds for any given budget line, an OSO should think about the value it has to offer (see chapter 5).

You should avoid depending on one or two sources for all your income because this leaves the organisation financially vulnerable if one source of funds ends without an alternative having been identified. You need to carefully target where funds will come from and for what projects. Not targeting your funders sends the message that you simply want money but have not really considered how it should be spent. This will not create confidence in your OSO's financial management.

Table 4.3 Capital Budget for Improvements to a Clubhouse

	Year 1	Year 2	Year 3	Year 4	Year 5	Total (AU\$)
	AMOUNT (AU\$)					
Refurbish lounge area	7,000	5,500				12,500
Repaint exterior of building	10,000				12,500	22,500
Replace HVAC system		21,000				21,000
Upgrade gymnasium equipment			7,500	7,500		15,000
Replace and upgrade car park lighting			30,000			30,000
Rectify car park drainage problem	15,000					15,000
Clubhouse extension				120,000		120,000
Fit out clubhouse extension					60,000	60,000
Total	32,000	26,500	37,500	127,500	72,500	296,000

One matter to highlight here that is often overlooked is grant writing. In many countries, the economic situation is not conducive to large-scale investments in sport, and OSOs have limited budgets. In such circumstances it might be worth the effort to explore the options available through foundation or foreign government funding such as the Ford Foundation, United Nations Development Programme and United States Agency for International Development. These organisations have guidelines to help you in the application process. In addition, the Internet provides a wealth of information and guidance on how to write successful grant applications. Just do a search on any search engine, using key words such as sport, funding, grants and development.

Budget Expenditure and Control

Budget expenditure can be large or small, but the important thing is to be sure that it does not exceed projected income (see table 4.1). If it does, your OSO has to find ways to generate income in other areas, such as through increased membership fees or ticket sales, to offset the difference. Try to avoid spending more than you receive in income, reallocating budget lines to offset overspending, not declaring liabilities and misrepresenting the financial solvency of your organisation. These are bad practices that have a compounding effect and generally encourage the use of illegal financial practices.

If money goes missing, it usually does so in small amounts. However, small amounts can accumulate over time and constitute a significant loss. For this reason, regular and clear balancing of the books and reporting to the Board are necessary to demonstrate transparency and spending according to the financial plan. In most cases, it is satisfactory for an organisation to have one person sign for financial transactions. However, in the event that a particularly large sum of money needs to be spent or obtained by the organisation, it is recommended that the treasurer (or financial controller) and one other person, normally the president or secretary general of the Board, have to sign. This will avoid the responsibility of a large sum of money resting on one person's shoulders.

KEY RECOMMENDATIONS

- ▶ In consultation with the Board, identify all sources of income and expenditure, no matter how small or irregular.
- ▶ Allocate funds to appropriate areas of expenditure, in particular taking into account income that has been provided for an explicit purpose.
- ▶ Ensure that the Board regularly assesses actual performance against budgeted performance.
- ▶ Make changes to financial plans if necessary.
- ▶ As a last resort, adjust the strategic intentions of the OSO.

The following illustration shows how the Comité Olímpico Ecuatoriano (Ecuador Olympic Committee) raises revenue and then allocates it to its plans.

Illustration 4.3***Budgeting in the Comité Olímpico Ecuatoriano***

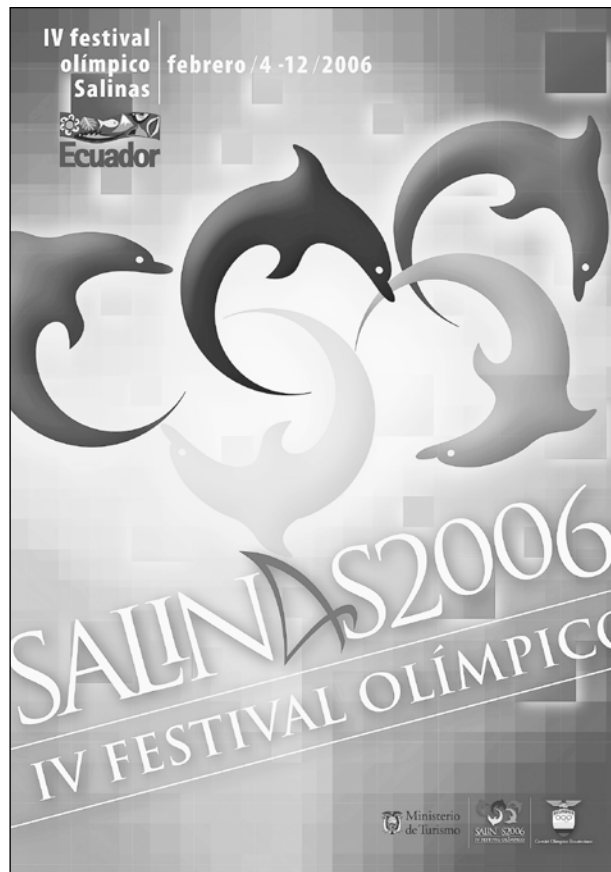
The Comité Olímpico Ecuatoriano (COE, Ecuador Olympic Committee) was recognised by the IOC in 1959. In 1998, Danilo Carrera Drouet assumed the COE presidency. He had a strong history in sport and important links to the private business sector. This was important because when he was elected, the organisation was essentially bankrupt. There was no stable source of income, and only 12 NFs were members of the COE.

The first task for the new administration was to identify a permanent source of income. The organisation sought a reform of the telephone laws to resolve this dilemma. Through negotiations between the public and private sector, a 5% tax was applied to all calls on the nation's phone networks that would be paid to sport organisations in the country. In 2005 the tax generated approximately US\$50 million. The law now requires that 10% of the tax money go to the NFs. From this 10%, the NFs are required to contribute 10% to the NOC (or 1% of the total tax income). Since the number of NFs has grown from 12 to 45 under Carrera Drouet's leadership, as outlined in table 4.4, the sum generated for the COE now constitutes well over 10% of its annual income.

In addition to the income from the NFs' share of the phone tax, the COE receives an additional 1% of the phone tax as income. These two sources of income combined provide the NOC with 2% of the total phone tax income annually, which was approximately US\$1 million in 2005. A provision in the law stipulates that not more than 30% of the income from a public fund can be spent in any given budget year. Thus, the COE is required to find a way to spend the US\$1 million that it receives over several years. This results in a prudent approach to spending across a variety of services, as outlined in table 4.5.

The tax on phone calls and a subsequent change in legislation regarding the ministerial budget were essential to generate a stable source of income for the COE. However, more funds were needed to realise other development plans. The obvious source would be sponsorship, but the COE had a legacy of uncooperative interaction with the private sector. In addition, it did not have a product to offer in exchange for advertising opportunities because athletes belong to NFs and the NOC can only offer a product once every 4 years: participation in the Olympic Games.

To resolve this dilemma, the COE developed a new product in the form of an annual Olympic Festival. The COE also remarketed the Olympic Day Run, which previously had been poorly supported. These two activities are now major annual sport events in Ecuador, with sponsorship from a national beer company (Cervecería Nacional), two banks (Banco del Pichincha and Banco de Guayaquil) and a yoghurt company (Industrias Lácteas Toni). The products of these companies are sold and advertised at sport events and used on the national uniforms and team equipment for the Olympics, in line with the terms established by the IOC and IFs.



Courtesy of the Comité Olímpico Ecuatoriano.

The COE developed an annual Olympic Festival, which contributed to bringing in additional revenue from new sponsors.

Table 4.4 shows the origin of all funding sources, categorised as public and private funding. Private funding is further categorised as local and international. The table not only provides an overall figure but also shows itemised amounts for the overall total. Thus, the amount that is raised from each source is immediately transparent. Under local income, the amount provided by each sponsor of the Olympic Festival is also made transparent. It is also clear that these funds must be spent on the Olympic Festival. This level of detail is extremely valuable for accountability and control purposes.

Expenditure is also provided in great detail, and you can see from table 4.5 that it has been divided into departmental expenses, institutional expenses and the High Performance Olympic Centre (HPOC). Departmental expenditure is budgeted against the various functions required to run the OSO and primarily goes towards salaries. Notice also how the overhead is allocated to each department, rather than being an overall figure for the OSO. This allows stakeholders to identify where overheads are highest, which is important for accountability and control.

(continued)

Illustration 4.3 (continued)

Table 4.4 Consolidated Annual Budget for the COE: Income, 2006

Description	Values in US\$ dollars	
	Itemised	Totals
Income—public funding		
1% of the 5% telephone tax		530,000
10% Ecuadorian Sports Federations		530,000
Ecuadorian Olympic Fund—National Federations		583,000
Grants	318,000	
Olympic Festival	106,000	
High Performance Olympic Centre and others	106,000	
Federation sports support	53,000	
Income retained by federations		33,300
Funds earmarked for 2005		300,000
Total income—public funds		1,976,300
Income—private funding		
Local income		
Ecuadorian Olympic Committee advertising		85,000
Cervecería Nacional (National Brewery)	25,000	
National Lottery	25,000	
Industrias Lácteas Toni (Toni Dairy Industries)	25,000	
Banco del Pichincha (bank)	10,000	
Other income		50,000
Banco del Pichincha (bank): lease	30,000	
Miscellaneous income: rentals	20,000	
Olympic Festival advertising		70,000
Banco de Guayaquil (bank)	12,500	
Cervecería Nacional (national brewery)	25,000	
Alcaldía de Salinas Industrias	10,000	
Industrias Lácteas Toni (Toni Dairy Industries)	12,500	
Aguapen (waterworks company)	10,000	
Subtotal local income		205,000

Description	Values in US\$ dollars	
	Itemised	Totals
International income		
Olympic Solidarity	Confidential	
Meridian	Confidential	
Amounts due 2005	30,000	
Subtotal international income		Confidential
Total income—private funding		Confidential
Total Income		Confidential

Table 4.5 Consolidated Annual Budget of the COE: Revenue Expenditures, 2006

Description of expenses	Values in US\$ dollars	
	Itemised	Totals
Departmental		
Executive Committee Chair		33,735
Staff expenses—salary and employee benefits	28,700	
Overhead	5,035	
Management		27,580
Staff expenses—salary and employee benefits	27,580	
Overhead	0	
Accounting		26,280
Staff expenses—salary and employee benefits	21,280	
Overhead	5,000	
Press and PR		62,670
Staff expenses—salary and employee benefits	26,320	
Overhead	36,350	
Technical		27,100
Staff expenses—salary and employee benefits	4,200	
Overhead	22,900	

(continued)

Illustration 4.3 (continued)

Table 4.5 (continued)

Description of expenses	Values in US\$ dollars	
	Itemised	Totals
Departmental		
Library		5,600
Staff expenses—salary and employee benefits	5,600	
Overhead	0	
COEDI (Ecuadorian Olympic Records and Information Centre)		9,800
Staff expenses—salary and employee benefits	9,800	
Overhead	0	
Administrative, security and maintenance		132,560
Staff expenses—salary and employee benefits	35,560	
Overhead	97,000	
Museum		4,500
Staff expenses—salary and employee benefits	4,200	
Overhead	300	
Systems		20,120
Staff expenses—salary and employee benefits	15,120	
Overhead	5,000	
Medical		4,728
Staff expenses—salary and employee benefits	3,360	
Overhead	1,368	
Women's Sports Centre		10,806
Staff expenses—salary and employee benefits	10,290	
Overhead	516	
Subtotal departmental expenses		365,479
Institutional		
Staff expenses—Women's Sports Centre	6,000	
Overhead	180,047	
Legal expenses	10,000	

Description of expenses	Values in US\$ dollars	
	Itemised	Totals
Departmental		
Sundry operational expenses	180,448	
Subtotal institutional expenses		376,495
High Performance Olympic Centre (HPOC)		
Staff expenses—salary and employee benefits	41,720	
Services rendered: medical, technical and host staff	114,120	
South American Games	80,000	
Basic services	58,013	
Materials and supplies	30,425	
Transportation expenses	7,800	
Publications	14,533	
Repairs	20,000	
Materials for new buildings	85,358	
Training program	38,400	
Total High Performance Olympic Centre		490,369
Departmental, institutional and HPOC expenses		\$ 1,232,343

The remaining expenditure is allocated to the services offered by the COE. Once again, in most instances, the budget shows excellent detail. Stakeholders may wish for more details on the sundry operating expenses that are part of the institutional budget. In addition, there appear to be two areas of expenditure allocated to staff for the Women's Centre. This is, however, likely to be due to different types of staff that have been accounted for in a different way.

The budgets of the COE have a clear structure, with departments and services having their own budget lines. For example, all costs associated with the HPOC, including staff expenses, are allocated to one area of the budget. Sources of income and areas of expenditure can be easily identified and are itemised appropriately. Overheads are allocated to relevant budgets, rather than as their own budget line, which makes control easier. Finally, all matters pertaining to the budgeting of the COE are published publicly in an annual report and audited yearly by PricewaterhouseCoopers, as required by the principles of good governance and sound financial management.

SECTION 4.4

ACCOUNTING FOR FINANCES

Implementation of a budget means raising and spending the money included in it. Accounting is the process of tracking and cataloguing the income and expenditures. This accounting makes the information easily retrievable in the future. It is part of good financial management, but it is also part of prudent risk management. A critical reason to record all income and expenditure is so that other individuals or organisations can see that the OSO spends its resources according to its expressed intent. Thus, transparency, risk management and functionality are all inherent to the accounting process.

A vital part of implementing an organisation's finances is managing financial risk whilst implementing programmes and events. This section addresses the structures that must be in place in an OSO in order to spend money with minimal risk. It also outlines how you can track and account for spending. The section concludes with an example of a risk management tool, the waiver used by the United States Olympic Committee at their Olympic Training Center.

Managing Risk With Legal Documentation

As outlined in chapter 1, sport includes risks that vary from minor legal disputes to death. It is therefore part of sound financial management to accept these risks and take prudent measures to control them in advance. An OSO's primary concerns are to minimise the potential for lawsuits that could bankrupt it and its Board members and to conduct business in a manner consistent with the law. The principles of risk management outlined in chapter 1 are crucial, particularly the use of a risk register. There are, however, other tools that are valuable, and these are presented next.

Insurances

If available to you, an important measure to reduce risk is holding insurance policies. There are at least two categories of insurance to consider in an OSO. One insurance category limits the liability of the Board of Directors, which runs the OSO. Members of any Board have a responsibility to their organisation that includes its financial solvency. Therefore, protection of individual Board members' personal financial assets is part of sound financial management. If possible, an OSO should consider taking out a policy of directors and officers liability insurance (DOLI) in order to protect the Board members from financial ruin. DOLI also secures a pool of money for legal fees in the event of a lawsuit.

The other insurance category to consider includes the various insurance options you could offer to members, athletes, coaches and officials. Since OSOs provide services with an inherent risk, membership in the organisation could include insurance against equipment damage, health insurance, accidental death or dismemberment insurance, or DOLI. At the very least, these policies could be offered at an additional charge.

If such insurance policies are not available to your OSO, you need to be confident that the management and accountability systems that are in place in the organisation can provide protection against the need for such policies.

Conflicts of Interest

To reduce the risk of being charged with financial mismanagement during the implementation of finances, you need to make sure you are not operating with a conflict of interest. Such conflicts occur in several situations. Of primary concern are those that arise out of financial interests between members of the Board of Directors of an OSO and anyone providing contracted services. For example, if a Board member owns a clothing company, it would be a conflict of interest for that member to decide which company should supply team uniforms.

Financial conflicts of interest may exist where a Board member or other stakeholder (known as an "interested party") of the OSO directly or indirectly profits as a result of a decision, policy or transaction made by your OSO. Examples include situations in which your OSO

- contracts, buys or leases goods, services or properties from an interested party, such as leasing your headquarters from a Board member;
- employs an interested party other than a person who is already employed, such as employing a Board member to carry out consultancy work;
- provides substantial gratuities or favours to an interested party, such as offering free education to the children of sponsors;
- gratuitously provides use of the facilities, properties or services of your OSO to an interested party, such as allowing the club that your president is a member of to train at your high-performance centre free of charge; or
- adopts policies that financially benefit an interested party, such as including a staff member's husband on your approved list of suppliers.

Conflicts of interest may also occur when

- an interested party obtains a nonfinancial benefit or advantages that they would not have obtained without a relationship with the OSO,
- an interested party tries to obtain preferential treatment for another interested party,
- an interested party makes use of confidential information for personal benefit or for the benefit of another interested party, or
- an interested party seeks to take advantage of an opportunity or enables another interested party to take advantage of an opportunity that would be of interest to your OSO.

In many countries it is illegal to have a conflict of financial interest within your organisation because such conflicts are a primary source of corruption and a threat to a nation's economy. In the event that there are no laws regarding conflicts of interest in the country in which an OSO operates, it is still prudent for the Board to voluntarily adopt an internal policy on conflicts of interest. This should require members of the Board to agree to and sign an "interests register" that outlines clearly other interests that they have that may conflict with their role on the Board. This will limit the possibility of an interested party directly or indirectly benefiting or profiting as a result of a decision, policy or transaction made by the OSO's Board.

Indemnification and Waivers

If possible in your legal system, every contract you sign should indemnify your OSO of any illegal behaviour on the part of a contracted service provider. Also, it is helpful to only permit membership to people who agree in writing to an indemnification clause. Similarly, you might require athletes to sign waivers of liability before participating in your OSO's events. Clubs recognized by an NF must require all participants in a sporting activity to sign waivers of liability. Unfortunately, if you don't take these actions, you may put your organisation at risk.

An indemnification clause releases a party from the legal responsibility for the reckless or illegal behaviour of another party, such as members or contractors, with whom you have a legal relationship. This type of clause is a good idea to embed in waivers and contractual agreements in order to minimise the financial risk to your organisation in the event of a lawsuit.

Waivers of liability are often used to reduce the possibility of a lawsuit brought by a member of an OSO in the event of injury or death as a result of participating in an activity of the organisation. Typically, a waiver asks the member to acknowledge the risk of injury or death and release the OSO from any legal responsibility should such injury or death occur. Signing waivers of this nature is often a condition for an athlete's participation in an event.

Financial Record Keeping

Accounting is the method by which an organisation records all transactions, principally payments and investments, and classifies or files them such that they are easily retrievable in the future. They may be retrieved later on for any number of purposes, such as audits, reports or investor relations. It is crucial for your OSO to maintain nationally and internationally acceptable accounting procedures so that your financial management is transparent and auditable. Without good accounting procedures firmly in place, your OSO will be undermining its financial stability from the inside out. Unless you maintain retrievable records, you will not be able to demonstrate that resources have been spent according to intent, and funding sources might begin to withdraw their support.



For example, the money generated by the broadcasting rights of the Olympic Games is distributed by Olympic Solidarity to all member NOCs. Olympic Solidarity is essentially the custodian of this money, which rightfully belongs to the member NOCs. However, the fact that the money belongs to the NOCs is no excuse for skirting good financial management practices and not having a clear accounting system in place. It is because Olympic Solidarity is a good custodian of the money that it requires accounting evidence of the funds that are distributed as a precondition for the receipt of further funds. Thus, the NOCs are required to justify their spending for any OS-approved activities. If an NOC does not have a good accounting system, then it may not be able to demonstrate how the resources were used and, therefore, may not receive any additional subsidies.

The process of filing and reporting financial transactions relies on the development and adherence to generally accepted accounting principles (GAAP). GAAP are financial principles established by your organisation that are in conformance with the laws in the country in which the OSO is officially registered. These principles include how to set up your profit and loss accounts, to and from whom income and expenditure are reported, and the step-by-step procedure for cataloguing financial transactions for internal or external review. If you operate under GAAP, your accounts and financial practices will be consistent over time. This will make it possible to compare performance from year to year.

Accounting systems are set up according to local laws and organisational culture; however, there are some basic international standards that all countries are encouraged to meet. These standards are defined by the International Accounting Standards Board (IASB), which has a website, www.iasb.org, that you can use as a reference tool for good accounting procedures. A large amount of information on the subject is available for free, and paying members have access to even more information.

If your OSO has experienced difficulty setting up an accounting system, it will be useful to use the summaries of the International Financial Reporting Standards and International Accounting Standards available on the site. This portion of the site offers definitions of key concepts and ways to deal with them in your accounting process. In addition, the site offers a variety of documents regarding peripheral matters, such as how to deal with interested-party disclosure statements and financial investments in activities.

Receipts

The majority of accounting is about keeping legally acceptable receipts of transactions on record. The term "legally acceptable" varies from country to country, but for the most part it is good practice to have a receipt from a vendor that indicates the vendor's name, address, telephone number, vendor number (as registered with the government), and date and type of transaction. The receipt should indicate the kind of payment used and the amount of change given, if any. It is the responsibility of the team manager to ensure that the appropriate paperwork is collected and passed on to the accountant.

Because successful accounting relies on people in the field, it is vital that all employees spending the organisation's money are informed of organisational procedures. It is helpful to supply a receipt pouch or envelope to these individuals with an additional compartment for change. Having a drop box for such pouches in the office facilitates prompt return of the receipts. This way everyone who travels and is spending the organisation's money knows that there is one place where they should deliver their financial records. Emptying the drop box should be done only by a person with responsibility for the OSO's finances in order to limit the chances for loss or questions about tampering.

Although this collection system for receipts and change sounds simple, everyone can probably recall forgetting to request a receipt from a vendor. Therefore, it is perfectly appropriate for your financial controller to remind all staff regularly about collecting receipts and to review the classification procedures with them. For example, the financial controller may wish that all receipts be broken down into spending categories according to the published office codes prior to submission. Such categories could be food, medical expenses and communication and could be listed on a form that is distributed electronically or with the receipt pouch. The form could also include fields for amount of cash provided, amount of cash spent as per receipts, amount of cash returned and amount of cash that is unaccounted for. The latter should occur infrequently and only in small amounts.

Currency Conversion

When travelling in a foreign country, one often has to deal with currency conversions. This can be confusing because the conversion rates change daily, and sometimes people spend more than they think they are spending. At times, delegations run out of money and require an expensive wire transfer through Western Union or a local bank to rectify this. Thus, a good delegation head will stay on top of the spending and collect receipts from the delegates daily in order to avoid running out of cash. Ultimately, the financial controller will determine the internationally acceptable conversion rate to use in the final classification, but when delegations are in the field it is wise to use Internet-based conversion software, such as www.oanda.com, or a local bank to help you track your spending. When converting currencies, just be sure to indicate the date on which the funds were actually spent so that the correct conversion rate for the corresponding date is used and the calculation is accurate.

Auditing Accounts

It is in line with the principles of good financial management and governance to have your accounts audited once a year. This should be done by an external, independent individual or organisation. For larger OSOs, this may involve an auditing company, whilst clubs may ask a member who is not involved in the operation of the club to audit the accounts. If your accounting system is accurate, the audits will be straightforward, simple and nothing to fear. If you have a poor accounting system, an audit will tell you this and recommendations will be made on how to improve the accounting procedures. Remember, it is not the end of the world if you fail an audit; it is simply an opportunity to implement changes that will ultimately strengthen your organisation.

Auditing is necessary for producing a credible annual report to investors. If you cannot afford an independent auditor, you should at least have internal audits produced by your treasurer and approved in writing by every member of the Board. Unfortunately, the problem with internal audits is that they are considered less reliable by funding sources, and their formats can be inconsistent from year to year. If you have limited financial resources, you can try to find a certified public accountant (CPA) to contribute your audit for free (perhaps someone who enjoys your sport), but be sure the CPA is licensed so that the audit is credible.

KEY RECOMMENDATIONS

- ▶ Ensure that your OSO has adequate and appropriate insurance for its activities.
- ▶ Avoid conflicts of interest by annually asking all Board members, staff and volunteers to complete an interests register.
- ▶ Make liability waivers part of your competition entry requirements.
- ▶ Account for all finances in a consistent and transparent manner, following GAAP.
- ▶ Put in place procedures to help field staff account for expenses.

OSOs invest time and money in preparing athletes for major competitions. In many cases OSOs spend even more money once athletes are selected for a competition since expenditure is required for kit, travel and accommodation. However, even more costly in terms of image and sponsorship is an athlete who is selected for a major event, such as the Olympics or Paralympics, who then does not continue to train for the event, or is caught up in a scandal.

The following illustration shows how the United States Olympic Committee has attempted to avoid such events by requiring participants at their Olympic Training Center to sign waivers that release the OSO from liability.

Illustration 4.4

United States Olympic Training Center Waiver and Release of Liability

The United States Olympic Committee (USOC) attempts to minimise the risk of legal action against the organisation by requiring participants to sign the waiver that is presented in figure 4.3. The waiver and release of liability is a legal document that takes effect once it is signed by an athlete. All participants at the Olympic Training Center are required to sign the document before they can take part in any activities. The document is relatively short but outlines clearly the basis on which participants can take part in activities organised by the USOC.



UNITED STATES OLYMPIC TRAINING CENTER WAIVER AND RELEASE OF LIABILITY

NOTE: THIS FORM MUST BE READ AND SIGNED UNALTERED BEFORE THE PARTICIPANT IS PERMITTED TO TAKE PART IN ANY FUNCTION (I.E., TRAVEL, TRAINING, COMPETITION, PROCESSING, MEETING OR TESTING SESSIONS) AT OLYMPIC TRAINING CENTERS AND the United States Olympic Education Center (USOEC) at Northern Michigan University. BY SIGNING THIS AGREEMENT, THE PARTICIPANT AFFIRMS HAVING READ AND UNDERSTOOD IT AND IS IN AGREEMENT WITH ITS CONTENTS.

IN CONSIDERATION of my involvement in the sport and activities under the auspices of the **United States Olympic Committee (USOC)**, this sponsoring organization at this United States Olympic Training Center and the USOEC at Northern Michigan University, I acknowledge, appreciate and agree that:

1. RISK IS INHERENT IN PARTICIPATION IN MY SPORT, and in related training and discipline, including risks from the use of equipment and facilities, the risk of injury does exist, as well as the risk of damage to or loss of property; THESE RISKS INCLUDE EXTENSIVE AND SEVERE BODILY INJURY, PARALYSIS, DISMEMBERMENT, DISABILITY, DEATH, HARASSMENT, AND EXPOSURE TO INAPPROPRIATE CONDUCT.
2. I KNOWINGLY AND FREELY ASSUME ALL SUCH RISKS; both known and unknown, EVEN IF ARISING FROM THE NEGLIGENCE OF THE RELEASEES OR OTHERS;

3. I willingly agree to comply with the stated and customary terms and conditions for participation. If, however, I observe any unusual or unnecessary hazard during my presence or participation, I will bring such to the attention of the nearest official immediately.
4. I, FOR MYSELF, AND ON BEHALF OF MY HEIRS, ASSIGNS, PERSONAL REPRESENTATIVES, and NEXT OF KIN, HEREBY RELEASE, HOLD HARMLESS AND PROMISE NOT TO SUE THE INTERNATIONAL OLYMPIC COMMITTEE, THE UNITED STATES OLYMPIC COMMITTEE, AND/OR MY NATIONAL GOVERNING BODY, NORTHERN MICHIGAN UNIVERSITY, OR OTHER SPONSORING ORGANIZATION, THEIR OFFICERS, COACHES, VOLUNTEERS, STAFF, SPONSORS, AND/OR AGENTS, ("RELEASEES") WITH RESPECT TO ANY AND ALL INJURY AND/OR LOSS ARISING FROM MY PARTICIPATION, WHETHER CAUSED BY THE NEGLIGENCE OF THE RELEASEES OR OTHERWISE, EXCEPT THAT WHICH IS THE RESULT OF GROSS NEGLIGENCE OR WANTON MISCONDUCT.
5. This Waiver and Release of Liability shall remain valid for the entire calendar year in which it is executed (expiring on December 31 of that year) or until it is expressly revoked by written notice from me to the USOC, whichever occurs first; provided however, that any such revocation shall not in any manner affect the waiver and release of liability given hereunder for any acts or occurrences prior to receipt of said written notice by the USOC or prior to termination of my participation.

I have read this Release of Liability and Waiver Agreement, fully understand its terms, understand that I have given up substantial rights by signing it, and sign it freely and voluntarily without any inducement.

Participant's Signature _____

Participant's Name (Printed) _____ **Date** _____

FOR PARTICIPANTS OF MINORITY AGE

This is to certify that I/we as parent(s)/guardian(s) with legal responsibility for this participant, do consent and agree not only to his/her release, but also for myself/ourselves, and my/our heirs, assigns and next of kin to release and indemnify the Release from any and all Liability incident to my/our minor child's involvement as stated above, EVEN IF ARISING FROM THE NEGLIGENCE OF THE RELEASEES, to the fullest extent permitted by law.

Parent/Legal Guardian Signature _____ **Date** _____

Parent/Guardian Name (Please print) _____

Figure 4.3 The United States Olympic Committee's waiver and release of liability.

The waiver is comprehensive in that it covers risk of legal action from all possible sources, such as family and agents. It covers most of the risks likely to be faced by an athlete, ranging from death to harassment, and covers all of the activities associated with participation. It is renewed annually and covers all USOC facilities. In addition to this waiver, participants are also required to sign a medical and travel release and a code of conduct. These documents significantly minimise the risk to the USOC.

SECTION 4.5

EVALUATION AND REPORTING

Reporting is a two-step process. First, you need to evaluate the organisation's activities and spending to determine if the cost-benefit ratio was favourable. You have to ask whether the outcome of your efforts and spending was worth the investment. A variety of evaluations can produce quantitative data that can be combined with qualitative data. Once you have a good picture of the results of your efforts, you need to put everything together in a report that is available to the public. Certain financial components of that report should be audited so that it is credible to readers. The final product should also be easy to read and include some form of anecdotal notes or journalistic highlights to give the report flavour and make it enjoyable to readers, especially past and future investors.

This section considers how you can evaluate your activities and then report the evaluation. It outlines the role of reports and final accounts and then concludes with an illustration of how the Palestinian Rowing Federation reported on its training camp activities.

Evaluation

Throughout the period of operations you should have been in control of the budget through good accounting. Department managers should have provided monthly reports, and the Board should have viewed monthly and annual reports. The objective of evaluating your work is to determine whether the money spent achieved the objectives.

In order to perform a solid evaluation, you should first write up a summary of the objectives, activities to be evaluated and budget lines supporting those activities. There are many areas of an OSO to evaluate, and these should all be included on the list. Your evaluations should be both quantitative and qualitative in nature and should be combined to generate information indicating the degree of success or failure in the initiative.

Financial data is part of the quantitative aspect of the evaluation because it comprises numbers that express a quantity of money owed or owned by your OSO. These data are hard facts, not subjective indicators. Qualitative data may include feedback, suggestions and complaints. For example, assume your OSO is developing a new sport and has launched a test phase for introducing the sport at the community level. There will be several areas to evaluate qualitatively, such as media coverage to support the initiative and parent, athlete and volunteer satisfaction. These factors can be evaluated through interviews and questionnaires.

Each qualitative factor can also be matched with a quantitative evaluation. Having used media to promote the programme, you can then quantify the types of media coverage in number of articles and television reportage, and you can quantify the outreach within the community in number of readers or viewers. The impact can also be assessed by the number of people now aware of the sport. Parent, athlete and volunteer satisfaction can be represented as percentages to provide quantitative data; for example, 65% of parents were satisfied with the programme and 88% of athletes were satisfied with the programme.

You should always evaluate your athletes' performance and maintain a comprehensive database of the results. This database is necessary to gauge improvement and determine who might be eligible on the basis of athletic merit to receive training subsidies. Ultimately, when you get to the reporting phase you will want to highlight some of the performance quantitatively for your investors. For example, you could point out that athlete X at the local level was slowest last year but is now in the top third of the squad. In this instance you would provide competition times as quantitative data to support the claim. Another example could be athlete Y, who recently placed fifth in the continental games of his region and is now looking to be an Olympic hopeful. These types of quantitative evaluations are important motivators for some investors because they indicate success, and they can be included as feature stories in an annual report.

Reporting

Reporting is essential to good financial management. There are several levels and kinds of reporting that take place. At the project level, project managers must report monthly to the department heads about the financial status of their projects. The critical information in these monthly reports is whether the project is on budget. Thus, these reports include a financial summary table showing the spending for any given month compared with the spending year to date and the original budget. As outlined in section 4.3, the difference between year-to-date spending and the budget is referred to as the variance and is represented as a percentage. In monetary terms, this corresponds to a positive cash surplus or a negative deficit. Table 4.6 provides an example of a monthly report for a volleyball club. Note that the figures in round brackets () denote a deficit and that this is the usual way of reporting deficits.

The information provided to the department heads or project managers is passed to the financial staff within the OSO. They then classify and file the information so that it is easily retrievable in the future. Monthly reports should be supported by receipts and other financial records for the month and should continue throughout implementation of a project. When a project is concluded, it is necessary for the project manager to write the final project report. The report will include all evaluations and a summary table about the financial status of the project.

Table 4.6 Monthly Financial Report for a Volleyball Club

	This month	Year to date	Original budget	Balance
	AU\$			
INCOME				
Grant		3,002.40	10,000.00	6,997.60
Sale of shirts	21.00	110.45	500.00	389.55
Affiliation fees	100.00	225.00	500.00	275.00
Interest	2.50	2.50	20.00	17.50
Total	123.50	3,340.35	11,020.00	7,679.65
EXPENDITURES				
Electricity	80.52	579.50	2,000.00	1,420.50
Stationery and postage	43.50	821.45	2,000.00	1,178.55
Telephone		176.30	500.00	323.70
Insurance	115.25	263.40	500.00	236.60
Equipment		2,000.00	1,000.00	(1,000.00)
Repairs and maintenance		186.00	2,000.00	1,814.00
Cost of shirts		400.00	300.00	(100.00)
Travel	21.69	775.26	2,000.00	1,224.74
Sundries	10.05	30.15	100.00	69.85
Total	271.01	5,232.06	10,400.00	5,167.94
Surplus (deficit)	(147.51)	(1891.71)	620.00	2,511.71

© 2006 State of Queensland (Department of Local Government, Planning, Sport and Recreation).

The level of detail in a final report should always be comprehensive and include qualitative and quantitative information. Reports should also be easy to read and include the most important information up front in summary form. This means that there should be an easily readable spreadsheet or financial table summarising all cash flow and including a consolidated budget. You can also include an evaluation summary in table format across a variety of categories to give the reader a quick idea of the content of the report.

An OSO should produce financial quarterly reports, to be shared with the Board of the organisation. Such reports normally remain confidential; only annual reports become public documents available to everyone, including staff. Staff responsible for specific projects will obviously know some financial information. However, they should be reminded by the Board, executive director or financial controller that they are not supposed to share financial information about their project unless necessary to complete work required by the OSO.

Figure 4.4 presents a simple three-tier controlling and reporting structure that is recommended to manage the finances associated with implementing programmes and services. The reporting structure, supported by accounting records, helps ensure transparency in implementation. Transparency is the process by which an organisation records its decision making and financial spending and earnings such that others can verify the accuracy of the information. As outlined in chapter 1, transparency in decision making permits an OSO to measure the effectiveness of its work and to problem solve when necessary.

Being transparent does not mean that an organisation cannot have confidential material. OSOs should have transparent structures as ultimately this means that they are representative in nature. However, confidentiality is also an essential element in reporting. In the same way that Olympic Solidarity respects the confidentiality of financial affairs relating to its constituent NOCs, organisations or individuals within a given system should respect the confidentiality of certain matters as defined by the Board.

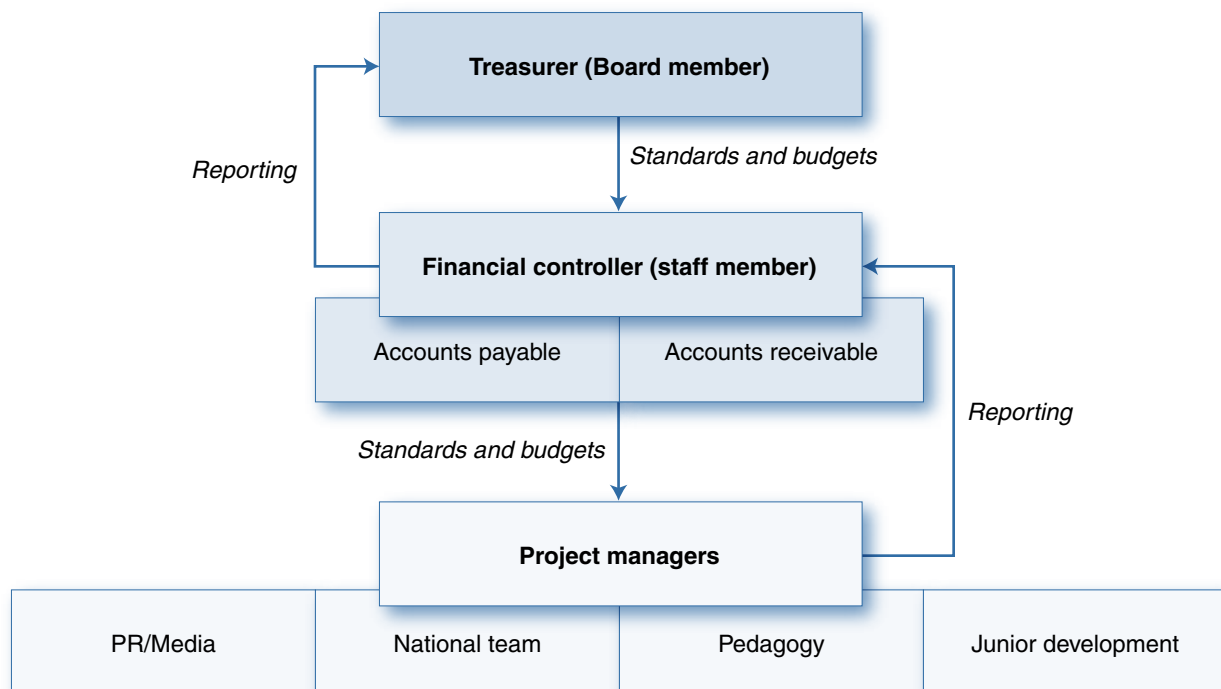


Figure 4.4 Three-tier controlling and reporting structure.

This does not mean that Olympic Solidarity does not divulge any financial information about its dealings with NOCs. Olympic Solidarity publishes an annual report that reveals how much it allots to NOCs across various programmes. It also publishes the total amount of money available at the start of its quadrennial. However, this does not mean that the details of every financial transaction are available for Olympic Solidarity to reveal to anyone who calls the office. The details can only be shared with the consent of the NOC in question. In a system with so many competing stakeholders at so many different levels, it may be important to keep certain matters confidential, at least for a period of time. Table 4.7 suggests the confidentiality of various items in the workplace.

An important way to maintain confidentiality in an organisation is to have all persons working with or for the organisation sign a nondisclosure agreement as a condition of employment. Violation of the nondisclosure agreement could be cause for immediate dismissal. Nondisclosure agreements could be used as standard practice, but they are particularly useful in situations where sensitive information about an organisation or individual's finances could be passed to parties that would use it with malicious intent, such as competitors in the market. It is also recommended to use nondisclosure agreements in high-profile projects and projects with large budgets, such as a bid package for an international championship.

Table 4.7 Transparency Versus Confidentiality of Information

Document	Produced by	With help of	For whom	Time of distribution	Confidentiality
Agendas	Chair	Meeting participants	Participants	Before meeting	Medium
Minutes	Appointee	Scrutineer	Participants	After meeting	Medium
Mail	Sender	N/A	Recipient	Upon arrival	Highest
Planning documents	Planners	Appointed staff	Board	Before Board meetings	High
Monthly reports	Project manager	Staff on project	Controller	Monthly	High
Quarterly reports	Controller	Project managers	Board	Before Board meetings	Highest
Annual reports	Board	Controller, Executive director	Public	First quarter	Low
Midterm reports	Controller	Project managers	Board	Before Board meetings	Highest
Salaries	Board	Executive director	Staff	After annual reviews	Highest

Be sure to remind paid and unpaid staff to discuss confidential information only in designated areas, such as a closed conference room. Staff should not discuss sensitive information in the common areas of the office like the kitchen or bathrooms or close to another person who is on a telephone. Accountants or treasurers should not speak about their work with anyone other than the Board or executive director in the office. Only those needing it should have access to sensitive information.

Final Accounts

Thus far we have reviewed information on how an OSO can develop, budget, account for and report on its financial plans. The final stage in this process is the preparation of annual, hopefully audited, final accounts. The two main accounts that need to be presented to the General Assembly are the operating statement and the balance sheet. These accounts will give members a feel for the financial stability of the organisation.

Operating Statement

Also known as the profit and loss account, the operating statement is an analysis of how the capital or net worth of an organisation has changed over a given period. It is a record of income generated and expenditure incurred over a given period, as can be seen in table 4.8, which is the operating statement of the Amateur Swimming Association (ASA). The account shows whether the OSO has more income than expenditure, that is, a surplus or a deficit.

These accounts must show the following:

- Turnover
- Income from rents
- Income from investments
- Equipment hire charges
- Depreciation charges and how they are arrived at
- Auditor remuneration
- Interest on loans
- Tax charge (if applicable)
- Transfers to and from reserves
- Any exceptional accounting adjustments

Balance Sheet

A balance sheet is the list of assets and liabilities an organisation has at a given time (table 4.9). Reading, interpreting and explaining a balance sheet is not solely the domain of trained accountants, and you should be able to articulate the meaning of a balance sheet. The purpose of a balance sheet is to put a value on the net worth of an organisation. To do this requires a list of those things of value (assets) that the organisation owns, such as buildings and cash, and a list of those things that the organisation owes to others (liabilities), such as loans. The difference between these two figures is the net worth, or equity, of the OSO.

Table 4.8 Operating Statement of the Amateur Swimming Association

	Actual 2004/05 (£000s)	Budget 2004/05 (£000s)	Actual 2003/04 (£000s)	Actual 2002/03 (£000s)
OPERATING INCOME				
Awards scheme (net)	1,642	1,696	1,599	1,517
Membership fees	942	902	1,155	1,159
Education	619	550	611	619
Grants from Sports Council and government agencies	2,612	2,485	453	348
Competition income	217	159	180	152
Sponsorship and marketing fees	355	364	293	250
Management charges	69	130	142	169
Crystal Palace scheme (net)	68	25	9	17
Swimfit	6	0	11	0
English programme contributions	67	0	0	0
Sundry	55	6	9	15
Total	6,652	6,317	4,462	4,246
OPERATING EXPENDITURE				
Staff and related costs	1,770	1,828	1,686	1,645
Competition costs	452	424	387	390
Contribution to ASFGB Ltd.	381	368	357	341
Contribution to HPSE Ltd.	1,350	1,340	0	0
Office costs	380	386	259	230
Education	258	255	255	315
Insurance	268	264	229	243
Nonrecoverable VAT	86	145	68	122
Development	445	319	159	104

	Actual 2004/05 (£000s)	Budget 2004/05 (£000s)	Actual 2003/04 (£000s)	Actual 2002/03 (£000s)
ASA district grants	49	66	135	108
ASA regions	165	210	0	0
Committee meetings	105	104	135	141
Publications	91	100	57	110
Depreciation	57	56	58	80
Office equipment and IT services	65	36	73	81
Swimfit costs	8	0	18	17
Sponsorship and marketing costs	178	231	167	70
Grants to other bodies	64	70	64	64
Legal and professional fees	76	96	102	66
HR training and recruitment	70	81	47	56
Grant-funded project costs	576	489	143	9
Other expenses	51	53	54	58
Total	6,945	6,921	4,453	4,250
Operating surplus (deficit)	(293)	(604)	9	(4)

Reprinted with permission of the Amateur Swimming Association.

The balance sheet must contain the following:

- Corresponding amounts for the immediately preceding financial year
- Breakdown of the capital employed
- Details of freeholds and leases
- Value of patents and trademarks
- Valuation of fixed assets and how the figures were arrived at
- Details of any investments and their value
- Loans
- Cash and debts
- Stock and the basis of its valuation
- Total bank loans and overdrafts

Table 4.9 Balance Sheet of the Amateur Swimming Association

	2005 (£000s)	2004 (£000s)
FIXED ASSETS		
Freehold properties	165	168
Fixtures and fittings/IT	105	62
Motor vehicles	20	–
	290	230
INVESTMENTS AT COST		
Unquoted	85	85
CURRENT ASSETS		
Bank and cash balances	850	1,467
Sundry debtors	1,111	531
Loan to ASA Swimming Enterprises	145	145
Stock	161	141
	2,267	2,284
Subtotal	2,642	2,599
CURRENT LIABILITIES		
Sundry debtors	(712)	(520)
Deferred income	(831)	(685)
Charitable donation	(3)	(3)
	(1,546)	(1,208)
Amounts due from Amateur Swimming Federation of Great Britain Ltd.	184	184
NET ASSETS	1,280	1,575
RESERVES		
Accumulated fund	1,197	1,500
Premises reserve fund	83	75
	1,280	1,575

Reprinted with permission of the Amateur Swimming Association.

Because each organisation has different needs, the financial practices adopted therein will be a reflection of those needs. However, problems can occur when there is too much variation in the reporting of member organisation finances. These problems are especially acute if liabilities are not reported and financial collapses occur suddenly. This is why audited final accounts are necessary.

KEY RECOMMENDATIONS

- ▶ You and your Board need to evaluate the OSO's performance in qualitative and quantitative terms.
- ▶ Ensure that you report on finances on an annual basis.
- ▶ Ensure that financial information is kept as confidential as appropriate.
- ▶ Produce annual, audited accounts to demonstrate financial probity.

The following illustration shows how the Palestinian Rowing Federation evaluated and reported the activities of its coaching development programme.

Illustration 4.5

Evaluation of the Coaching Development Programme of the Palestinian Rowing Federation

The Palestinian Rowing Federation (PRF) is one of the youngest rowing federations in the world. Founded in 1998, it faces formidable development challenges characterised by a volatile political situation and weak investment in sport in general. In order to develop a national coaching programme to lay the foundation for the future expansion of rowing in Gaza, the PRF sought and obtained funding from Olympic Solidarity to send a group of coaches to the International Training Centre for Rowing in Seville, Spain.

When reporting on the success of the venture and accounting for funds, as suggested in this section, the PRF carried out qualitative and quantitative evaluation of the training events, which were 2 months long. Qualitative evaluation of the programme was carried out through interviews with the coaches and administrator and through evaluation of the daily logs maintained by attendees whilst at the training centre. In addition, an evaluation questionnaire was also completed.

From this data and the accounts kept of the event, and in order to account for the funding received from Olympic Solidarity, the PRF provided a detailed report that was prefaced by the report summary outlined in table 4.10.

(continued)

Illustration 4.5 (continued)

Table 4.10 Evaluation Summary Submitted to Olympic Solidarity (OS)

Summary report of first module of coaches training, PRF-OS-FISA*			
	Category	Evaluation	Comments
Training objectives	Train coaches in touring boats	0	Coaches used training boats, but not touring/ ocean boats specifically.
	Train coaches in racing boats	4	Coaches learned how to use racing shells.
	Train coaches in rigging	4	Coaches learned necessary rigging skills.
	Train coaches in weightlifting technique	2	Coaches were introduced to basic weight training techniques.
	Offer participants travel opportunity out of the Gaza Strip	2	Only 50% of intended participants travelled.
	Offer coaches cultural experience in line with principles of Olympism	2	No structured programme.
Time	Punctuality of commencement of programme	3	Three days late due to border passage problems.
	Schedule	2	Adapted on location to be more manageable and mesh with schedule at Centre, Coaching Level 1 curriculum, and adjust for communication difficulties with language.
Participants	Number of male coaches	4	All male participants attended (2).
	Number of female coaches	0	No female participants attended (2 intended).
	Community administrator	4	All administrators attended (1).
	Chaperone (for females)	0	No chaperone attended (1 intended).
Cash spent	FISA budget	2	38.9% of budget spent (€2,526.56 out of €6,489.36).
	PRF budget	2	29.5% of budget spent (US\$3,106.88 out of US\$10,535.00).
	OS budget	1	29.6% of budget spent (€5,804.60 out of €19,598.40).

Summary report of first module of coaches training, PRF-OS-FISA*			
	Category	Evaluation	Comments
	Overall evaluation	2	Final rating 2.2 on a scale of 0 (low) to 4 (high), with 2 as intermediate. The programme was a success, scoring above intermediate in critical dimensions, training objectives were achieved and the lower-than-expected score is based on 50% participation and, therefore, not a reflection of the integrity of the curriculum, module design and so on.
Next step	Points for improvement	PRF	Visa process needs to be faster/better organised, ensure attendance of female coaches in the second module, respond to assignment from FISA more promptly, and submit module report more promptly.
		FISA	Confidential.
		OS	No need for improvement—does not affect implementation.
	How to prepare for second module	PRF	Use courier service for visa application process to consulate, identify a pool of female coaches and put them through a competitive selection process for Seville, seek a written guarantee of attendance from female coaches and their respective chaperones, utilise technology more effectively to overcome physical barriers in the territories (perhaps by improving federation intranet), set mutual deadline with OS and FISA for submission of module report, adhere to schedules.
		FISA	Confidential.
		OS	Confidential.
	Legend	0 = low; 1 = limited; 2 = average; 3 = satisfactory; 4 = high	

*FISA stands for Fédération Internationale des Sociétés d'Avion (International Rowing Federation).

(continued)

Illustration 4.5 (continued)

This report summary provides an evaluative overview of the event in terms of its objectives, budget and participants. Each of these factors is evaluated on a scale from 0 to 4, and comments explaining performance are provided. The report also provides an overall summary score, plus areas of improvements. By presenting the information in this manner, the PRF was able to provide a succinct report to its stakeholders, allowing them to identify the key information first: performance against objectives and against budget. This structure allowed stakeholders to gain an impression of the overall evaluation of the event and determine quickly whether the cost–benefit ratio was favourable. The summary was then reinforced by more detailed information in the remainder of the report.

This type of reporting makes good use of qualitative and quantitative information. It is based on research with participants, which increases the reliability of the evaluation and accounts for expenditure against key areas of interest. It also provides meaningful information for stakeholders who may be too busy to read a detailed report and therefore demonstrates the accountability of the PRF.

The following case study discusses the GAAP developed for Swiss OSOs. In recent years, two Swiss NFs filed for bankruptcy, and another federation faced a major financial crisis. These matters, combined with growing pressure from governmental donors, encouraged the Swiss Olympic Association to develop a uniform reporting procedure for all associated sport organisations in the country. The case study that follows is an ongoing initiative that is expected to evolve through at least 2012.

CASE STUDY 4

Generally Accepted Accounting Principles: Swiss Olympic Association

In 1998 the Swiss Olympic Association (Swiss Olympic) began an initiative to resolve problems with the finances of the OSOs under its patronage. Swiss Olympic needed to finance all associations using federal money whilst ensuring reporting for spending across competitive, popular and particularly junior development initiatives.

However, discrepancies in financial reporting amongst the 81 Olympic and non-Olympic sport associations in the country had led to the inability of Swiss Olympic to provide credible, reliable and accurate financial information to government and private sector investors. This inconsistency resulted in a real threat to Swiss Olympic's funding. The message was clear: Swiss Olympic needed to develop a uniform financial reporting system of generally accepted accounting principles (GAAP) in order to reinforce weakening trust over the financial practices of the organisation's affiliates.

The objective of the project was to secure sufficient funding for Swiss sport in the 21st century in accordance with the goals and objectives that the organisation had set. In addition to securing financial stability, Swiss Olympic would also achieve two important yet previously elusive objectives:

- The development of a transparent, financial reporting structure across all 81 sport associations
- The generation of uniform standards for data collection

The structure and standards would result in a financial information bank that could be used to compare and evaluate performance and growth over time.

In addition, the Swiss Sport GAAP would require that all Swiss sport associations stop doing their accounting voluntarily. The GAAP would provide a description of the accounting process to be followed and the categories to be included when compiling a balance sheet. This would introduce uniformity across all organisations. The GAAP project was an example of Swiss Olympic

taking the lead on providing mutually beneficial systems and training to its member associations. Swiss Olympic would get what it needed to secure its funding, and the sport associations would receive training on how to conform with the expectations of their governing IFs.



Courtesy of the Swiss Olympic Committee.

► The Project

The project team consisted of members of Swiss Olympic, the Zurich University of Applied Sciences Winterthur and the private financial consulting firm of PricewaterhouseCoopers (PwC). The process followed and the time frames involved are outlined in figure 4.5, and from this it is apparent that the project was somewhat lengthy.

It was, however, a thorough process. The first step in the process was to collect as much data as possible on the financial statements of all national sport associations, starting with the largest in order to set the standard. These sheets showed that different sports were funded in different ways and amounts. For example, football earned a high volume of cash from a wide competition range. In contrast, the only source of income for paragliding was issuing certification for gliders. Consequently, the balance sheets of associations were quite different.

(continued)

CASE STUDY 4 (continued)

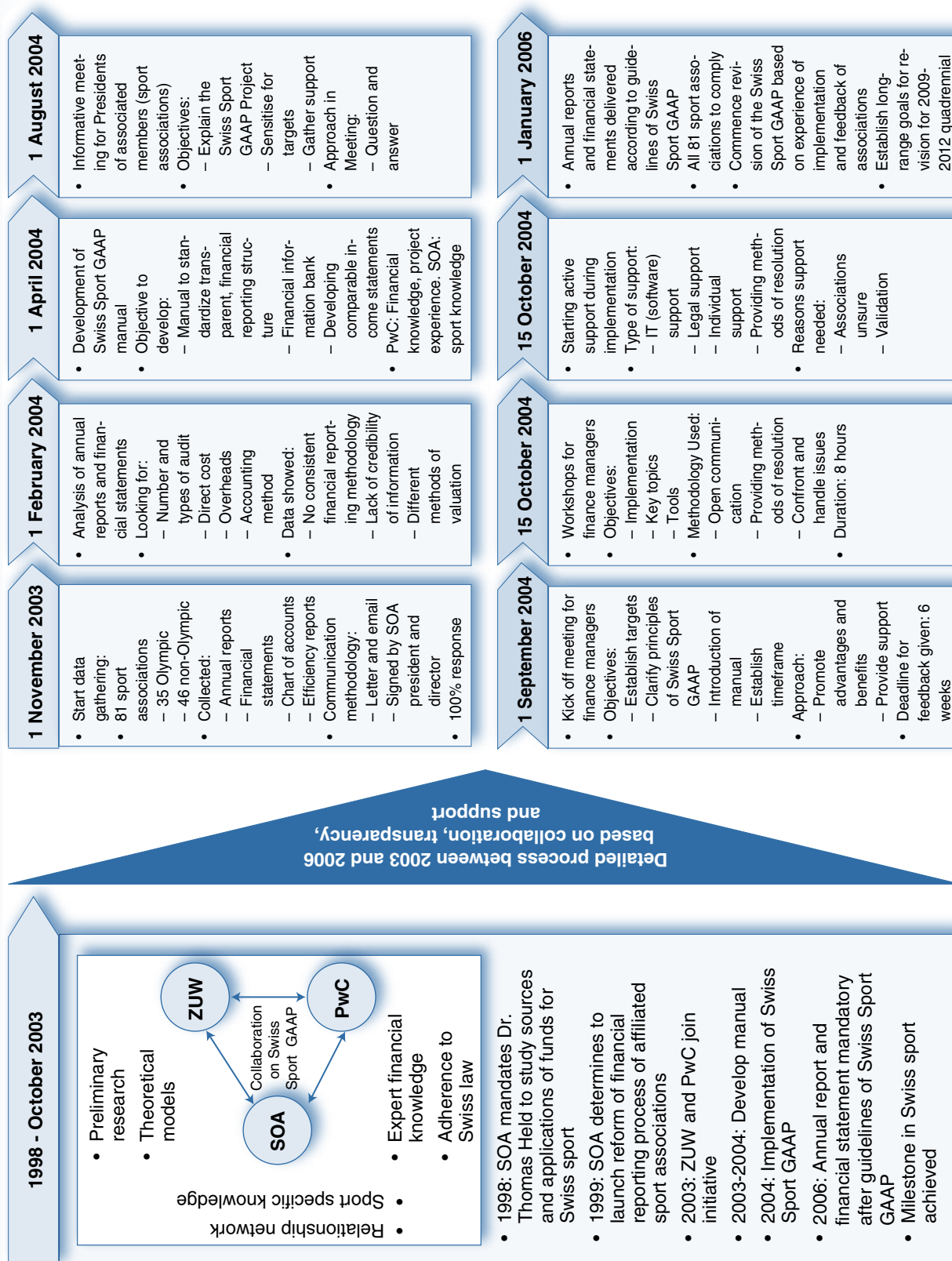


Figure 4.5 Swiss Sport GAAP time frame and process.

After collecting the data from the balance sheets, PwC reconciled the information from all the associations' balance sheets with the Swiss Code of Obligation regarding limited liability corporations. This was necessary to verify the accuracy and legality of the reported direct costs of sport activities and their associated overhead. The information was used to determine how much money Swiss Olympic needed to target from investors, such as the national lottery, government and sponsors from the private sector.

The data collection process proved the perceived wide discrepancies. For example, not all sport organisations performed audits. Amongst those that did, some performed internal audits, whilst some performed external audits with private companies or through private contacts. Many of the accountants from the sport associations had been copying their accounting principles from the business units of private corporations from which they had been hired. They had applied the principles to sport despite the fact that the two were not compatible. Ultimately, much of the material that was collected was not comparable, thereby reinforcing Swiss Olympic's conviction to develop a uniform system of reporting.

The comprehensive data collection process lasted five months before the GAAP manual was developed. This ensured a reliable basis for the manual. The training associated with the project was targeted, and the first phase aimed to communicate the need for the GAAP to Presidents of the associations. Intended to gain commitment and support for the GAAP, this initial phase was followed by communication with and training for Financial Managers. Although the Presidents needed to be committed to the GAAP, Financial Managers would be implementing it. They needed to understand what was required, and thus the training for this group was much more detailed.

Classification Codes, Accounting Instructions and Other Tools

Aside from reconciling the financial practices of the associations with Swiss law, the Swiss Olympic GAAP project resulted in the publication and distribution of the *Manual for the Establishment of Annual Accounts*. This includes a set of classification codes, accounting instructions and other tools for income and expenditure that all associations had to adopt. A summary of these items as outlined in the GAAP is presented in table 4.11.

From this table, we can see that the GAAP model requires that all cost items be categorized by cost element, such as salary; cost centre, which can be multiple, such as championships; and cost object, such as elite sport. This is a very structured approach to accounting that increases comparability across time and across organisations.

Implementation

Once the Swiss Sport GAAP manual was developed, it had to be promoted to and adopted by all the sport associations. Communication was critical to this step in the initiative, as was the identification of serious backers. This meant educating the Presidents of the sport associations on the model and getting them to back its implementation in their respective sport associations. Thereafter, Swiss Olympic could pursue the task of organising workshops for the staff members who would be directed to implement the GAAP by their President or Executive Director.

(continued)

CASE STUDY 4 (continued)

Table 4.11 Summary of Swiss Sport GAAP

Classification codes	Directives of distribution and evaluation of the assessment
A	<i>Directives of distribution and evaluation of the balance sheet</i>
1	Assets
10	Current assets
	100-130 (e.g., cash and equivalents, securities)
14	Fixed assets
	140-180 (e.g., restricted capital, tangible fixed assets)
2	Liabilities
20	Short-term obligations
	200-230 (e.g., short-term financial obligations, other financial obligations)
24	Long-term obligations
	240-260 (e.g., long-term financial obligations, other financial obligations)
27	Restricted funds capital
	270 (e.g., restricted funds capital)
28	Federation capital
	280 (e.g., capital of the federation)
B	<i>Directives for auditing the income statement</i>
	Operating income
	300-330 (e.g., contribution from members, public and private subsidies, event revenues)
	Direct sectoral costs
40	Elite sport
	400-406 (e.g., world and European championships, training, sports medicine)
41	Sports development
	410-416 (junior world and European championships, competitions, training, sports medicine)

Classification codes	Directives of distribution and evaluation of the assessment
42	Popular sports
	420-424 (e.g., sectoral management, competitions)
	Indirect administrative costs
	450-476 (e.g., employee wages and salaries, travel, legal and advertising expenses)
	Financial results
	360, 480 (i.e., funds invested and funds generated)
	Sundry results
	370, 490, 499 (e.g., taxes)
	Funds results
	910
<i>C</i>	<i>Cash flow statement</i>
<i>D</i>	<i>Statement of changes in association's net equity</i>
<i>E</i>	<i>Appendix</i>
	Summary of the most significant principles for presentation of the accounts
	Tangible fixed assets table
	Provisions table
	Other notes
<i>F</i>	<i>Performance report</i>
<i>G</i>	<i>Directives for review of the accounts</i>
	Review of the association's official annual accounts
1	Review of the association's consolidated accounts
10	Law of monitoring of the audits
	<i>Sample letters</i>
14	(Includes a variety of templates used in the accounting process according to Swiss Sport GAAP)

(continued)

CASE STUDY 4 (continued)

Swiss Olympic organised a series of workshops and, in 2006, was working with individual associations in the process of conversion as they began to implement the financial reforms. At the first public workshop, Swiss Olympic presented the Swiss GAAP model to the sport associations. Each sport association had 6 weeks to offer their responses and key demands to Swiss Olympic regarding compliance. Such demands included concerns about the feasibility of and time frame for implementation. It was clear that some federations, such as swimming, rowing, cycling, fencing and tennis, were in a much better position to implement the model faster and more easily than those whose human resources or financial models were less developed or consistent. Such organisations would require years to transition into the new system. PwC offered 2 days of workshops for all associations' financial controllers upon the introduction of the manual into the sport system.

A financial software firm developed software to support the use of the GAAP by the larger associations. The smaller associations are able to use Microsoft Excel for implementation. In doing so, associations avoid purchasing additional expensive software.

Naturally, the better positioned associations proved to be critical allies of Swiss Olympic in driving implementation of the GAAP forward. Supportive and capable associations provided reliable environments for beta testing, incubating new ideas and even setting the same standards for their respective affiliates, such as clubs. Also, these associations provided Swiss Olympic with good role models whilst buffering tension and acting as catalysts to the less prepared associations, some of whom were entrenched in the attitude of maintaining the old way of doing things.

Project Limitations

The four main problems faced by Swiss Olympic in the realisation of the GAAP were as follows:

- *Generating a commitment to change:* The project was more than just a change in a balance sheet, it was a change in the entire attitude towards consistency and specialisation as critical factors in financial solvency.
- *Pressure of money:* Associations continued to try to take money without opening up their books.
- *Generalising budget categories:* It was necessary to identify the terms (including the spelling) for income and expenditure.
- *Reconciliation from one system to another:* Existing systems had different financial codes than those required by the GAAP.

The length of time and variation in capability to implement the model also resulted in Swiss Olympic's decision to treat the model itself as an adaptable structure. Ultimately, Swiss Olympic recognised that the project involved a dynamic model that would have to be revised at the conclusion of the 2005-08 quadrennium, at which time 2 years of uniform reporting amongst all Swiss sport associations would have occurred.

Project Strengths

An important strength of the model is the static reporting system, which requires only minor adjustments to be made over a clearly defined timetable. Since sport operates in a dynamic environment, the GAAP allow OSOs to deal with constantly changing financial officers and staff who often bring their own accounting methodologies. Through the Swiss Olympic GAAP, the NOC is able to secure the accuracy of information over time and across people.

Swiss Olympic considers transparency in communication through workshops and professional communications and honesty to be the two most important factors in the success of the initiative. These attributes are of high importance to the government and private sector. Framing the reforms in line with the principles and spirit of Olympism was also important, particularly when trying to expand the implementation of the GAAP into the association's clubs. Swiss Olympic is working with the tennis association to introduce the model at the club level.

In the end, the effort to develop the Swiss Olympic GAAP was determined by technical realities imposed by internal reporting deficiencies and the needs and expectations of external stakeholders. Swiss Olympic's realisation that it needed to respond to these pressures through reforming the reporting system rather than ignoring them will secure future funds for Swiss Olympic, making the restructuring well worth the effort.

► GAAP Implementation in the Swiss Gymnastics Association

The Swiss Gymnastics Association (SGA) was founded in 1832. The primary responsibility of the SGA is the management of gymnastics at the national level in setting standards, setting competition categories, and selecting national and Olympic teams. In addition, the SGA runs a large training facility.

Until adoption of the GAAP, the SGA maintained separate accounts for the events that it organised. Events included the Swiss Cup, the World Championship of Popular Gymnastics and the Federal Gymnastics Event (the biggest popular sport event in Switzerland, held every 6 years). Each of these events had separate profit and loss accounts. Now they are incorporated into the balance sheet of the SGA. Although the SGA preferred to maintain the separate profit and loss accounts so as not to lose transparency, it accepts that the integration of the accounts makes the balance sheet more reliable and accurate.

With the full implementation of the GAAP model in 2006, a new internal structure for the SGA was put into place. There is now a division between strategy and operations. Previously, the President of the SGA controlled a portfolio. Now, a more corporate model has been adopted in which the President is barred from having this type of control.

(continued)

CASE STUDY 4 *(continued)*

The SGA experienced several improvements through implementation of the GAAP. The ability to benchmark now allows the SGA to determine how much it is spending on popular versus elite sport versus administrative costs. This aids Board members and stakeholders in making more informed strategic and financial decisions. The balance sheet, once generated, is very clear. It is also mandated that efficiency reports be more detailed through the incorporation of extensive explanations under the GAAP. This helps define irregularities such as moving to a bigger office and inappropriate variances in budget. In addition, the GAAP requires an outside company to perform the audit in order to prevent misleading reports. Although this is good from the perspective of Swiss Olympic, it is a considerable cost that all sport associations must take into account.

Despite the many improvements and successful implementation of the GAAP, the SGA identified a significant problem in one area. No association has yet found a solution to the question of how to classify payroll in the balance sheet, especially for large sport associations. The SGA found that the payroll system within the GAAP does not match the organisation's event pattern or comply with its IT structure.

This oversight in the planning of the GAAP means that the SGA has to include detailed notes on the accounts to explain to members how much individuals are being paid. This creates an even longer accounting structure than before. So, the process by which a balance sheet is obtained has not been streamlined, although the product will be easier to read and compare at a system level for Swiss Olympic.

Although Swiss Olympic never had a problem interpreting the balance sheets of the SGA, it can now compare more easily the SGA data to that of other Swiss associations. The SGA has essentially reclassified the same information it was giving Swiss Olympic before it adopted the GAAP. The biggest difference between the old and new system is that now both OSOs can see how much is being spent on elite versus popular sport. Previously there had been no clear line for this on the accounting record.

The SGA found that initially Swiss Olympic asked for too much information in some areas. However, it is expected that the reporting package will change over time to ask only for information that Swiss Olympic needs. At present, the GAAP is a higher standard than required by Swiss law, but it does allow the SGA to analyse two essential elements that constitute the GAAP's overall structure: the balance of spending on professional versus recreational sport and the balance of spending on sport versus administrative costs.



The Swiss GAAP was an ambitious and innovative project that was driven by the need for good financial practices. The underlying principles of consistency, comparability, transparency and accountability were a solution to the problems that Swiss Olympic faced before the project was undertaken.