

9/12/2016



SPHM  
HOSPITALITY

BUDGETING S.O.P



By: | Agustinus Agus Purwanto, SE MM



Series 3500

# Budgeting



Subject: Annual Club Goals

A-3501

- A. Policy. It is the policy of the club that Annual Club Goals be prepared for each fiscal year.
- B. Discussion
1. The General Manager will establish written goals for the club for each year.
  2. The Annual Club Goals are an essential part of creating a vision and action plan to accomplish major goals.
  3. Department Heads should be given a copy of the Annual Club Goals for the coming year prior to starting the [Annual Budgets], as the requirements of the annual goals may have impact upon their departmental budgets.
  4. Goals can include:
    - a. Ongoing efforts toward major projects, such as continuing to improve and refine training programs.
    - b. Discrete projects to be completed during the year, for instance establishing an asset management database with photographs.
    - c. Specific performance results, such as achieving departmental break even in the food and beverage department or exceeding \$1 million in golf revenue.
    - d. Any other projects deemed necessary or beneficial by the General Manager.
  5. The General Manager may, at his or her discretion, require Department Heads to provide written annual goals for their respective departments. These departmental goals are useful in establishing annual work plans and evaluating Department Heads' performance during the annual performance review process.
- C. Deadline. Annual Club Goals must be completed prior to the start of the club's [Annual Budgets] process.
- D. Submissions. Annual Club Goals must be forwarded to the Board of Directors by October 31<sup>st</sup> of each year.



Subject: Annual Budgets

A-3502

A. Policy. It is the policy of the club that Annual Operating and Capital Budgets be prepared for each fiscal year.

B. Discussion

1. General

- a. Annual budgets are an important tool to establish financial goals and to track progress toward those goals throughout the fiscal year.
- b. To be useful annual budgets must be prepared prior to the start of the fiscal year.
- c. The fiscal year for the club is January 1<sup>st</sup> through December 31<sup>st</sup>.

2. Definitions

- a. An Operating Budget is a plan for the financial performance of the club and each of its operating departments.
- b. A Capital Budget is a plan of proposed acquisitions and replacements of capital assets and their financing.
- c. A Capital or Fixed Asset is an item that has physical substance and a life in excess of two years. It is bought for use in the operation of the business and not intended for resale. Examples are structures, machinery, equipment, vehicles, and land. Fixed assets with the exception of land are subject to depreciation.

3. Budgets. The Annual Budget is made up of two major components:

- a. Annual Operating Budget. This budget establishes goals for financial performance for all operating departments and the club as a whole.
- b. Annual Capital Budget. This budget establishes the amount to be spent on capital purchases by each operating department and the club as a whole.



Subject: Budget Development Timeline

A-3503

A. Policy. It is the policy of the club that Annual Operating and Capital Budgets be prepared according to an established timeline for each fiscal year.

B. Definitions

1. Departmental Operating Budgets – the departmental profit and loss schedules for each department. May be initial or final.
2. Departmental Capital Budgets – the departmental plan for purchasing capital assets.
3. Club Operating Budget – the consolidated budget made up of all departmental operating budgets. May be initial or final.
4. Club Capital Budget – the consolidated budget made up of all departmental capital budgets.

C. Discussion

1. Timely development and submission of the Annual Budget allows for proper planning and ongoing monitoring of financial performance.
2. The Operating Budget will be developed according to a timetable determined by the General Manager in conjunction with the Board of Directors. The following is a proposed approximate timeline:
  - a. August 31<sup>st</sup> – [Annual Club Goals] for the next fiscal year established by the General Manager.
  - b. September 1<sup>st</sup> – Initial Budget meeting and guidance to Department Heads by the Controller.
  - c. September 18<sup>th</sup> – Submission of initial Departmental Operating and Capital Budgets by Department Heads to the Controller.
  - d. September 21<sup>st</sup> – Consolidation of initial Departmental Operating Budgets into initial Club Operating Budget by the Controller.
  - e. September 21<sup>st</sup> – Submission of initial Club Operating Budget and Departmental Capital Budgets to the General Manager by the Controller.
  - f. September 31<sup>st</sup> – Review of initial Club Operating Budget and Departmental Capital Budgets by the General Manager and return to the Controller.
  - g. October 10<sup>th</sup> – Revision of initial Departmental Operating Budgets and Capital Budgets as



necessary by Department Heads.

- h. October 10<sup>th</sup> – Submission of final Departmental Operating Budgets and Capital Budgets by Department Heads to Controller.
- i. October 20<sup>th</sup> – Consolidation of final Department Operating Budgets into final Club Operating Budget by Controller.
- j. October 20<sup>th</sup> – Submission of final Club Operating Budget and Departmental Capital Budgets to the General Manager by the Controller.
- k. October 25<sup>th</sup> – Review of final Club Operating Budget by the General Manager.
- l. October 25<sup>th</sup> – Review of Departmental Capital Budgets by the General Manager.
- m. October 31<sup>st</sup> – Consolidation of Departmental Capital Budgets into final Club Capital Budget by the Controller.
- n. November 1<sup>st</sup> – Submission of final Club Operating and Capital Budgets to the Board of Directors.

### C. Responsibilities

- 1. The Controller has overall responsibility for the Budgeting process, including holding the Initial Budget Meeting, coordinating the completion and submission of all departmental budgets, and consolidating and submitting the club budget.
- 2. Individual Department Heads are responsible for developing the Operating and Capital Budgets for their departments and submitting them to the Controller in a timely fashion.
- 3. The General Manager has the responsibility of establishing the Annual Club Goals and reviewing the initial and final Club Operating Budget and Capital Budget.



Subject: Operating Budget

A-3504

A. Policy. It is the policy of the club that Annual Operating Budgets be prepared according to established procedures as described in this policy.

B. Definitions

1. Assumptions – the stated rationale for numbers used in financial projections. These should be stated as clearly and concisely as possible. Complicated calculations such as analysis of golf rounds, revenue projections, and payroll calculations should be shown in attached schedules. The purpose of assumptions is to allow those reviewing the budget to understand how numbers were derived and to validate assumptions for themselves.
2. Revenue Projections – Expected levels of revenue generation based upon volume of business (rounds of golf, meals served, etc.) and average expenditure (green fees per round, cart fees per round, merchandise sales per round, average dinner check, etc.). Revenue projections including dues and fee schedules will be developed in detail in separate schedules with the summary lines carried over to the departmental budget.
3. Payroll Schedule – Expected levels of payroll cost based upon calculation of types of employees' or individual employees' rates of pay multiplied by hours worked. Payroll schedules will be developed in detail in separate schedules with the summary lines carried over to the departmental budget.
4. Operating Expense Projection – Expected levels of expenses by month by expense category. Major and/or known ongoing expenses should be detailed in assumptions.
5. Profit Centers – Departments that directly generate revenues. These departments will have a financial schedule made up of the following components – revenues, payroll expense, and other operating expenses. Profit centers with resale operations will also have a cost of goods sold component to their schedule.
6. Expense Centers – Departments that do not directly generate revenues. These departments will have a financial schedule made up of the following components – payroll expense and other operating expenses.

C. Budget Format

1. The Club Annual Operating Budget is made up of the following schedules:
  - a. Summary Operating Statement
  - b. Payroll Summary



- c. Departmental Schedules
    - (1) Golf Operations
    - (2) Food
    - (3) Beverage
    - (4) Membership
    - (5) General and Administrative
    - (6) Clubhouse Operations
    - (7) Golf Course Maintenance
    - (8) Swim and Activities
    - (9) Tennis
  - d. Revenue Assumptions
    - (1) Golf Operations
    - (2) Food
    - (3) Beverage
    - (4) Dues Income
    - (5) Clubhouse Operations
    - (6) Swim and Activity
    - (7) Tennis
  - e. Payroll Cost Assumptions
    - (1) Golf Operations
    - (2) Food
    - (3) Beverage
    - (4) General and Administrative
    - (5) Clubhouse Operations
    - (6) Golf Course Maintenance
    - (7) Swim and Activity
    - (8) Tennis
2. The Club Operating Budget is contained in a Microsoft Excel™ file, titled Club Operating Budget-YY, where YY is the last two digits of the fiscal year. The Excel file is a protected file, allowing data entry only in designated cells. All calculations are automatically made by protected formulas in shaded cells.
3. In clubs with a computer network, the budget file will be a shared file, allowing Department





Heads to enter the file and complete their portion of the budget. Access to other operating department schedules will be denied.

### D. Procedures

1. Using the appropriate revenue assumption, payroll cost assumption, and budget schedules in the Club Operating Budget file, Department Heads will perform the necessary analysis, state all assumptions, and enter data for the revenue portion of their departmental schedule.
2. Enter the cost of goods percentage in the appropriate entry cell of the departmental schedule for all departments with resale income.
3. Using the departmental payroll cost assumptions schedule, Department Heads will perform the necessary analysis, state all assumptions, and enter data for the payroll expense portion of their departmental schedule.
4. Enter expense data in the Other Operating Expense area of the departmental schedule.
5. Double-check all entries to ensure accuracy.

### E. Pricing Review

1. After completion of initial departmental operating budget, Department Heads should verify whether the budget meets their expectations for departmental performance.
2. If not, review pricing of products and services. The Excel file is set up to allow “what if” modeling. If a 10% increase in prices is anticipated, increase the average member expenditure by 10% across-the-board. This will yield a new departmental bottom line. Keep in mind that the conventional wisdom is that an increase in price will decrease the volume of business.
3. By playing around with different price increases and/or cost savings, Department Heads may realistically move their budget closer to desired performance.

### F. Responsibilities

1. Department Heads are responsible for developing departmental operating schedules using established budget formats in Microsoft Excel.
2. The Controller is responsible for reviewing departmental budgets for correctness and then reviewing the consolidated club operating budget.
3. The General Manager is responsible for reviewing the Club Budgets and submitting them to the Board of Directors for approval.



Subject: Capital Budget

A-3505

A. Policy. It is the policy of the club that Departmental Capital Budgets be prepared according to established procedures as described in this policy.

B. Background

1. Clubs use a wide range of furnishings, fixtures, equipment, electronics, and machinery. These fixed assets are expensive to purchase and are expected to contribute to the economic vitality of operations during their useful lives.
2. Recognizing that clubs have limited resources, it is essential that a process is established to ensure that capital needs are identified, researched, and justified. When this is done through a standardized process and format, the General Manager is able to evaluate competing needs and establish priorities.

C. Definitions

1. A Capital or Fixed Asset is an item that has physical substance and a life in excess of two years. It is bought for use in the operation of the business and not intended for resale to customers. Examples are structures, machinery, equipment, autos, and land. Fixed assets with the exception of land are subject to depreciation.
2. Depreciation is the spreading out of the original cost of a capital asset over its estimated useful life. Items to be depreciated will be determined by the Controller.
3. A Capital Budget is a plan of proposed acquisitions and replacements of capital assets and their financing.

D. Procedures

1. Identification of needs. Department Heads are responsible for identifying asset needs within their departments. The asset can be used to exploit a new opportunity or to replace an existing asset.
2. Research. Once a need has been identified, the Department Head will conduct research to determine the best item to meet the need. There are numerous avenues for researching purchases such as vendors, catalogs, the Internet, etc.
  - a. Key information needed to make an informed decision includes:
    - (1) Quantity, make, model, and features to meet needs.
    - (2) Special accessories, attachments, or options that are required.

- (3) Cost to purchase including options, installation, sales tax, and shipping.
  - (4) Projected training cost for operators of item.
  - (5) Dimensions and weight of item.
  - (6) Utility requirements and energy consumption rating.
  - (7) Scope of any necessary work to install item or modify area of installation.
  - (8) Estimated operating and maintenance costs during life of asset.
  - (9) Cost of any permits or regulatory approvals needed.
- b. Prepare or attach a specification sheet that fully describes the item with nomenclature and detailed specifications.
- c. Capital expenditure requests involving any piece of installed equipment such as refrigerators, freezers, kitchen equipment, etc., must be reviewed by the Facilities Manager to ensure that the item will fit in the designated space and that all utility requirements have been verified and approved.
- d. Explore financing alternatives. Can the item be leased? Does it make sense to do so? What are the terms of the lease (interest rate and term)? Would the leasing company provide maintenance on the item? Would they buy back the item at the end of the lease period? For what price?
3. Analyze impact of purchase on operation. Project increased sales, changes in operating expenses, and profitability as a result of purchasing the asset. Will it affect productivity, save or increase staffing, or allow better member service? Through the financial analysis described in paragraph E. below, calculate the return the club expects as a result of this purchase.
4. Prepare justification
  - a. Complete a Capital Asset Purchase Request, [SPHM Form 204] for each item requested to include a thorough explanation of how the asset will benefit the club and its members and guests. Attach any specification sheet, cut sheet, and the results of analysis.
  - b. If more than one Capital Asset is requested, use a Capital Budget Request Summary, [SPHM Form 205], to list all purchase requests and establish departmental priorities.
5. Submission for approval
  - a. During annual capital budget process, proposed capital expenditures are prepared as a budget separate from the operating budget.
    - (1) Department Heads are responsible for preparation and submission of capital budgets for their departments.
    - (2) Capital budgets are submitted to the Controller for ultimate presentation to the General

Manager.

- b. Separate from the annual capital budget process, Department Heads may submit a request for capital expenditure by preparing and submitting justification to the Controller who will consult with the General Manager.
- c. In either case, Department Heads must specify the proposed timing of the purchase on the Capital Asset Purchase Request, that is, in which quarter of the coming fiscal year the purchase will be made.

E. Analysis

1. Most assets will provide a return on the investment. Where possible, the return should be computed. There are several different methods of measuring the return on a capital expenditure:
  - a. Payback Method - determined by adding up monthly net cash flows as a result of the purchase of an asset until the aggregate equals the cost of the asset. This amount of time is the payback period. This is the simplest method, but does not measure the time value of money, i.e., that future returns are in discounted dollars (that is of lesser value due to inflation) and does not measure profitability after the payback period. The format for the payback method is found in [Computation of Payback of Capital Asset].
  - b. Net Present Value (NPV) Method - similar to the payback method, but takes into account the time value of money. The net present value method gives a truer picture of the time to recoup the investment, but requires detailed long-term forecasts of incremental cash flows.
  - c. Internal Rate of Return (IRR) Method - allows the computation of the return, adjusted for the time value of money, which is then compared to the cost of capital. If the return is higher than the cost of capital, the investment should be accepted. The major disadvantage of IRR is that it is difficult to compute, especially when cash flows are variable.
2. For the purposes of most club capital purchases, the payback method is adequate analysis. If the purchase is of significant monetary value and/or if the purchase appears risky, further analysis using NPV and IRR may be useful. If further analysis is indicated, contact the Controller for assistance.

F. Approval

1. The Capital Budget will be submitted along with the Operating Budget for approval by the Board of Directors.
2. Once the Capital Budget is approved, the General Manager will notify the Controller and Department Heads which purchases have been approved and when the purchases may be made.



Subject: Tools to Beat Budget

A-3506

A. Policy. It is the policy of the club that Departmental Heads utilize Tools to Beat Budget to monitor actual performance compared to budget and to intervene as necessary to ensure that the budget is met.

B. Background

1. Budgets are established as financial plans for the coming fiscal year.
2. The Accounting Office prepares monthly financial statements for each month of the fiscal year. Statements are distributed to Department Heads around the middle of the month for the previous month's activity. Unfortunately, this means that Department Heads do not know how their department performed until at least two weeks after the end of the period. When a department's performance does not meet budget, the Department Head does not know until after the fact and cannot intervene in a timely manner.
3. Tools to Beat Budget (TBB) is a program designed to help Department Heads monitor key elements of their budget in a more timely manner. Further, it requires Department Heads to monitor expenses on an ongoing basis, which keeps them in closer touch with their actual expenditures compared to budget. Finally, the data accumulated during the course of the year using TBB makes Department Heads more knowledgeable about their operation and is useful in establishing future budgets.

C. Tools to Beat Budget Program

1. The Tools to Beat Budget Program is made up of the following elements which are filed under the appropriate tabs in a 3-ringed binder:
  - a. Annual Budget. Each Department has a budget comprised of: Departmental Schedule, Departmental Revenue Assumptions (profit centers only), and Departmental Payroll Cost Assumptions. Each Department's budget is the financial plan for that Department for the fiscal year.
  - b. Monthly P&L's. Actual profit and loss schedules for each month which are prepared and distributed by the Accounting Office. The Monthly P&L's report actual financial performance for the period and compare it to the budget. The Monthly P&L's also compare year-to-date (YTD) actual performance to budget.
  - c. Weekly Revenue Reports. Reports prepared and distributed weekly which show revenues by Department. This report also compares YTD actual to YTD budgeted revenues. Finally, this report computes a number of key departmental benchmarks that can be compared to budget.
  - d. Pay Period Summary Reports. Reports prepared and distributed bi-weekly which show



payroll costs by Department. This report also compares YTD actual to YTD budgeted payroll cost. Finally, this report computes the average hourly wage by Department and compares it to the budgeted amount.

- e. Cost of Goods Analysis. This worksheet is available for those Departments with retail sales, i.e., Golf, Food, Beverage, Tennis, and other Retail Outlets. Department Heads can compute and track their cost of goods percentage and compare it with the budgeted cost of goods.
  - f. Other Expense Log. These worksheets allow Department Heads to record their monthly Other Operating Expenses each month by expense account. By keeping this log, Department Heads will know how much they have spent of their budgeted amount for each expense category.
2. As with any other management tool, Tools to Beat Budget is only as valuable to a Department Head as the effort put into it. Department Heads should keep in mind that if their Department was their own business, each of the tools would be a necessary part of maintaining the business' profitability. While they don't own the business, their management responsibility to ensure financial performance is just as much a necessity.

### D. Procedures

1. The Tools to Beat Budget binders will be purchased and distributed to Department Heads before the start of each fiscal year.
2. As each Weekly Revenue Report and Pay Period Summary Report is distributed Department Heads will review the reports and file them in their TBB binder.
3. Throughout the month, Department Heads will record their Other Operating Expense purchases in the Other Expense Log, SPHM Form 233, and deduct the purchase amount from the budgeted amount for each expense category. It is understood that under this system Departments will record purchases when they are ordered and the Accounting Office posts purchases when they are paid. As a result, the Other Expense Log will not necessarily agree with the Other Expenses shown in the Monthly P&L's. Nevertheless, the exercise of keeping the log is still a good one. If nothing else, it reminds Department Heads that every purchase has an impact on the bottom line.
4. Departments with retail operations must complete the Cost of Goods Analysis on a monthly basis. Cost of Goods is computed by recording the beginning and ending period inventories, adding purchases made during the period, and making adjustments and transfers as necessary. Those Departments with high volume purchases such as Food and Beverage may get a copy of the General Ledger detail for their purchases account and file it in their binder.

### E. Responsibilities



1. Department Heads are responsible for:
  - a. Maintaining their Tools to Beat Budget binder in an up-to-date manner.
  - b. Filing all Monthly P&L's, Weekly Revenue Reports, and Pay Period Summary Reports in the binder as they are received.
  - c. Recording and analyzing inventory data for the Cost of Goods Analysis (resale operations only).
  - d. Recording all Other Operating Expenses in the Expense Log.
  - e. Monitoring their actual performance to budget and intervening as necessary to meet or exceed budget.
  - f. Bringing their Tools to Beat Budget binder to the [Monthly Review of Operating Statements] and being prepared to answer questions regarding their Department's financial performance.
2. The Controller is responsible for:
  - a. Ensuring that Weekly Revenue Reports and the Pay Period Summary Reports are prepared and distributed to Department Heads, and
  - b. Purchasing and distributing the Tools to Beat Budget binders before the start of each fiscal year.



Subject: Computation of Payback of Capital Asset

A-3507

A. Policy. It is the policy of the club that managers wishing to make capital purchases analyze the payback of the asset.

B. Background

1. When preparing a Capital Asset Purchase Request, SPHM Form 204, managers must analyze the impact of the purchase on the operation. Projected increased sales, changes in operating expenses, and profitability as a result of purchasing the asset must be examined. Does the purchase affect productivity, save or increase staffing, or allow better customer service? Use the payback analysis to show the financial impact of the purchase.
2. The payback method of analysis is determined by adding up monthly net cash flows as a result of the purchase of an asset until the aggregate equals the cost of the asset. This amount of time is the payback period. This is the simplest method, but does not measure the time value of money, i.e., that future returns are in discounted dollars (that is of lesser value due to inflation) and does not measure profitability after the payback period.
3. For example, a manager wants to purchase a second beverage cart for the golf course. He can get a used cart for \$4,000 and he expects it will increase food and beverage sales on the golf course by an average of \$400 each weekend for two-thirds of the year (34 weeks). Knowing that food and beverage costs amounts to 40% of sales, he figures he can net \$240 each weekend, but he also will have additional payroll cost of \$180 per weekend. His payback analysis would look like this:

Cost of asset	\$4,000
Increased sales per year	34 weeks X \$400 = \$13,600
Less food and beverage cost @ 40%	(\$5,440)
Net income	\$8,160
Less additional payroll cost	34 weeks X \$180 = (\$6,120)
Annual income after payroll cost	\$2,040 or approximately \$170 per month
Payback period	$\$4,000 / \$170 =$ approximately 24 months; but since the cart will only be used 8 months a year, it will take 3 years (or seasons) to pay back the cost of the cart.