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Saturday, 19 December 2009

Dear Board of Directors

Subject: Management Accounting Report Financial Year ending 30 November 2009

Welcome Board of Directors. As this is the first time that I have met some of you today I would like to outline my current scope of engagement. Initially I was engaged to clear up the back log in the office of membership and National Show payments, wages, creditor's control, debtor's control, management reporting at BOD meetings and to ensure meeting compliance deadlines. Early this year the scope of engagement was reduced to mostly compliance deadlines such as weekly payroll payments, monthly lodgements for superannuation and wages and quarterly GST deadlines, regularly reviewing correct coding, balance sheet accounts and reporting at BOD meetings. With the Office Manager, Ron Tidyman, taking on most of the other roles required.

Today we need to look at the best cash flow crisis PHAA is experiencing.

All businesses have cycles and these are always represented by highs and lows. You have the cycle where a majority of the income seems to be received during periods of the year and then you have the period where income is at its lowest. But, the fixed costs still need to be paid on time.

Paint Horse Association is now feeling the pinch of the consequence of Equine Influenza (EI) and unfortunately, combined with the past two out of three National shows running at losses with the General Account account picking up the deficit. 2009 National shows a profit only due to correct allocation of certain costs to portfolios. Combined with changing of staff over the past few years and the need to outsource services have caused a cash flow crisis over the past six months and is of great concern.



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SUMMARY OF FINANCIAL INFORMATION

1. MYOB Profit & Loss Job [Accrual] shows an overall *loss* of \$25,236 for the period 1 January 2009 to 30 November 2009. These figures are *drafts* only and represent a Cash Book Profit and do not in any way represent a tax profit. Broken into operating and non operating as follows:

Portfolio	2007*	2008*	2009*
General Operating	\$4,639	\$25,694	(\$18,144)
National Show	(\$11,927)	(\$10,448)	\$566
Futurity**	(\$2,215)	(\$941)	(\$14,641)
AO	\$3,056	(\$1,214)	(\$1,364)
Youth Accounts	\$7,351	\$6,304	\$8,238
MYOB Profit/ (Loss)	\$904	\$19,396	(\$25,346)

*period 1 Jan – 30 Nov

**allow for timing differences

Please be aware that 2010 Futurity and Building Fund Levy payments are now coded to a liabilities account and not reported as 'income' in the 2009 financial year.

Performance measurements analysis

In summary, current ratio has decreased significantly from 3:10 in 2007 and 2008 [2:25] to now only being 1:30 while the recommended ratio is 2:1.

Causes – recovery from EI will take several years and two national shows with losses totally nearly \$24,000 has taken its toll on accumulated resources. Thus, the general account reduction since 2006.

This is cause for concern as this also means that accumulated resources have been used the last few to support the operation of PHAA with no easy answer for a quick 'fix'.

I also submit summary of a business fitness review report for the director's records.

Bank Account Balances

General account is again in crisis with minimum or little cash flow. As reported at the beginning of this year the PHAA has an average of \$4,000 per week of outgoings. While this is not a problem midyear when the memberships start flowing in it is of great concern at the end of the year as memberships will not start flowing in until May 2010 (based on the discount option again)

Account 'borrowed' from	Amount	Reason
AO	\$4,000	Weekly cash flow
YISC	\$8,928	Current Journal
FA	\$5,532	Weekly cash flow
Total	\$18,460	

Current creditors \$8,286 with only \$5,844 in the GA. Excludes payroll expenses to end of month.

Building Fund reconciled and has the correct balance as at 16 December 2009.

ISSUES & GENERAL RECOMMENDATIONS

- Notify auditor of cash flow issues immediately as he will be the most suitable professional to consult on a strategic plan.
- Please note that the amounts for Donations income and Bad Debts are basically due to Debtors control maintenance carried out during the year. These included Debit and Credit amounts dating back since 2002 so therefore the 'donation' was not received in the bank this year but had been received in its corresponding year. As sanctioned by Auditor.
- Annual Financials and the AGM. I understand that the PHAA financials year was moved to a calendar year in 2006. I feel that there will always be an ongoing problem for the auditor to have the financials ready in time for printing and available to the members within the 21 day deadline due to Xmas shut down of most professional offices and workflow capacity.
- Auditor's costs will continue to increase each year due to their registrations costs, insurance and increasing regulatory requirements.
- Update on 2009 National Show budget v actual. 2009 NS saw the budget come under the estimate loss of \$16,383 with a profit of \$566 due to correct job costing on expenses allocated to other portfolios omitted in prior years.
- Budget and cash flow for 2010 National Show to be implemented and reviewed regularly. Recommend using timeline agenda to monitor quarterly, monthly and weekly as time approaches.
- Budget and cash flow for 2010 Youth USA trip. Have these been started?
- Ensure office policy in place for PHAA to invoice and receive payments for publications in Journal. It seems that PHAA has missed out on revenue from the past 12 months.
- All Board Members be provided with descriptions of their roles and responsibilities as required by the *Corporations Act* & the function of Australian Securities Investment Commissions (ASIC). I understand PHAA has a manual in the office for all incoming Directors

RECOMMENDATIONS FOR CASH FLOW EMERGENCY

By analysing the attached Operating Profit & Loss graphs & data (#1) it seems that income has not reduced dramatically compared to 2008 but the costs have increased significantly. The areas of concern are in staffing & General Office areas.

- Cash flow to be implemented as soon as possible with estimated income and fixed costs. Six month cash flow attached. Estimating deficits in the first four months before memberships are received in May for the discounted offer. Needs to be reviewed and discussed as soon as possible. (#2)
- Recording points has been an enormous outlay for the association with wages paid of \$28,474 (including superannuation). This has now been cancelled but this service still needs to be continued. In a business perspective, it seems an enormous outlay for all the members for a minority group.
- Revenue incentives as per previous years, discount memberships for payments in May etc.
- Review all costs, fixed and variable, for possible cuts. Such as:
 - Review journal currently bi monthly
 - Australia Post
 - Staffing
- Certain costs previously outsourced need to be returned to the office. Such as:
 - Compliance and lodgements (excludes wages paid weekly)
 - Journal costs & negotiating cheaper postage costs
 - Points recording needs to be allocated to permanent staff.

Currently borrowed funds from portfolios to be minuted and paid back via using a payment plan.

This will be an ongoing problem as the 2010 memberships need to cover future costs but also pay back the \$18,460 'borrowed' from the above.

It's clear that the PHAA needs to cut back on costs so I would like to take this opportunity to withdraw my services from PHAA with a date in January 2010 to be finalised. I suggest outsourcing weekly wage processing to a business such as Payroll Preparations to maintain internal control of staff not paying themselves wages. Ron to be trained in ATO compliance for monthly and quarterly GST/IAS and Superannuation lodgements. I feel Ron will not have problem as he has quickly grasped using MYOB since starting last year. I will be available for consultation.

I feel if all members work on this crisis together instead of personal agendas and implement a firm strategic plan PHAA will again survive and continue to grow.

I wish all the Directors and their families a very Merry Xmas and a safe journey home.

Kind Regards

Debra Wright
Payroll Officer
One 2 One Bookkeeping Service