The Budget Process and Review
An Internal and External Evaluation

Presented by:
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Rick Leitman, CFO at the Club at Mediterra
Wednesday, October 23, 2019
Agenda

• I. Budget creation process from the Club’s perspective

• II. Finance Committee and Board involvement

• III. Annual evaluation and forecasting

• IV. External auditor

Budget Creation

• It starts with easy concepts – honesty, reality and partnership.
• Be aware and understand several key things before starting:
  • Your Board’s position on dues increases
  • The department heads’ financial knowledge
  • Outside influences
  • Internal influences
• Department head involvement is crucial.
• Know the detail necessary to provide committees and Board.
Budget Creation – Categories Overview

• Revenue
• Cost of Sales
• Payroll and related benefits
• Operating expenses
• Dues

• Most clubs have a food and beverage department and this will be our area of focus
Budget Creation – Expense Breakdown

Mediterra’s F&B Budget Process

Fiscal 2020
Mediterra’s F&B Budget Preparation - Revenue

- A la carte
  - Historical perspective
  - Construction impact
    - Honeymoon period
- Club-Sponsored Events
  - Historical perspective
  - New events
  - Events that did not perform well
- Private Events (Banquets)
  - Planned vs. Unplanned events

Mediterra’s 2020 F&B Revenue Budget ($000)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Beverage – A la Carte</td>
<td>$1,180</td>
<td>$1,076</td>
<td>$948</td>
<td>$964</td>
<td>$1,024</td>
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<tr>
<td>Beverage – Member</td>
<td>$611</td>
<td>$547</td>
<td>$498</td>
<td>$463</td>
<td>$355</td>
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<tr>
<td>Beverage – Non-Member</td>
<td>$45</td>
<td>$57</td>
<td>$28</td>
<td>$94</td>
<td>$93</td>
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</tbody>
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<tbody>
<tr>
<td>Beverage – A la Carte</td>
<td>$657</td>
<td>$638</td>
<td>$491</td>
<td>$582</td>
<td>$523</td>
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<tr>
<td>Beverage – Member</td>
<td>$191</td>
<td>$183</td>
<td>$148</td>
<td>$76</td>
<td>$70</td>
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<tr>
<td>Beverage – Non-Member</td>
<td>$12</td>
<td>$11</td>
<td>$15</td>
<td>$26</td>
<td>$28</td>
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Mediterra’s Budget Preparation – COS & Payroll

Cost of Sales

• Flat increase vs. monthly analysis
• Cost of sales
  • Food (44% overall)
  • Liquor (29% overall)
  • Beer (31% overall)
  • Wine (38% overall)
  • Other
F&B Budget – Cost of Sales Trend

Payroll and Related Benefits

- Culinary
  - Salaried
  - Hourly
- FOH
  - Salaried
  - Hourly
- Focus on payroll as a percent of sales
- Map out each person by month
### F&B Payroll – Sample months and FYE

<table>
<thead>
<tr>
<th></th>
<th>August</th>
<th>November</th>
<th>January</th>
<th>May</th>
<th>FY 2020</th>
<th>FY 2019</th>
<th>FY 2018</th>
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<tbody>
<tr>
<td>Culinary</td>
<td>37,328</td>
<td>81,095</td>
<td>86,757</td>
<td>53,781</td>
<td>771,503</td>
<td>765,516</td>
<td>593,176</td>
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<tr>
<td>Culinary %</td>
<td>122%</td>
<td>52%</td>
<td>31%</td>
<td>68%</td>
<td>42%</td>
<td>45%</td>
<td>40%</td>
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<tr>
<td>FOH</td>
<td>37,519</td>
<td>69,928</td>
<td>86,935</td>
<td>50,876</td>
<td>733,946</td>
<td>690,021</td>
<td>613,923</td>
</tr>
<tr>
<td>FOH %</td>
<td>95%</td>
<td>32%</td>
<td>21%</td>
<td>48%</td>
<td>27%</td>
<td>27%</td>
<td>29%</td>
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</table>

The above is as a percent of food and beverage sales.

### Finance Committee and Board Involvement
Finance Committee & Board Communication

• Be concise
• Think of potential questions
• Pictures, graphs or numbers?
• Stay consistent with your monthly financial presentation

Post-Approval
Annual Evaluation & Forecasting

Post-Approval
• Share the final budget with the Department Heads
• Do not surprise the Department Heads and be honest with changes

Throughout the Following Year
• Each month complete your revenue and expense budget worksheets. Make it easier for yourself to do the next budget
• Prepare “red notes”.

Rick’s Red Notes

• Adjust budget for H-2B housing and recruiting trip
• Review contract file for new agreements/leases
• Be more assertive with Department Heads on payroll savings
• Unless agreed to beforehand, be sure hours worked mirrors the current year
• Add more staff to Sports Café for planned venue change
• Commercial insurance additions for 1) post-Irma and 2) expanded space from construction
External Auditor Evaluation

RSM and the Club Audit Approach

The Audit Risk Model

- Inherent risk and control risk: Risk of material misstatement
- Detection risk: Risk that auditor will not detect misstatements
- Ineffective audit procedures
- Whether the audit procedures were performed with due care
- Nonsampling risk
- Sampling risk

Audit Risk = IR × CR × DR
RSM and the Club Audit Approach

• Budget memo and walkthrough of the budget process

• Budget is the Club’s strongest control (if completed properly)

• Audit testing of the budget

• Final deliverables, budget workshops and suggested improvements

Q&A SESSION – HOW CAN WE HELP?