

TREASURER’S REPORT 2018

1. 2017/2018 ACCOUNTS

The Management Committee is pleased to present the results for the 2017/2018 financial year. These have been audited and an unqualified audit report received from our auditors, Cotton Kelly.

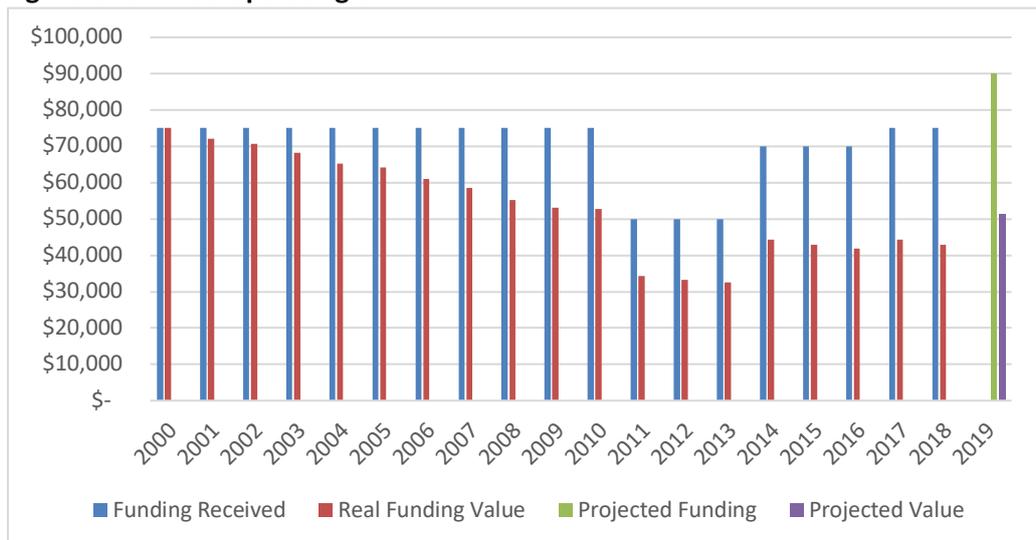
1.1 Income

This financial year the Society received some \$171,000 of revenue, comprising operating grants, capital grants, and trading revenue:

- Operating grant** of \$75,000 from our major funders the Palmerston North City Council (PNCC). The Management Committee is very grateful for the ongoing support from the PNCC since the inception of The Stomach. Members will recall that the PNCC moved to a bulk funding arrangement with the Management Committee in 2000, prior to which the two staff were employees of the City Council. As at the end of the financial year wages in New Zealand have increased 69% over this period. This represents a 42.7%¹ erosion in real funding from the PNCC over the 18 years since we transferred to a bulk funding model.

For this upcoming financial year, the Management Committee is pleased to announce that the Palmerston North City Council has agreed to provide an additional \$15,000 grant. While this is a one-off grant, we are hopeful it is a sign that the City Council acknowledges that it is investment in the community that leverages engagement, growth, and community empowerment.

Figure One: PNCC Operating Grant



¹ Reserve Bank CPI calculator (wages), Q1 2000 to Q2 2018 = \$1: \$1.75

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This financial year, Creative Sounds also welcomed a \$10,000 operating grant from the Lotteries New Zealand fund administered by the Department of Internal Affairs.

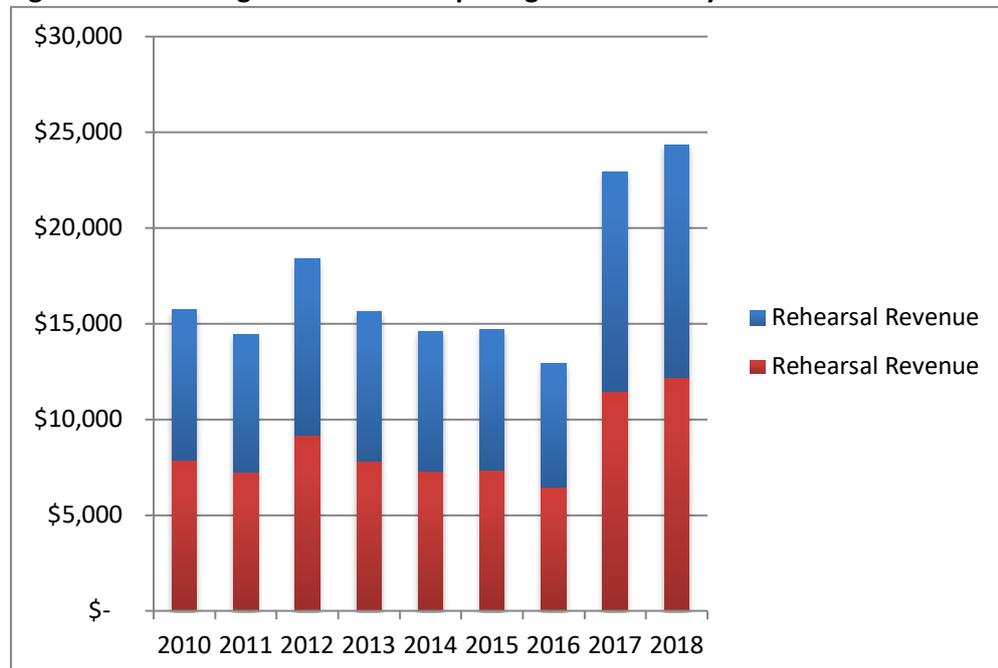
- **Capital grants** of \$44,000 were received this year, including \$41,000 from Central Energy Trust for the upgrade of the recording facilities at The Stomach. This has enabled transition to a new leading edge digital platform – perhaps finally eliminating that unique ‘stomach sound’, which largely consisted of room noise.

An additional grant from the Lion Foundation enabled the upgrade of some of the practice room gear, and further upgrades will form the priority for future funding applications.

- **Trading revenue** for the 2018 year was affected by two significant factors: firstly, the studio was closed for some months whilst the upgrade was installed, resulting in a drop in studio hours available; and secondly, the studio and practice room rates were increased following a review. The results were income of \$14,200 (2017: \$16,500) for studio recording, and \$12,200 (2017: \$11,500) for rehearsal facilities. Whilst the studio closure was frustrating for musicians waiting to record, the new equipment ensures The Stomach remains on the leading edge for service provision and ensures the facilities remain relevant for users.

We are pleased that users of both recording and practice facilities have been receptive to the new rates. The long awaited and much demanded introduction of an EFTPOS facility has no doubt assisted users’ ability to meet the new charges.

Figure Two: Trading Revenue since opening of new facility



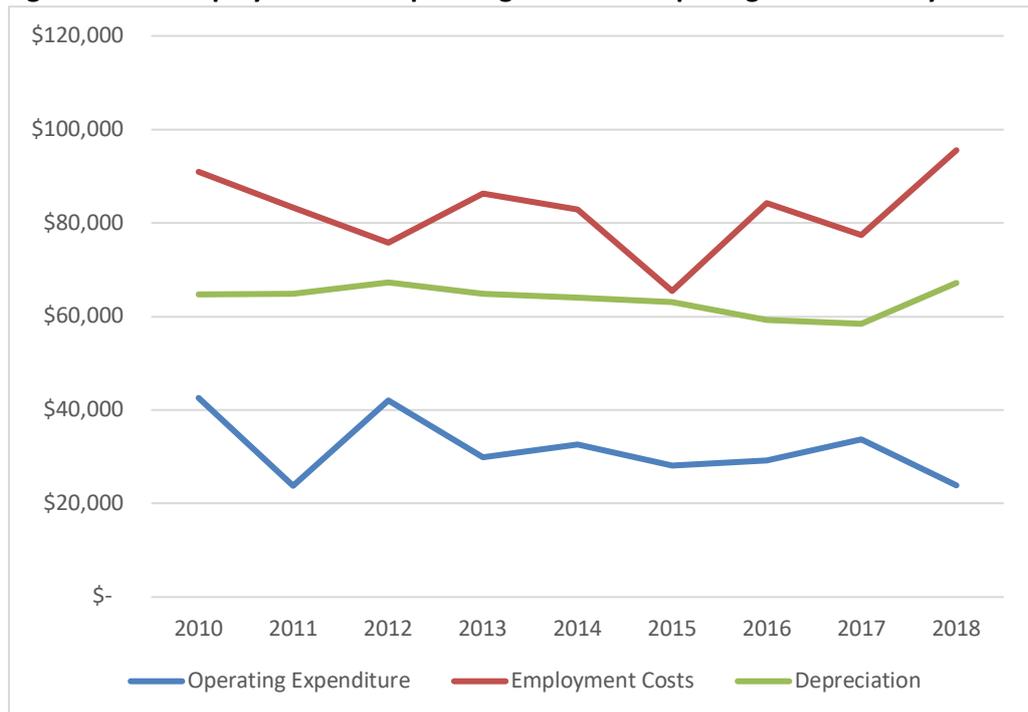
The Stomach, in collaboration with MUSA and Radio Control, was awarded a contract for summer concerts in 2018 and 2019. The financials for this project are operated by MUSA due to the inability of Creative Sounds to accommodate the cashflows. As budgeted, resulted in a small surplus to be carried over to the 2019 events.

1.2 Expenditure

There are three primary areas of expenditure: operating costs, salaries, and depreciation.

Overall expenditure has remained remarkably stable at The Stomach over the years with fluctuations primarily due to specific projects and staffing levels. The low costs of operating reflects the DIY ethos of the organisation, and the generous donations of volunteers to undertaking tasks such as maintaining the gardens, supporting gigs, preparing the accounts, annual deep clean, and repairing furniture and fittings.

Figure Three: Employment and Operating Costs since opening of new facility



- Depreciation** is a non-cash expenditure item and reflects the deterioration in value of assets over time. Given the Society can attract grants to replace assets, there is no requirement to fund depreciation and establish a cash reserve. The depreciation total of \$67,500 is inflated by the depreciation on the building improvements undertaken in 2009. There is one more year before this asset is fully depreciated.

1.3 Overall Result

The overall result for the 2016/2017 financial year before depreciation is \$47,000 of which \$44,000 is reserved for capital purchases and \$4,000 for the upcoming 2018 Swampfest. This means The Stomach generated a net operating loss of just under \$1,000 for the year, which is a satisfactory result and better than previous projections.

This breakeven result has allowed The Stomach to maintain its cash reserves, including \$53,000 held in a term deposit. The purpose of these reserves is specifically to ensure that CSSI has an emergency fund equivalent to six months operating cost, should current operational funding be lost or diminished.

2. FINANCIAL PROJECTIONS

Expenditure is predicted to increase in the 2018/2019 financial year. The Management Committee has long been mindful that maintaining staff salaries in line with the funding levels available, by default, means staff pay the price of the decrease in real value of the operating grants received. For the coming year the Management Committee has committed to an increase in staff salaries to ensure that our employees are more fairly remunerated for their contribution. We recognise that our staff are integral to the success of the Society and the delivery of services to the community, and we are committed to acknowledging this.

We are hopeful that the PNCC will recognise that current funding levels are no longer sustainable and we will be able to secure a significant increase in our operating grant during the upcoming grant application process. We will also reapply to the DIA for lottery funding, as this widens the catchment area that The Stomach can service at community rates.

As signalled at last year's AGM, the Management Committee is launching a funding platform encouraging members and supporters to donate. As the Society has donee status, this will result in a tax rebate for donors. A page has been set up on the Creative Sounds website, which will be enhanced over time.

3. STRATEGIC PRIORITIES FOR FUNDING

As indicated in last year's Treasurer's report, the Management Committee has identified two major strategic projects which will require funding prior to commencement:

3.1 Outreach & Engagement

A third staff member has been a longheld aim of the Management Committee and this year saw that aim validated and reconfirmed. A third staff member would enable greater outreach, ultimately extending the reach of the Society beyond the venue.

Over the 2016/2017 year The Stomach has undertaken a proof of concept, extending activities into other venues through collaborations with Snails gallery and Te Manawa, and through engagement with various schools and workshops at The Stomach.

In the 2017/2018 year this proof of concept was further extended through an internship funded by the New Zealand Music Commission, which enabled a third staff member to be employed on a temporary basis. This was enormously successful and both Harry and Nigel valued the contribution made by AJ during his tenure. We are hopeful the NZMC will continue this initiative and enable The Stomach to undertake more outreach activities through a third staff position.

With services currently limited by the number of staff hours and the physical limitations of the venue, an outreach function is imperative to meet the level of community demand. Once the Management Committee has restored operational funding for the current level of service, securing funding for outreach will be the next priority.

3.2 Outreach Resources

An outreach function will require means of transport to take Stomach resources to the community, and ideally would be supported with a range of portable music and recording

equipment – potentially including a second PA and digital desk. While the outreach function is the primary need, these resources will mean the Society can have a greater impact. This will form a phase two priority for strategic funding.

4. COMMENTS FROM THE TREASURER

This is my third year as Treasurer and the tenth set of accounts I have prepared for the Society. I sincerely thank the members for the trust they have placed in me over these years. It is an honour to work with an organisation which is so responsible with members' assets and so mindful of maximising the value from the public funds we are entrusted with.

Over the past two years the Management Committee has made positive progress on some longheld financial goals. We have purchased a PA to make shows more affordable, we have upgraded the studio and replaced equipment that was failing or borrowed, we have improved trading revenues, and we have maintained essential cash reserves. The third staff member in 2018 and the upcoming increase in funding from the City Council for the 2018/2019 financial year, whilst both temporary, are hopeful signs for the future.

I would like to acknowledge my fellow Management Committee members who have shown such commitment to serving the Society. And of course, my sincere thanks to our staff, Harry Lilley and Nigel Mauchline, for the significant contribution they have made to the financial sustainability of the organisation. I'd also like to acknowledge the ongoing support from The Stomach community, including: fellow musicians and artists, Society members, facility users, suppliers, funders, volunteers, and our fellow community groups.

We are privileged to walk alongside our user community as they grow in confidence through the nurturing of their interests and talent, and we are rewarded with a rich diversity of original music and creativity, which this region should be rightfully proud of.

Meredith MacKenzie
Treasurer and Management Committee member
Creative Sounds Society Incorporated

15 September 2018