

# TREASURER’S REPORT 2019

## 1. 2018/2019 ACCOUNTS

The Management Committee is pleased to present the results for the 2018/2019 financial year. These have been audited and an unqualified audit report received from our auditors, Cotton Kelly.

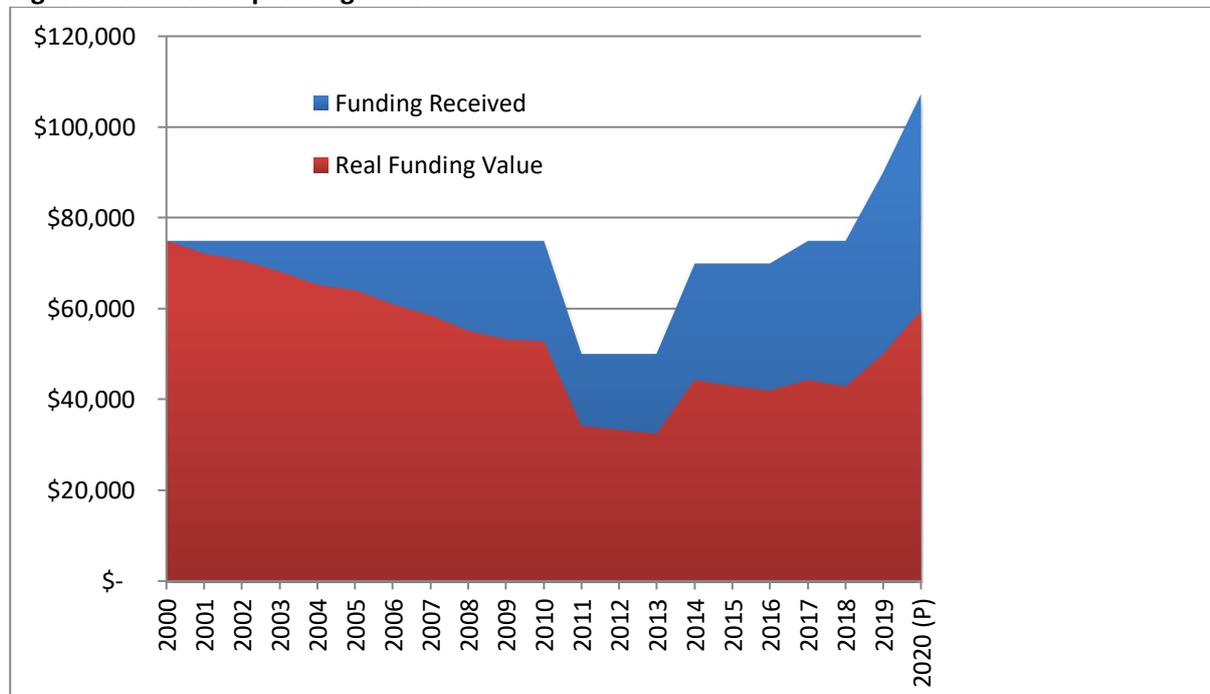
### 1.1 Income

This financial year the Society received some \$191,000 (2018: \$171,000) of revenue, comprising operating grants, capital grants, and trading revenue:

- **Operating grant** of \$90,000 (2018: \$75,000) from our major funders the Palmerston North City Council (PNCC). The temporary increase in funding of \$15,000 was reported at last year’s AGM and this year the Management Committee is pleased to announce that financial support of \$107,250 has been secured from the Council under a three year CPI protected funding agreement.

In recent years, members will recall that I have raised concerns about the deterioration in real funding received since the PNCC moved to a bulk funding arrangement with the Management Committee in 2000. We believe that the Council have listened to our concerns and can report that this grant brings the real funding value up to 80% of the initial funding received in 2000<sup>1</sup>.

**Figure One: PNCC Operating Grant**



<sup>1</sup> Reserve Bank, Inflation Calculator, <https://www.rbnz.govt.nz/monetary-policy/inflation-calculator>, Qtr 3 2000 – 2018. For 2019 and 2020 Projected, Qtr 2 2019 is used.

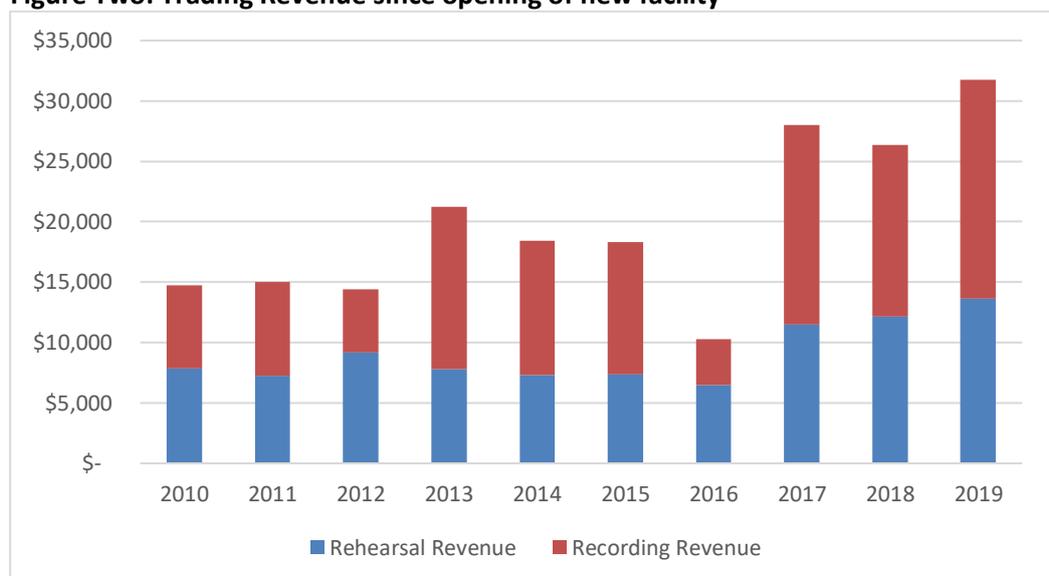
While our aim is to have our funding restored to 100% of the value of the initial bulk funding agreement, the Management Committee is very grateful for the ongoing support from the PNCC since the inception of The Stomach. We are hopeful that recent increases are a sign that the City Council acknowledges that it is investment in the community that will leverage engagement, growth, and community empowerment.

This financial year, Creative Sounds also welcomed a \$15,000 (2018: \$10,000) operating grant from the NZ Lotteries Grant Board fund administered by the Department of Internal Affairs.

- **Capital grants** of \$47,000 (2018: \$44,000) were received this year from Central Energy Trust for the upgrade of the live room audio equipment. This has progressed a further stage in transition to a digital platforms – this time with a new mixing desk, along with other equipment
- **Trading revenue** for the 2018 year have continued the largely upward trend, with new charging rates approved for 2019. This has included a new out-of-town rate that reflects the geographical boundaries of our operational funders, and also introduces a youth rate to ensure the facilities stay accessible. The results were income of \$18,000 (2018: \$14,200) for studio recording, and \$13,600 (2018: \$12,200) for rehearsal facilities. Gig revenue remains relatively low at \$2,700 and this reflects recent trends in attendance.

The Stomach has introduced a new revenue stream with increased hire of backline. This has necessitated the purchase of road cases to ensure the equipment is kept in good condition, but it is projected to be a steady and growing income stream.

**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 were operated by MUSA due to the inability of Creative Sounds to accommodate the

cashflows. A small surplus was returned to The Stomach on the conclusion of this contract. The PNCC is yet to announce their plans for future events.

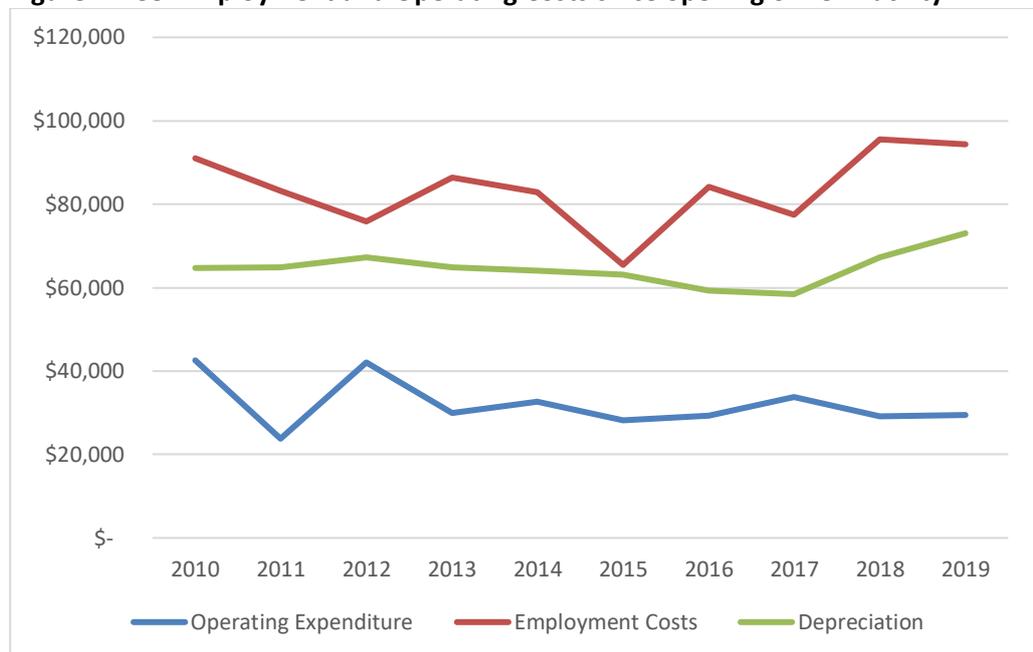
- **Donations** This year we have investigated various funding platforms to progress our aim of launching an initiative to encourage donations. The hidden charges on most platforms has caused us to abandon this initiative in its original form, and we have now settled for a separate bank account to help us to track donations. We are hopeful that further promotion of this facility will foster a donation culture, noting that musicians already make substantial public donation in terms of their art, which is often unpaid. The Society has done status with the IRD, which will mean that any donations are tax deductible.

## 1.2 Expenditure

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

As in previous years, 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. The increase in depreciation over the last two years reflects the recent investment in new studio and live room equipment. 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 \$73,000 (2018: \$67,500) is inflated by the depreciation on the building improvements

undertaken by the Society in 2009. This is the last year of depreciation of the improvements.

### **1.3 Overall Result**

The overall result for the 2018/2019 financial year before depreciation is \$75,500. \$15,000 of this is the NZ Lottery Grant, which is largely related to the 2019/2020 year, and a further \$59,000 was diverted to capital purchases. This leaves a true net result of just \$1,500 which is in accordance with predictions.

This breakeven result has allowed The Stomach to maintain its cash reserves, including \$55,500 (\$2018: \$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. STRATEGIC PRIORITIES FOR FUNDING**

Expenditure is predicted to increase substantially in the 2018/2019 financial year, with the employment of a third staff member in accordance with our strategic objectives. This part-time role will enable us to relieve some pressure on current staff and to free up the senior staff for more outreach work. Our engagement in the Internship funded by the New Zealand Music Commission may also be extended beyond the initial term which will further provide opportunity to enhance services, albeit on a temporary basis.

Reinstating an outreach facility has long been a goal of the Management Team, but until now unachievable as we did not have the operational funding to do so. With the restoration of Council funding and the operational grant from the NZ Lotteries Grant Board, we are now in a position to raise our profile and leverage greater community engagement. In line with this objective, we will continue to reapply to the DIA for lottery funding, as this widens the catchment area that The Stomach can service at community rates.

The next priorities for capital funding will be to improve and update the well-utilised practice room equipment and continue to support our revenue-generating backline hire.

## **3. FINANCIAL PROJECTIONS and CONCERNS**

A budget has been prepared for the next three years indicating that a break even outcome (+/- \$5,000) should be able to be achieved over the next three years. This budget is predicated on recording and practice levels being maintained at the current historically high levels, and costs being maintained at our normal economical rates.

The Management Committee is mindful that a small surplus is necessary to maintain our aim of having 6 months operating costs held in reserve. As costs rise, this fund must increase to match. The Management Committee will be seeking to grow income by further applications to the NZ Lottery Grant Fund, who have been generous supporters in the past; however, we are mindful that such funding has been restricted in recent years and the Fund may not have the surpluses available to support organisations to grow.

There are two areas of increasing concern for the Management Committee that we feel the need to draw to Society members' attention. The first is the lack of control we have

over Council charges *vis à vis* rates and building insurance of \$4,943 plus GST (2018: \$4,318 plus GST).

The second more serious issue, is the commercial lease clauses that the PNCC have sought to insert into the lease agreement. These clauses propose that the Council reserve the right to charge a commercial rent rate on the building. The manager, operating on behalf of the Society, has tried to come to some accommodation with the Council to omit these clauses on the grounds that the Society raised \$521,739 towards the Building upgrade, including a grant from the City Council. While Council officers managed the project, the fundraising and costs were born by the Society and the full asset value is recorded in our Asset Register, attracting depreciation, over the past 10 years, with Councils full knowledge and endorsement.

While we believe that the Council has honourable intent towards the Society, the risk to the Society is that costs could be dramatically and unilaterally increased with little or no recourse or contractual protections to the Society. Correlating to this, is the concern that the Society's financial stake in the building may not be recognised by the Council, despite Philanthropic organisations making grants to the Society on the basis of good faith assurances from Council. The manager continues to negotiate with the City Council, but at the time of writing we cannot verify that this will ameliorate any risk or address the underlying financial concerns.

#### **4. COMMENTS FROM THE TREASURER**

This is my fourth year as Treasurer and the eleventh 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 three years the Management Committee has made positive progress on some long held 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. We have successfully lobbied the PNCC for a funding increase and are in the process of appointing a third staff member.

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.

Meredith MacKenzie

**Treasurer and Management Committee member  
Creative Sounds Society Incorporated**

11 September 2019