

TREASURER'S REPORT 2020

1. COVID

It would be impossible to address the finances this year without some analysis of the impact that COVID-19 has had on our financial performance. As we have discussed in previous years, it has long been a Management Committee policy to set aside 6 months operating costs in a financial reserve to ensure we are able to withstand difficult financial periods. This policy has served us well this year and meant that when lockdown was announced, we were immediately able to reassure staff about the security of their employment and our ability to remain solvent.

Due to the versatility of the studio, some work such as mixing and mastering was still able to be undertaken under lockdown. This meant a rejuggling of priorities and a relatively quick restoration of some income streams. The biggest hit to revenue streams was from practice rooms and gigs, which stopped completely during Levels four and three and have been only partially recovered at Levels two and one.

We are among the fortunate organisations as operating grants, which form the bulk of our revenue streams, are ongoing, and we are very grateful to our funders for providing this assurance. While this meant we did not meet the criteria for the Government wage subsidy, which was also a huge relief as it would have placed a heavy administrative burden on our volunteer Management Committee at an already fraught time.

We estimate that the financial impact of Covid was in the realm of \$9,100 in unrealised revenue – based on a comparison with revenue in April, May, and June of last year.

2. 2019/2020 ACCOUNTS

Notwithstanding the above, the Management Committee is pleased to present the results for the 2019/2020 financial year. These have been audited and an audit report received from our auditors, Cotton Kelly. The audit report is qualified on the basis of inability to verify control over income which is commonplace for small organisations where there is cash handling and limited scope to segregate duties between staff. In all other aspects, the audit is unqualified, meaning the auditors have confidence in our accounts.

1.1 Income

This financial year the Society received some \$183,000 (2019: \$202,000) of revenue, comprising operating grants, capital grants, and trading revenue:

- **Operating grant** of \$107,250 (2018: \$90,000) from our major funders the Palmerston North City Council (PNCC). As announced last year this is the first year of significant increase in funding since Creative Sounds moved to a bulk funding model with the PNCC. While this does not address the full erosion of funding through CPI movement, we are pleased that our profiling this issue has had some effect and that this funding will now be subject to CPI movement.

This financial year, Creative Sounds also welcomed a \$40,000 multi-year grant from the NZ Lotteries Grant Board fund administered by the Department of Internal Affairs. This \$40,000 will be split over four years at \$10,000 per year (2019 \$15,000 single year grant).

- **Capital grants** of \$11,788 (2019: \$47,000) were received this year. \$9,788 from Central Energy Trust for the purchase of foldback and live sound monitors and \$2,000 from Eastern and Central towards a laptop to support our third staff member and to facilitate live sound recordings from gigs. There will be a further presentation on our ongoing capital upgrade programme later in the AGM agenda.
- **Trading revenue** this year totaled \$43,900 (2019: \$40,000). We were hoping this year to establish a benchmark, being the first full year with our new tiered pricing model. Without Covid, we predict this would have exceeded \$50,000.

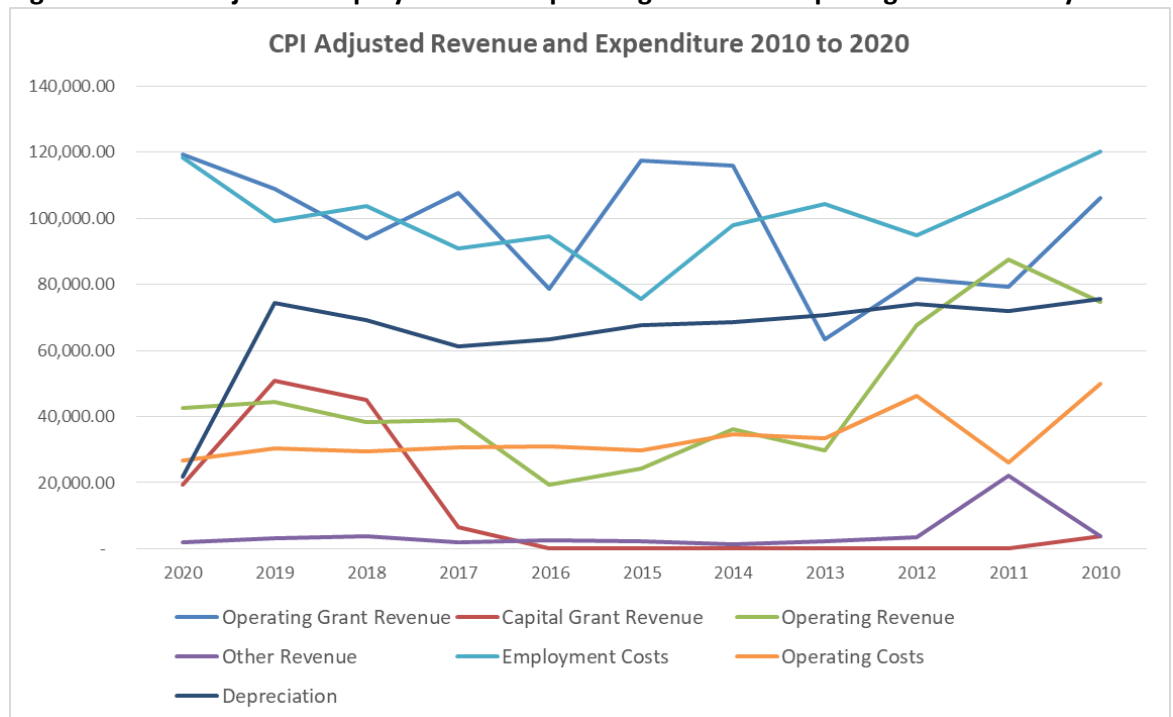
On the whole we have still managed to exceed the 2019 year with \$23,303 for studio (2019 \$18177) and \$16,009 for practice rooms (2019 \$13,633). Gigs and Equipment hire took the largest hits earning \$4,396 (2019 \$7,364).

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 support from volunteers.

Figure One: CPI adjusted Employment and Operating Costs since opening of new facility¹



¹ Operating Grants and Employment costs are CPI adjusted using the wages rate; all other amounts are CPI adjusted using the general rates. <https://www.rbnz.govt.nz/monetary-policy/inflation-calculator>

- **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.

1.3 Overall Result

The overall result for the 2018/2019 financial year before depreciation is \$37,828. \$10,000 of this is the NZ Lottery Grant, which is largely related to the 2020/2021 year, \$4,000 into our Feed the Tummy grant scheme, and a further \$18,000 was diverted to capital purchases. This leaves a true net result of \$5,882 (2019: \$1,500) which is in accordance with predictions.

This breakeven result has allowed The Stomach to maintain its cash reserves at the equivalent of six months expenditure in accordance with our prudent approach.

3. FINANCIAL PROJECTIONS

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, minimal Covid-related breaks and no significant changes to costs.

Post balance date we are pleased to report that we have been awarded a \$32,000 capital grant to purchase equipment to support live performance. This grant is from the New Zealand Music Venue Infrastructure Fund. The fund was established by the Government through the New Zealand Music Commission to support the resilience of venues through Covid. Our aims for this fund will be reported separately as part of our capital upgrade programme.

4. COMMENTS FROM THE TREASURER

This is my fifth year as Treasurer and the twelfth 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.

This year I'll stick with my opening theme to make some Covid-related thanks: to my fellow ManCom members for their calm heads and focused response to Covid requirements, to the PNCC staff who provided assurance of funding before we even asked, to the Government who developed a specific arts-response; to the staff for their thorough implementation of the Health and Safety plan and their innovation and flexibility in working through crisis, to the users of the facility who were patient with the new requirements, to the musicians who played online shows, and to the wider Stomach community who stayed in touch and supported each other.

Meredith MacKenzie

Treasurer and Management Committee member

Creative Sounds Society Incorporated

30 August 2020