

# SNOWY RIVER SKI CLUB COOPERATIVE LIMITED

## TREASURER'S REPORT TO 2009 ANNUAL GENERAL MEETING

**David Hogg, Treasurer**

The following report has been prepared to complement the audited financial statements compiled by Houston and Hanna, Chartered Accountants, which have been distributed separately. It provides additional explanation for the key financial issues currently facing the Club as of 31 December 2008.

### 1. Cash Balance

The cash balance in Club funds as of the beginning and end of 2008 (allowing for unpresented cheques) was as follows:

<b>Account</b>	<b>Balance 1/1/08</b>	<b>Balance 31/12/08</b>	<b>Increase/(decrease)</b>
Trading account (Westpac)	\$56,020.04	\$39,889.46	(\$16,130.58)
Term deposit 16-8169 (Westpac)	\$20,000.00	\$20,000.00	–
Term deposit 11-9420	\$6,505.00	\$6,749.61	\$244.61
Total funds (cash)	\$82,525.04	\$66,639.07	(\$15,885.97)

These figures do not take account of members' debts or credits, which are reflected in the trading statement on page 12 of the audited report.

The decrease in the cash balance over the year is primarily the result of expenditure on the upgrading of the fire protection system in the lodge. This is discussed further below.

### 2. Trading Statement

The trading statement for 2008 (Detailed statement of financial performance) is presented on page 12 of the audited report. This statement takes account of outstanding debtors and creditors at the beginning and end of the year, and depreciation or amortisation of the lodge building and contents. Some costs (e.g. lease rental, insurance, community service charges) are spread over two years (i.e. 2008 and 2009), but also include a component carried forward from payments made in the previous year (2007). The statement does not include the full expenditure on the fire protection system, which is treated as a leasehold improvement and amortised over an extended period, and has been added to the 'at cost' value of leasehold improvements (see Note 6, page 11).

Based on the trading statement, the loss incurred by the Club during 2008 was \$5946.

Some comments on the trading statement are as follows:

- The main component of bank fees and charges relates to the merchant fees and terminal fees applying to credit card bookings (\$1855).
- There are significant increases in community service charges and electricity (light and power) costs.
- The cost of insurance has decreased significantly, possibly as a result of the upgrading of the fire protection system. (The actual premium paid in May 2008 was \$7776).
- The increase in printing is due to the printing of booking forms, which are reprinted only once every few years.
- 'Repairs, replacements and maintenance' includes materials for work parties (\$6728), professional services (\$1666), work party credits to members (\$2400) and new electrical items etc. (\$1307).
- 'Telephone' includes both the lodge phone and the EFTPOS lines used by the booking officers. A component of the lodge phone cost is recovered from members.

### 3. Allocation of Costs by Categories

In response to a request at the 2002 AGM, the Board developed the following principles for considering how costs of running the Club should be allocated:

- Accommodation receipts should cover all costs arising from use of the lodge.
- Annual subscriptions should cover all compulsory charges that are incurred by the Club irrespective of how much the lodge is used.
- Levies should recover costs such as capital works that add to the value of members' shareholdings.

An analysis of 2008 costs according to these categories is presented below:

#### A. Charges against accommodation

Electricity	\$5,156
Telephone	\$1,939
Firewood	\$1,500
Stores/ honour shop	\$1,846
Community service charges	\$12,861
Replacement of equipment	\$1,307
Merchant/terminal fees (booking officers)	\$1,855
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Total expenses	\$26,464
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Accommodation income	\$33,904
Phone and shop purchases	\$1,087
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Total income	\$34,991
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Based on the above figures, it would appear that the current accommodation charges adequately cover associated costs.

## B. Compulsory charges

Lease rental	\$11,372
Insurance	\$7,776
Repairs and maintenance	\$10,794
Printing, postage, stationery	\$1,093 *
Audit fees	\$1,430
Filing fees	\$168
Bank guarantee fee	\$160
Sundry	\$487
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Total expenses	\$33,280
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\* A proportion of these costs could be allocated to Category A to cover booking officer expenses and materials.

Subscriptions	\$26,400
Interest	\$1,423
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Total income	\$27,823
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Based on the above figures, it would appear that the current subscription fees do not cover the compulsory charges or costs associated with running the Club and maintaining the lodge. The costs of repairs and maintenance can vary substantially from year to year, and were lower in 2008 than in 2007. The major cost for 2008, namely upgrading the fire protection system, has been included in Category C.

The above figures do not include depreciation and amortisation. If these were included, subscriptions would fall well short of covering the compulsory charges.

The annual subscription is currently at the maximum level permitted under the Club rules. The Board therefore considers it necessary to amend the rules to enable the AGM to approve a higher membership fee in future years, should this become necessary. This matter is addressed in a separate paper.

## C. Capital works

The only item included in this category for 2008 is upgrading of the fire protection system. The cost of this was \$17,314 and would add to the value of the lodge and hence to members' share holdings. It could therefore be justified as a legitimate item for which the Board could impose an additional levy on members. The Board, however, did not consider this necessary, as the cost could be met from a premium received from the sale of shares during the previous year.

It is likely that members will need to pay additional levies for major works on the lodge in the near future, particularly the replacement of the deck.

#### **4. Depreciation and Amortisation**

The annual financial statements make provision for depreciation and amortisation of leasehold improvements (i.e. the lodge) and of plant and equipment (major furnishings and fittings). This depreciation is calculated on a linear basis over the shorter of the unexpired period of the lease or the estimated useful lives of the improvements.

The amortisation rate for the building/ leasehold improvements is 4% per annum, based on a 25 year lease period. The current value of the leasehold improvements is listed as \$179,000. This includes the original cost of building the lodge, plus improvements made from time to time, such as the fire protection system installed in 2008. The residual value as of 31 December 2008 is \$22,785 (see Note 6, page 11). At the current rate of amortisation, the value of the lodge is likely to decrease to zero within three to four years, unless further improvements are added to this value. The depreciated value of the furniture and fittings reached zero during 2008.

It is assumed that this situation has arisen because the original 25-year lease was extended for a further 25 years (to 2025), but the depreciation/amortisation rate was not adjusted accordingly.

The Board is currently investigating the implications of maintaining a value of the Club's assets which is clearly well below their true market value, and whether there would be any benefit of going through a formal process of revaluation to increase the value of the non-current assets in the balance sheet for future years.