

Treasurer's Report for the committee meeting of SIRAC on 1 May 2016

Management Accounts

Attached to this report are Management Accounts for the association for the 9 months to 31 March 2016.

This report should be read together with the Management Accounts.

In the month of March SIRA had an operating loss of \$1941. This adds to the trading loss already sustained in the 8 months to February 2016, to bring the full 9 month trading loss to \$6276.

SIRA does have significant reserves and a healthy net asset position, but for the current SIRA committee to be acting responsibly we need to operate without diminishing the Association's reserves unless we can specifically explain to our membership why utilising those reserves is necessary.

For an explanation of why SIRA is operating at a loss, please review the P&L tabs (both the main P&L and the P&L by activity).

Comparing results to last year (year to June 2015), membership income has dropped nearly \$2,000 so that explains some of the difference. In YE2016 we have paid \$1219 for advocacy activities such as Church Point. A donation of \$500 was made to the Scotland Island Kindy. Spending on the SIRA 60th celebrations has cost around \$3,000 including \$900 in alcohol.

IN LIGHT OF THESE CIRCUMSTANCES, MY STRONG RECOMMENDATION IS THAT SIRA CEASES ALL NON-ESSENTIAL EXPENDITURE FORTHWITH, INCLUDING MEETING SUPPLIES, GRATUITIES AND WINE until we have had time, as a committee, to review and assess.

Looking more closely at the Activity reports;

The Hall hire income has been low for some time. Hopefully the reinvigoration of efforts to increase bookings will address that. Note that we have not been in the practice of recognising any Hall income for the quite substantial use of SIRAC meetings, wi-fi, and SIRA functions like the 60th celebrations. If this were truly reflected in the Activity reports then the Hall results would look much better and the central SIRA results would look worse.

The Emergency Water Activity is showing a 9 month operating loss of \$2214. However, this includes an internal charge of an administration fee of 12.5% of water sales. It also includes, by current convention, 50% of SIRA's accounting expense. There is a tab in the Management Accounts spreadsheet called 'Water results' which has a closer analysis of the receipts and payments of selling and maintaining the water supply. The numbers are a little different from the raw activity report because to assess the pricing and costings of that activity, I think its appropriate to exclude interest earned (because interest may vary or disappear in the future), line upgrade receipts and payments (because they roughly net off one another), and accounting expense (because it appears to be a duplication of the admin fee). That analysis would suggest to me that although our water pricing, and rewards to water monitors may be about right, I think there is a good argument to reduce the notional SIRA management fee from 12.5% to 10% and to end the practice of double-dipping with the accounting fees (double-dipping in the sense that the admin fee adequately covers accounts work). There also needs to be vigilance on the water line maintenance costs as this is high. The tab marked 'Water costs pie' has a chart of the costs for the 9 months to 31 March 2016. It shows that if we set the admin fee at 10%, then at current rates of water cost, the activity achieves break-even. That is, for every dollar of water sales, that dollar will be expended as 10% to SIRA to cover admin,

30% to water monitors, 13% to line maintenance and 48% to the cost of purchasing the water. There will be variations of course, especially for line maintenance, but I think it puts in place a more solid scenario that if managed correctly, the water provision activity can operate without being a drain or appearing to be a drain on SIRA's resources.

Note well however, that if the emergency water responsibilities were outsourced, it would still leave a substantial dent in SIRA income of perhaps \$6,000 per year, and this does not take account of interest on the Emergency Water term deposit.

The 'Balance sheet' tab shows our assets and liabilities at the end of February. Net assets are \$127,549. That's a healthy solvent position, but its down from \$133,825 at 30 June 2015. In the next month SIRA will be paying out the balance of the Upper Elsie steps work. This process won't affect net assets, because as the cash at bank is reduced, so is the liability of the grant.

Other matters

Replacement Auditor/Reviewer

George Gaal has been serving as the auditor of the Association's accounts. George will be moving off the island and won't be continuing in that role. SIRA does have the choice of whether it wishes to have its accounts audited or reviewed by an independent professional accountant. Anticipating that SIRA will continue this practice I've obtained a quote from Kuldeep Singh, who is a qualified CPA in Mona Vale. Kuldeep has offered to perform an annual review of the accounts for \$900 plus GST (George had been charging around \$400). This would not technically be an 'audit' but there is no legal requirement for SIRA to have an audit, audits are much more expensive, and the trend is for smaller organisations to have 'reviews' rather than audits. If you want more information about reviews, there is a discussion at the ACNC website here; <http://www.acnc.gov.au/ACNC/Manage/Reporting/ReviewAudit/ACNC/Report/ReviewAudit.aspx> SIRA is not a charity, but the information is equally useful.

We can talk more about the pros and cons of engaging a Reviewer. The advantage, aside from cost, is that removing and replacing an auditor can be a lengthy process, but a reviewer is engaged on an 'as needed' basis and can be discontinued or replaced at the discretion of SIRA at any time.

Also, as raised at the last SIRAC meeting, a substantial error in the 2015 accounts has come to light. The advantage of having an independent reviewer is that their focus will be on the 'desk audit' routines that are very effective in finding anomalies that others who are immersed in the numbers won't see. To date, in my review of the 2015 accounts, I believe I have found 3 substantial issues requiring correction that total \$23,488, being;

- CBP grant \$20,000
- Water accrual \$2,477
- Interest accrual \$1,011

It also highlights the importance of having a suitably qualified person to prepare SIRA's monthly management accounts. The 'business' of SIRA is obviously complex and involves amounts and obligations far beyond that of the average residents' association.

The information below appeared in the March Treasurer's Report, but I repeat it here because the question about **Peak Solutions** has been raised for the May meeting;

“A question was raised at the last meeting concerning an item of expense reported in the new format version of the profit and loss for the 12 months to 30 June 2015. The query was, what constitutes the expense of \$1850 described as “Software – Membership, old”. The response is; On 31/7/14 SIRA paid \$396 to Peak Solutions with MYOB narration “Database modifications” On 31/12/14 SIRA paid \$363 to Peak “Technology Support”. On 31/1/15 SIRA paid \$880 to Peak “SIRA Database Email final”. On 30/4/15 SIRA paid another \$396 to Peak with the narration “Technology Support”. These four amounts add to \$2035. Deducting the GST component leaves \$1850.”

Regards
Boyd Attewell