



# **CLUB ONE (SA) LIMITED**

**Year in Review 2015**

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## **Introduction**

The following materials expand upon the Accounts for the year 2014 -2015.

The explanatory materials are to be read in conjunction with the Accounts; they do not replace them nor follow the structure of the document but rather when read together with the Accounts, the materials will elaborate on the figures in the accounts.

The explanation is confidential to the Board of Club One and the Member of Club One. It is recognised that the substance of the document is publically available across a variety of sources, including the Office of Liquor and Gambling Annual Reports and the Parliamentary Hansard.

A modified version of this document will be posted onto the Club One Website post the AGM.

The document is organised as:

### Introduction

1. Year (2015) In Review
2. Financial Elements
3. Source of Gaming Machine Entitlements (GMEs)
4. Allocation venues
5. Service Contracts
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7. GME Vesting Summary
8. The Trade

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**1. YEAR (2015) IN REVIEW**

It is with pleasure that we make the 10<sup>th</sup> Annual Report of Club One (SA) Ltd.

There has been a face lift to Club One. Significant work has been undertaken to align Club One's objectives with its core business activities. The result is a clearer set of objectives that spell out Club One's role as a benefit to the Not for Profit sector and Clubs in particular. Much of the credit for this work can go to Rob Richards of Richards Commercial Lawyers.

Following the new objectives ratification, work has been done of the website and other "faces" of Club One.

Not only has the constitution been varied, so has the membership of the Board. Cameron Taylor resigned as one of the two Clubs SA nominees in July 2014. He was replaced by Shane Barton Ancliffe, then manager of "the southern" (formally Racquets SA), now manager of the Murray Bridge Community Club.

In November 2014, Greg Saunders was replaced as Clubs SA nominee by John Kernahan of the South Australian Amateur Football League (SAAFL).

Also in November 2014, Dwayne Jones, Independent Accountant, left the Board. The nominee Directors appointed Jim Owens in his place. Jim had previously been the South Australian National Football League (SANFL) nominee. He and Dwayne were inaugural members of Club One.

The SANFL appointed Noel Matotek to replace Jim Owens. Whilst Neal was appointed as Nominee Member (SANFL) in October in 2014. He was not approved by Consumer and Business Services (CBS) until June 2015

Neal's delay, as with other new Board members, was caused by the time spent awaiting mandatory police checks. In what was a national issue, some checks were taking up to six (6) months to complete. As an initiative of the Chair, the new Board members attended by invitation as observers, pending their approval by CBS.

Club One experienced changes in its Gaming Machine Entitlements (GME) base. These were a result of changes to legislation in which the Trade in Gaming Machines, managed by CBS, is now scheduled to take place at least three times a year. In the processes of the Trade, the price received by a seller of a GME has fallen from a high of \$54,472.73 in June 2012 to a recent low of \$29,125 in July 2015. This has seen many venues swap Club One GMEs for purchased ones.

The largest change was the return of all GMEs by the Coles Group (21 GMEs) causing significant drop in income. Club One has managed to find new venues, the Kadina Hotel being one that has absorbed some of these GMEs, but the pace of relocation is a slow one.

A fall out of lower GME prices and the return of GMEs to Club One is the impact on the payment of Vesting Fees to Clubs.

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Accessing a report from its accountant advisors, Club One undertook its annual review of Vesting Fees utilising the agreed formula in the Vesting contract. The outcome was a decrement of 3.5%. As Club One has absorbed decreases for the last few years, often in excess of 5%, the prudent decision was taken to implement the decrease in payment to Vesting Clubs as of June 2015. Despite this, Club One paid \$795,466 to Vesting Clubs in the year.

Club One has assisted several Clubs throughout the year. It has helped the Angle Vale Tavern (Playford Patriots) with negotiated start up terms for access to Club One GMEs and significant interest free loans. Similarly, Club One has assisted Berri Club staying afloat by providing GMEs to replace its entire fleet that it sold off as part of a refinancing arrangement to lift the Club out of insolvency. Club One has further assisted the Club with supportive arrangements for payment of fees and rents.

In October 2014, Club One entered arrangements within Campania to rent GMEs from the Club. This is a first, and it set up new legal grounds for Club One activity. The present arrangement is for a fixed rental for 2 years. (October 2016)

Unfortunately, the Athelstone Football Club decided not to retain their Gaming Venue and returned Club One GMEs. They also sold the balance of their own GMEs in the Trade. The turn of events was a disappointment for both parties especially as much effort had gone into supporting Athelstone having and using the Club One GMEs.

Club One is constructing a case before the Australian Taxation Office for a tax exemption. The benefaction that Club One provides to Clubs and Not for Profits is at the heart of the case and, if successful, will provide Club One and Clubs with significant relief.

The many changes in the gaming sector and for Club One in 2015 will be visited on 2016. Club One is developing resilience strategies to minimise the negative impacts of the return of GMEs and the dropping in the value and rentals for a GME. In the coming year Club One will retire debt and explore potential income streams to supplement the rental of GMEs.

Jack Clarke - Chairman

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**2. FINANCIAL ELEMENTS**

**DEBT**

- Best Bricks Loan ( to be retired March 2016)
- National Australia Bank Loan
- Club Management Services (CMS) Working Capital Loan
- CMS GME Funding Loan

**Income -NON CMS HOST CLUBS (83)**

- Adelaide Soccer Club [40]
- Sturt Football Club (Bazaar) [3]
- Playford Patriots – Angle Vale Tavern [32]
- Berri Club [7 ]

**Income CMS – CLUB ONE (HYBRID) CLUBS (10)**

- Roxby Club [10]

**Income – CMS**

- 77 GMEs

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**3. Sources of GMEs - VESTING/PURCHASE (as of June 2015)**

Club	Number	Lump sum	Vesting fee
Trade (initial)	<b>27</b>		
Trade (1)	<b>7</b>		
Trade (2)	<b>3</b>		
Trade (3)	<b>9</b>		
Trade (4)	<b>6</b>		
Trade (5)	<b>1</b>		
Trade (6)	<b>3</b>		
Trade (7)	<b>4</b>		
Trade (8)	<b>4</b>		
Trade (9)	<b>2</b>		
<b>Trade total</b>	<b>66</b>		
ANI-Cooinda	3	3	0
Athelstone	1	1	0
Blackwood RSL	10	10	0
Berri	2	2	0
Cadell Club	1	1	0
Campania	10	10	0
Colonel Light Gardens RSL	2	2	0
Cue Sports	1	1	0
Elizabeth Bowling Club	10	0	10
Elizabeth Rugby Club	9	4	5
Flagstaff Hill golf	16	0	16
Gaza	4	4	0
Hackham	16	4	12
Holdfast Bay Bowling club	11	11	0
Kadina Club	6	1	5
Kilburn FC	6	6	0
Loxton Club	6	6	0
Lyrup	2	2	0
Mannum Club	2	2	0
Millicent Club	11	7	4
Modbury North Bowling Club	10	10	0
Moorook & Dist. Club	9	4	5
Murray Bridge Club	1	1	0
North Mt. Gambier FC	20	0	20
Payneham RSL	12	0	12
Pooraka	2	2	0
RSL Marion	2	2	0
Salisbury Bowling Club	12	0	12
Semaphore RSL	5	5	0
Tea Tree Gully Golf	12	0	12
Vine Inn	6	6	0
Waybacks	5	0	5
West Croydon RSL	10	10	0
<b>Totals (33 clubs)</b>	<b>234</b>	<b>116</b>	<b>118</b>
Include Trade + 66	300		
Minus 14 sold	286		
Club "owns" (1in4 + trade + preCMS)	56 + 66 +10 -14 (sold)		<b>= 118</b>

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**4. ALLOCATIONS**

**4a. CMS VENUES**

**Club Management Services - GMEs as July.2015 (77 GMEs)**

Venue (Hotel)	Number parked	
Morphett Arms	1	Kipa (King) &Palmer
Lakes Resort	7	Fahey
Warradale	3	Palmer
Highway Inn	3	Palmer/ Matthews
Belair	4	Matthews
Feathers	3	Matthews
Eyre	3	Matthews
Flagstaff	7	Matthews
Stirling	3	Matthews
<b>Total Parked</b>	<b>34</b>	
Returned Hotel	43	
Relinquished Club	60	
Roxby	10	From returned GMEs
Total nominal	168	

**4b. NON-CMS TEMPORARY ALLOCATION as of July 2015 Trade results**

- Jones Group (17)
- Toad Hole - Mawson Lakes (7)
- ALH – “Woolworths” (21)
- Chinbyi –Aldinga Hotel (4)
- Plush- Plush Hotel group (24)
- Beswick Group (4)

**5. SERVICE CONTRACTS**

**Club One has service contracts with**

Wallmans Lawyers (Legal)

Richards Commercial Lawyers (Legal)

PKF Kennedy and Co (Accounting)

Helen Martin (Book Keeping)

Clubs SA (serviced Office)

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**6. DEBT SUMMARY.**

**Best Bricks Loan**

Club One has borrowed up to \$535,000 from Best Bricks at an Interest Rate of 9%. This will be retired in February 2016

**NAB Loan**

Club One has borrowed \$400,000 from the National Australia Bank. Principal and Interest repayable over 14 years full variable rate

**CMS Working Capital Loan**

Club One has borrowed from CMS \$300,000 at an interest rate of 8.5%. repaid over a 10 year period

**CMS GME Funding Loan**

Club One has borrowed from CMS \$5,000,000 at an interest rate of 8.5% to secure up to 333 GMEs. Principal and interest are repaid over a 10 year period.

**BANK SA Overdraft**

Club One has an overdraft with Banks SA of \$200,000 at the current Bank rate.

**9. GME VESTING FEE**

The down turn in the industry when applied to the increment/ decrement formula for vesting fees saw a drop in the fee to be paid to Vesting Clubs by 3.5. %.

The amount is calculated using the following formula.

$$.NF = CF \times [1 + (LFGME2 - LFGME1)/LFGME1]$$

*Where:*

*NF is the Annual Fee payable from the review date*

*CF is the Annual Fee payable as at the review date*

*LFGME1 is the average annual licence fee per GME earned by Club One in respect of all its GMEs for the year ending 30 June in the 12 calendar months prior to the year end to which AALFGME2 relates.*

*LFGME2 is the average annual licence fee per GME received by Club One in respect of all of its GMEs for the year ending 30 June, immediately preceding the review date.*



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**10. THE TRADE**

The present Trade of GMEs managed by CBS was first constituted in March 2012. There have been 8 Trades in the period since then to this report.

In the period covered by this report the trade occurred on 22 May 2014, 11 September 2014, 15 January 2015 and 21 May 2015.

In that period 167 Entitlements have been sold. There has been 30 GMEs cancelled and Club One has received 13 Trade GMEs. This means that 52 Club GMEs were sold and 120 Hotel GMEs.

As of the May 2015 round, the government reduction target has 735 GMEs to remove. At the present attrition rate that is 24 years of Trades.

The price a seller gets for a GME has remained steady around \$30,000. (Buyer price is around \$40,000)

As a fall out of Hotel clients buying GMEs in the Trade, there has been 39 GMEs returned from non CMS hotels and 18 CMS returns. A total of 57 GMEs. The contract with CMS means that the returned GMEs are paid for but the others have to be reallocated to ensure an income stream.

Club One now has 66 Trade GMEs (freehold no debt) in a total of 282 GMEs. Viewed in such a light the exchange of GMEs through the Trade has built the Club One Capital base (+66 GMEs or approx \$1.9million) but reduced its immediate income – the loss of 39 sets of monthly fees.