

SSA TREASURER'S REPORT
PHILLIP C. UMPHRES
FEBRUARY 2014 (rev 2-17-14)

I. THE BIG PICTURE

Preliminary financial results for 2013 show operating revenues of approximately \$833,900 and operating expenses of approximately \$832,100, resulting in a net operating surplus (profit) for the year just ended of \$1,808 before non-cash expenses of amortization and depreciation. In short, our operating results in 2013 were essentially break-even.

This result was achieved largely because SSA continues to be well managed at the office in Hobbs, keeping our administrative expenses to a minimum. Excellent cost control has allowed us to offset a long, slow decline in our operating revenue sources, a trend that has been going on for many years. The Executive Committee (Excom) has concluded that the time has finally come to address the declining revenue streams by recommending that the BOD approve at this meeting in Reno a modest dues increase of approximately 8% across the board, something that has been talked about almost annually since the last dues increase was passed in July 2002.

I will propose a couple of motions to the BOD in Reno to clean up some accounting issues that I think require the Board's attention. After the Reno meeting I intend to address a couple of other financial projects during the upcoming year, as my time permits. These include addressing other, less urgent issues with our financial accounting as well as working with the staff to complete a formal manual of accounting procedures.

II. PRELIMINARY FINANCIAL RESULTS FOR 2013

Attached to this report are a preliminary (unaudited) statement of revenues and expenses for SSA Operations for the 12 months ended 12-31-2013 as well as a balance sheet as of year end 2013.

Balance Sheet: The most noteworthy thing about the balance sheet is the cash balance of over \$346,000. This rather large cash balance is the sum of the amounts in 4 separate bank accounts plus a small and appropriately sized petty cash drawer at the office, as follows:

Bank Account	GL balance as of 12/31/13
1. Lea County State Bank	66,307.53
2. Wells Fargo Bank	162,043.59
3. Washington Federal – Payroll Tax Acct	6,193.10
4. Washington Federal – SSAF Restricted Fund	111,998.01
5. Petty Cash	<u>250.00</u>
Totals	\$346,792.23

1. Lea County is the main SSA operating checking account
2. Wells Fargo is the “merchant account” through which SSA processes credit card payments to SSA. I am told that this account has been treated as a “savings account” by Hobbs management and is periodically “swept” into the operating account to fund SSA Operations during the “dry months” in the middle part of the year when cash outflow exceeds cash inflow.
3. Washington Federal – Payroll is our payroll tax deposit transfer account
4. Washington Federal – SSAF Restricted Fund is where we park money that does not belong to SSA for general operations, but rather the money (1) belongs in one of the SSA Foundation “buckets” and is awaiting transit into the Foundation investment account, (2) is money that has come out of the Foundation investment account and is being held by SSA temporarily prior to be expended by the particular committee or subgroup of that “owns” the funds, or (3) is money not in transit between SSA and the Foundation that either belongs to a particular committee or subgroup of that “owns” the funds or is earmarked for a particular use by SSA, Inc. As of 12/31/13, the “owners” or the designated purposes for these “restricted” funds are:

“Owner” or purpose for funds	Amount
Unspent balance of portion of donation from Anonymous Donor earmarked to be spent on office Computer and Accounting System upgrades as well as on office Heating & air Conditioning system improvements (original amount was \$50,000)	3,839.96
Unspent balance of portion of donation from Anonymous Donor earmarked to be spent on Marketing (original amount was \$50,000)	5,239.43

Excess Sanction Fees (these funds, which have been accumulating for several years, belong to the SSA Contest Committee)	52,546.40
SSAF General Endowment/Life Member 2012 Payout	29,250.00
Eagle Fund 2012-2013 50% (SSA Excom set aside this amount for use in working with other aviation organizations)	20,129.46
Web Master Appreciation Donation	<u>250.00</u>
Totals	\$111,255.25

(Yes, I know the total in the chart immediately above does not balance to line for Bank Account No. 4 in the previous chart.)

Statement of Revenues and Expenses: As noted above, preliminary results show a net operating surplus (cash basis) of \$1,808 on approximately \$833,900 in revenues and expenses of approximately \$832,100. Some noteworthy components of these results are:

On the revenue side:

1. Dues revenues continue their long, slow decline, coming in at over \$19,000 below budget as a result of continuing membership losses.
2. I have been told that Merchandise Revenues last year (2013) were well below budgeted amounts in part because of the decision made in 2013, after the 2013 budget had been prepared, to significantly reduce our merchandise lines and in part because of an accounting decision in 2013 to break out FAST revenues from the Merchandising Revenue line, where FAST sales had previously been reported. Net merchandise revenues as reported on our financial statements were over \$78,000 in 2011 and over \$54,000 in 2012. Last year (2013) they were only \$6,098. Some of that difference has to do with merchandise sales in Uvalde for the Worlds in 2012. Some has to do with an accounting adjustment in 2012 related to expired FAST certificates that artificially inflated merchandise sales reported in that year.
3. A large portion of the \$135,000 shortfall from budgeted revenues is due to the decision not to take \$100,000 in capital out of the SSA Foundation. Consequently, the “real” revenue shortfall for 2013 was “only” about \$35,000.

On the expense side:

1. Wage expenses were slightly higher (\$11,000) in part as a result of the change in the status of one staffer from part time to full time; however, that increase was offset by savings realized by shifting this job to the staff from “contract labor.”
2. We saved \$20,000 in website maintenance costs thanks to Doug Easton’s decision to not charge SSA for his ongoing work to maintain and upgrade our website. However, some day we are going to have to pay someone else to perform this work when Doug gets tired of donating his time and expertise.
3. The largest “expense” variance from the budget forecast was as a result of the failure of SSA to spend more than \$67,000 on budgeted marketing efforts.
4. Setting aside the large and favorable variances on website maintenance and marketing efforts, actual expenses were \$37,000 less than budgeted, largely as a result of cost control at the office in Hobbs.

III. PROPOSED DUES INCREASE

For a number of years SSA has seen a long, slow decline in membership numbers. An inevitable result of this decline in membership numbers has been a decline in dues revenue. One of the consequences of this trend has been that SSA has become more and more dependent on donations through the Eagle Fund campaign and from other revenue sources to balance the budget.

It is the opinion of the Executive Committee (Excom) that SSA’s ability to compensate for declining dues revenue by relying on other revenue sources and sharply controlling costs has come to an end. For one thing, Eagle Fund donations seem to have leveled off and, indeed, were down last year from what they had been in prior years. For another, we think the staff in Hobbs have squeezed costs as hard as they can and from this point forward office administration costs are likely to show increases, not decreases. For 2014, for example, combined expenses for wage and compensation (budget line 65) and contract labor (budget line 77) are projected to increase by \$12,000, in large part because of increased costs for health care and other employee benefits.

Therefore, Excom is recommending a dues increase as follows, with the increase to take effect on September 1, 2014:

Dues Category	Proposed Dues	Current Dues	Percent increase
Full	69.00	64.00	7.81%
Youth & Family	39.00	36.00	8.33%
Associate & subscriber	56.00	52.00	7.69%
Institutions	49.00	46.00	6.52%
Business	216.00	200.00	8.00%
Life Member	1,728.00	1,600.00	8.00%

At current membership levels, the above increase in dues (if applied for the full calendar year) would generate approximately \$623,000 in dues income – a \$45,000 increase over the amount realized in 2013. Of course, we anticipate that with a dues increase there will be some loss of members directly attributable to the increase. The amount of such membership loss is virtually impossible to predict although the experience of the last dues increase can provide some guide. Dues were last increased in July 2002, when there was an across the board increase of more than 15%. SSA membership in July 2002 was 13,542; a year later, in July 2003 membership was 11,177. How much of this one-year 2,365 member decline was attributable to the dues increase is impossible to say.

IV. FINANCIAL PROJECTIONS FOR 2014 & PROPOSED BUDGET

The staff in Hobbs has continued to “tweak” the draft budget that was presented to the BOD and tentatively approved at the fall 2013 board meeting in Denver. The most recent versions, both dated February 7, 2014, are attached to this report. Version 17 assumes no increase in dues levels. Version 17a assumes the BOD approves the proposed dues increase, that it goes into effect on September 1, 2014, and that there is no loss of membership resulting from the dues increase.

The attached budget Versions 17 and 17a project net cash operating deficits of \$11,000 (no dues increase) and \$1,100 (with dues increase effective in September) respectively. These projected operating deficits would be even larger without (1) anticipated net revenues of \$16,000 from the 2014 convention in Reno and (2) projections that Eagle Fund donations – which were down considerably in 2013 – will increase in 2014 because the Excom and staff plan to run a more vigorous Eagle Fund campaign this year.

V. OTHER FINANCIAL ISSUES AND PROJECTS

A. AUDIT OF 2013 FINANCIAL STATEMENTS

We have once again engaged the accounting firm of Johnson Miller to conduct a full audit of our books for 2013. The expected charge by Johnson Miller should be about \$35,000, although that cost includes some non-audit related accounting work that JM also does for SSA.

B. INTERNAL CONTROLS

As Treasurer, I continue to be cognizant of the need for adequate internal controls over the financial activities of SSA. I plan to make a trip to the Hobbs office later this spring to meet with the staff and review the existing procedures.

C. ACCOUNTING PROCEDURES MANUAL

The Hobbs staff has been working on completion of a manual of accounting procedures and controls that was begun back in my first tenure as SSA Treasurer in 2007-2008. It is my intention to review this manual when I visit Hobbs and to continue working on the manual with the goal of having any needed additions or changes completed by the end of the year.

D. CLEANUP OF APPARENT OVERSIGHT FROM 2012: PLACING RECORD OF BOARD ACTION REGARDING \$1 MILLION DONATION INTO THE OFFICIAL CORPORATE RECORD

In 2011, SSA received an anonymous and unrestricted gift of \$1 million. The SSA Board accepted the gift and at the October 2012 BOD meeting in Kitty Hawk passed a motion that I had drafted and presented in which we allocated the \$1 million for various purposes.

In reviewing the minutes of that meeting in preparation for our upcoming meeting in Reno I was distressed to see that, by oversight, there is no clear statement of the action that was taken on that topic in the official minutes – the minutes reflect only that the agenda item was addressed and passed, but the minutes do not record what the action approved actually was. I would hope all BOD members would agree that making an adequate corporate record of the disposition of the single largest gift ever given to SSA is essential and that this apparent record-keeping oversight needs to be corrected.

Accordingly, included as one of the attachments to this Report is a motion I plan to present at the BOD meeting in Reno, and that – if passed – I will request be included verbatim in the official minutes of this upcoming meeting, setting out clearly what was and is to be done with that money.

E. SSA ENDOWMENT: HOW MUCH SHOULD BE CONSIDERED RESTRICTED ENDOWMENT AND HOW MUCH SHOULD BE CONSIDERED “AVAILABLE FUNDS”

An “endowment” is generally defined as a gift for which the original, principal amount of the gift is to be held and not spent by the recipient and only the income from the gift is available to support the activities of the recipient. Moreover, endowments are of two kinds: (1) endowments that are established by the direction of the donor (sometimes called “permanent” endowments) and (2) endowments that an organization places on an otherwise unrestricted gift in order to insure that money will be available in the future and that gifts are not all spent on short-term needs (sometimes called “temporarily restricted” or “voluntarily restricted” endowments.)

In order to protect the principal and insure that the ups and downs of the investment activity do not dissipate the gift below the original principal amount, prudent organizations generally adopt rules about how much of the annual income from an endowment gift can be either spent or separately accounted for as “available funds” that may be spent either in the current year at some point in the future.

Over the decades, SSA has received a number of gifts that were placed in the SSA Foundation “General Endowment” account and co-mingled with the funds already in that account, but without any demarcation as to the amount that was either untouchable “permanent endowment” or “temporarily restricted endowment” and the amount that was entirely unrestricted and so available for immediate spending. Thus, SSA and SSA Foundation accounting currently shows (as of 12/31/2013) that the amount in the General Endowment bucket is \$662,468. However, there has been no demarcation of how much of that amount is endowment and how much is “available funds.”

The accounting for gifts to the SSA General Endowment fund prior to 2007 is lost without hope of recovery. All we do know for sure is that out of the \$1 million unrestricted and undesignated gift that was made to SSA in 2012, the SSA Board directed in October 2012 that \$395,000 be added to the General

Endowment Fund and treated as a temporarily restricted endowment amount, with only income from that amount be available for spending.

But, what about the remaining balance of the General Endowment Fund (some \$267,468)? In the absence of adequate historical accounting records regarding contributions, I think it is appropriate for the BOD to pass some rules and put them into the official corporate record so that future staff and BOD members will do the right thing with the money.

Accordingly, I propose that (1) of the amount contained in the General Endowment bucket as of 12/31/2013, we make an arbitrary allocation of a total of \$500,000 into “temporarily restricted endowment principal,” not available for spending on current projects, and designate the rest as “available funds” and (2) that we state that future donations to SSA, unless otherwise designated, go to into the General Endowment and be designated as “temporarily restricted endowment principal.” I have included a motion to that effect as an attachment to my Treasurer’s report for this meeting.

F. FUNDING AND ACCOUNTING FOR LIFE MEMBER EXPENSE

Many years ago SSA recognized that the sale of life memberships was creating a future liability (the future costs of servicing those memberships) that was not adequately funded. In order to rectify that oversight, the BOD set aside some money and approved the creation of a “Life Member Trust” that is now administered within the SSA Foundation. The original plan was to transfer a certain amount of money from that trust fund to SSA Operations annually in order to pay the cost (largely, the cost of the magazine) of servicing the Life Members.

To the best I have ever been able to determine, the funding of this “Life Member” trust was arbitrary and not done on an actuarially sound basis. Moreover, in the last few years SSA appears to have quit drawing any money at all from this Foundation bucket. The result is that as of 12/31/2013 we have an entirely unrestricted fund of \$114,325.79 sitting in the SSA Foundation that is designated as the “Life Member” fund, with no current plans for how that money is to be utilized.

I have discussed this issue with John Godfrey from the SSA Foundation. Working with John and the other Foundation Trustees, I hope in the near future to develop a plan for handling this Life Member fund. As we are not currently selling any additional Life Memberships to speak of, I think the most likely outcome is

that the Life Members Trust will become a liquidating “sinking fund” that will eventually go away completely with the transfer, over some period of time, of its assets either into SSA operations or into one of the other SSA Foundation buckets, such as the Kunda Fund or the General Endowment Fund. However, resolving this issue will take some thought and I am not ready to make a recommendation at this time on how to handle the issue. I hope to have a formal proposal for the BOD’s consideration at the Fall BOD meeting.

G. FINANCIAL TRANSPARENCY: INSURING SSA FINANCIAL INFORMATION IS AVAILABLE ON THE WEBSITE

It is a fundamental objective of SSA that financial information about SSA be made available to the membership (as well as the BOD) on a timely basis. See, for example, the current SSA Four Year Strategic Plan, Financial Management.

Our outgoing Treasurer, Dave Pixton, and the staff in Hobbs have done a good job of making timely financial information available to the membership. I want the BOD to know that I remain committed to continuing meeting this objective as one of my primary responsibilities as SSA Treasurer.

Very Truly Yours,

**Phil Umphres,
SSA Treasurer**

ATTACHMENTS TO 2-2014 TREASURER'S REPORT:

- A. Preliminary (unaudited) Balance Sheet for SSA Operations as of December 31, 2013
- B. Preliminary (unaudited) Statement of Revenues and Expenses for SSA Core Operations for the twelve months ended December 31, 2013
- C. SSA Foundation "Tracker" showing balances for various Foundation accounts as of 12/31/2013
- D. Proposed budget for SSA Operations for calendar year 2014, no dues increase (budget Version 17, dated 2-7-14)
- E. Proposed budget for SSA Operations for calendar year 2014, assuming due increase goes into effect September 1, 2014 (budget Version 17a, dated 2-7-14)
- F. Proposed motion regarding disposition of anonymous \$1 million donation made in 2012.
- G. Proposed motion regarding allocation of General Endowment Fund into "restricted endowment" and "available fund" balances and regarding designation of future unrestricted gifts to SSA as Restricted General Endowment contributions.