Treasurer's Report

SSA Board of Directors

Soaring Society of America

September 8, 2001

The last several years have been eventful ones for the Society from a financial standpoint. At the risk of being repetitive, they may be worth recapping:

Where We Were:

Thanks to the efforts of former SSA President Bill Sproul and Larry Sanderson, a solid and detailed budget and forecast system was installed in Hobbs in the mid-'90's, permitting annual planning of revenues, expenses, and balance sheet items. Once approved by the Board, the annual budget could then be followed through monthly reporting, with variances from the budgeted amounts flagged for explanation or action. This system served us very well in the past, and will continue to be employed going forward.

Over that period, the Society's finances could be described as stable. Revenues from dues and merchandise sales were typically in the $1 Million range. Expenses were held more or less constant at the same level, permitting us to break even on our income statement. Because of non-cash charges among our expense items (depreciation on the building, etc.), we actually had a positive cash flow, meaning that we were able to slowly build up cash. This allowed us to accumulate a small short-term investment account that peaked at roughly $150 thousand.

Our Endowment:

As you know from Sterling Starr's excellent reports, we have trust and endowment funds totaling roughly $1.2 Million. These consist of 12 different categories, co-mingled as to investment but accounted for as separate funds. The management of these funds have been taken on by the SSA's new Foundation, under the guidance of its Trustees. The investments provide income for SSA program purposes according to the terms of their gifting.

It is important to understand that the Society's annual revenue and expense budget is almost entirely separate from this Foundation activity. Only about $40 thousand, from the Life Trust and General Endowment funds, directly hits the SSA's operating budget. Additionally, less than $5 thousand comes in through direct gifts to the SSA. In the world of non-profits, this is not a great deal of direct support – many colleges, theaters, and schools work with 20-40% of their annual budgets covered by endowment income. The remainder of Foundation funding goes directly to the programs supported, i.e. Team Fund, Safety Foundation, Youth, etc. Essentially, these are operated as separate and distinct programs with their own budgets, administered by the office in Hobbs. Thus there is no direct impact on, say, the World Team funding levels from better or worse results in the SSA's annual operating performance.

The Computer System Problem:

As has been previously reported, a major source of our financial problems for the past two years was the decision to replace the computer system in Hobbs. Without rehashing that decision, the facts are as follows:

At the beginning of 1999, it became clear that our then current legacy systems would not pass Y2K muster, and were limiting our capabilities in a number of ways. After much due diligence, including a strong and glowing recommendation from EAA, we selected DMG of Chicago to install new software and hardware. The hardware consisted of two servers, one for the Seattle based web site and one for Hobbs, as well as network PC's, printers, etc. The software promised state of the art handling of membership, merchandise/inventory control, all financial and accounting functions, event management, badge and record management, etc., i.e. a truly comprehensive system. The original estimated total cost of $125 thousand broke down as $30 thousand in hardware and $95 thousand in software.

Installation did not go smoothly. The one-year conversion time frame turned into two and the costs doubled. We ended up spending roughly $245 thousand, broken down as $40 thousand in hardware, $160 thousand in software, and $45 thousand in installation and maintenance. Worse, we lost our legacy system as of the beginning of 2000, meaning we were flying blind on financial reporting. Nancy Graham and others did a heroic job jumping in to the situation, extracting data and utilizing spreadsheets and work-arounds to perform the basic cash reconcilement and accounting tasks such that we were able to produce and sustain the year end audit, but regular monthly reporting ceased. During this time frame, Larry, Bill and I worked closely with our outside auditors to ensure that all control was not lost, but the budgeting and reporting system ceased to function.

In the world of system conversions, this is not a happy story but is hardly a unique one. Those of you who in your professional lives have lived through such system replacements can probably share similar tales. For what its worth, the EAA reportedly planned to spend $1 Million on their similar conversion with this vendor, ended up spending $3 Million, and now is said to be in court over the matter.

In any event, the conversion is now behind us. The system is now fully functional and should live up to its promise. In addition to increased support capability, Larry estimates that the new system will permit him to operate on the reduced staff level, down from 12.5 to 10.5 people in the past few years, at the same level of service without increased hiring. Monthly financial reporting re-emerged in the early spring, and we are currently seeing monthly P&L and balance sheets within a few weeks of each month end.

The Financial Picture:

When the financial picture became clear, we recognized that our inability to tightly manage revenues and expenses during the blackout period had resulted in some slippage. Bottom line, our initial analysis showed that the SSA would run a $40 thousand operating loss for this year, which ends in October. Offset against that loss would be non-cash charges of a similar amount, leaving us at a breakeven cash flow level for the year.

Additionally, the requirements of paying for the computer system had reduced our cash position dramatically. In fact, we had gone negative. The cash from approximately $160 thousand of special purpose donations held at the SSA prior to assumption by the Foundation had been utilized to meet expenses, and to keep our payables current. In effect, the Foundation had made the Society a loan, a common occurrence in the world of non-profits and their endowments, and much preferable to turning to a higher cost outside lender such as a commercial bank.

First Steps at Resolution:

While very troublesome, it is important that we all recognize (and communicate to our constituents) that this is far from financial disaster for the Society. A break-even cash flow year, and a small indebtedness between Foundation and Society needs to provoke the right actions on our part, but is clearly repairable. A team consisting of Tim Welles and the Exective Committee, the Foundation Trustees, and the Hobbs staff have all been working at a plan for resolution.

The first step must be to get the SSA operating results back to break-even or better. A review of expense levels turned up a number of small items that can be cut. Included in that list is the cost of Directors' expenses in attending Board Meetings. These have not been covered historically, but the policy was recently changed in hopes of easing the financial burden of Directors in attending meetings. An action item today is to eliminate such payments, and we recommend that you approve it. We expect these efforts to knock the operating loss down to the $25 thousand range, and a small cash flow surplus. While a number of other items can be cut, the overall picture suggests that the SSA is tightly run from an expense standpoint, and that further expense reductions can only come at the cost of program cuts.

Therefore we must turn to the revenue side. In the absence of substantial membership growth or major new merchandise initiatives, it is imperative that we take a serious look at a dues increase, another agenda item today. Given that more, not fewer services will be demanded of us by members in the future, particularly in connection with the FAA's inclination to privatize many of its current services, the only practical way to meet such needs is higher user fees.

On the balance sheet side, we have formalized the borrowing relationship between the SSA and the Foundation by letter agreement. The SSA will enjoy a line of credit from the Foundation, a defined period over which to repay the current loan, an annual requirement that the line be paid down to zero, and a market rate of interest. Additionally, reporting of gifts received by the SSA destined for Foundation funds has been improved and reconciled.

Even better news, Bill Sproul has volunteered for another crack at the budgeting and planning tasks, and will head a Budget and Planning Committee to oversea the process and to review our results.

Longer Term:

While we can deal with our current financial problems on a business as usual basis, they have given us an opportunity to re-look at our objectives. Clearly, none of us want the SSA to be a shoestring operation, and most members would like to see more services of one kind or another. The looming privatization initiatives by the FAA also point in the direction of a bigger and more active SSA. How to achieve this end?

Unless we take dues and user fee's up dramatically, the clear answer is donation and endowment income. As noted earlier, most successful non-profits cover a substantial portion of their budgets from annual giving and endowment income. We need to do the same. Building on the Eagle Fund efforts of Bill Sproul and Ed Byars, and utilizing the promise of the Foundation, we need to get going on a steady stream of income from these sources. Efforts such as those of John Seaborn to build the Robertson Fund must be supported and encouraged.

So what's stopping us? Why haven't previous efforts been successful? In short, execution. While we have the programs and the legal structures, past efforts have not really paid off because we've had no one to make it happen day in and day out. In our other lives, we've all been solicited by local organizations, colleges, etc. The successful ones have dedicated staffing who make the pitches, ask for donations, organize telephon-athons, etc. In our case, the Hobbs staff is flat out with current duties and does not have the manpower. An all-volunteer effort is very difficult to make successful, particularly one which is nationwide. The alternative of hiring a professional fundraiser, given our budget constraints, is problematic – would his/her efforts raise more than the costs of employment? However, we must find an answer to this dilemma, and you will be presented with several proposals at today's meeting aimed at doing so.

We also must raise money in the right form. An endowment gift of $1, i.e. one that is invested, and from which we can only spend investment income, is worth only approximately 5 cents in next year's budget. A gift to the annual fund of $1 results in $1 of more programs next year, but must be raised every year. Obviously we'd like to have more of both, but our needs are immediate and we must emphasize fundraising for current usage by Society programs. A balance is needed, and we must be careful to educate our members/donors as to the differences between the two.

Douglas Jacobs
Treasurer