

Treasurer's Report
Board of Directors
Soaring Society of America
February 2004

Financial Reporting

As will no doubt be covered in other reports, a major failure in September 2003 in the disk storage system of the SSA's Hobbs computer resulted in a need to recover data for a period of several weeks and to restore historical records from backup sources. This has consumed virtually all of Alan's time and much of Dennis' since it occurred. As a result, no financial information has been available on the usual monthly schedule past the August financials reviewed by the Board in Dallas. As of mid-January, a preliminary year end income statement and balance sheet was produced, but additional effort will be required to verify the numbers, which, as a result, may change to some degree. It is hoped that the office can quickly get back to normal, and be able to meet a standard of performance on production of monthly financials yet to be set by the Budget and Finance Committee but anticipated to be within 20 days of month end in each case.

Financial Condition

An analysis of the preliminary numbers indicates that the SSA continues in precarious financial condition. For the full year 2003 we recorded cash flow of positive \$10.6M and revenues of \$1,264M, instead of the \$47.8M we had budgeted. Revenues were on budget for the year, with a large positive variance to budget being recorded by Convention revenues (although with an equally large variance in Convention expense) offsetting a very worrisome decline in membership dues and contributions. Expenses were, however, \$42.3M over budget, with Convention, Computer, and Building Maintenance well over budget. Noteworthy also was a good December performance, driven by excellent Merchandise sales – for the month, we had positive cash flow of \$24.6M, reversing what had been a cash flow deficit for the year and permitting the small positive result for the full year. On an accounting basis, non-cash charges of \$51.7M produced a loss of \$41M for the year. Thus we continue in a basically breakeven cash flow situation. It is clear that we must act decisively on the revenue side to increase cash flow, while reducing or containing expenses – see discussion below.

Our balance sheet shows a basically stable situation but little in the way of financial muscle. Of note, payables (discussed further below) have been cut by \$50M over the course of the year. Deferred compensation payable to the former Executive Director of \$43M was also eliminated in the final settlement with him.

2004 Budget

Enclosed in this section and distributed prior to the meeting via email is a set of documents describing the process followed by the newly formed Budget and Finance Committee to update and improve the Interim 2004 budget you reviewed in Dallas. As will be reviewed with you during the Board meeting by John Volkober, a new and different approach was taken to the budgeting process this time around, and the ExComm was directly involved in making some of the between revenue and expense initiatives.

You are encouraged to study this material closely and to bring your questions and suggestions to the Board meeting.

The Budget and Finance Committee recommends that you accept the proposed 2004 Budget.

The Committee is heavily indebted to John Volkober for his hard work on pulling the presentation material together.

Liquidity Measures

With little in the way of cash reserves, the SSA staff must closely watch the inflow and outflow of cash through our accounts. Basically, an assessment must be made each day to determine what cash is available prior to approving and issuing new checks to pay bills. The staff has relied on information supplied by Lea County Bank daily on our account balances. Deposits made are not, however, immediately available for payments out since the bank must collect the funds from the remitting bank. Thus a collection period is set for each deposited item. Account balances are thus separated into collected funds which are fully available to the account holder versus uncollected funds which are not. A lack of detail on what was collected versus uncollected led the SSA staff to issue checks on uncollected funds, which Lea County returned for insufficient funds, i.e. bounced .”

In addition, the length of time it has taken us to pay our bills grew unacceptably long in several cases, well past 60 days, although this was highly variable over the year.

Both problems complicate our relationships with vendors and members, are clear signs of financial instability or poor controls, and damage the reputation of the Society. The Budget and Finance Committee discussed these problems and their root causes extensively in a telephonic meeting and came to the following decisions:

Overdraft Facility That we would recommend to the ExCom/Board that an overdraft facility be arranged with Lea County in the amount of \$20,000 to avoid any further instances of bounced checks. Per Alan’s research, there is no fee attached to this facility, and interest charges accrue only for the amount and period of the overdraft, which in all cases should be only a day or two, and never exceed ten days.

Performance Standards That the staff should manage our accounts so as to have a minimum of \$25,000 in cash at all times, and that our payables stretch to no more than 45 days, with a target of 30 days. If either of these standards is not met, staff is to call a telephonic meeting of the Budget and Finance Committee to discuss the situation and to formulate the appropriate response.\

Borrowing/Usage of Foundation Funds That in order to meet the standards set above, staff should be authorized to make use of the \$150,000 Line of Credit made available to the SSA by the SSA Foundation at the time when the existing 3 year Term Loan was put in place. This facility was set up so that the SSA could borrow and pay down on a fully revolving basis, requires interest be paid to the Foundation at the prime rate, and requires an annual clean up call , i.e. that it be paid down to zero at least once per year.

Alan estimates that the required borrowing levels to meet the performance standards set may range up to \$50,000 over the course of the year but would average about half that figure.

While some members may be apprehensive at this last step, it must be remembered that all Foundation funds are, in effect, our Society's net worth, i.e. the financial muscle of the organization. Without a solvent and active SSA, the Foundation has no purpose or reason for existence. In effect, when dealing with the Foundation we are making a loan to ourselves, paying ourselves interest on it, and avoiding borrowing from third parties on a commercial basis. Therefore it is clearly the best path to remedy the existing, unacceptable liquidity situation.

Longer term, borrowing is not the answer. What will improve the situation is positive cash flow, as has been planned in the 2004 Budget. It is imperative that we achieve the budgeted results, not only for one year but on an ongoing basis. Only this will allow us to pay down this debt to the Foundation and to begin expanding member services.

The Excomm accepted the Committee's recommendation regarding the Lea County Bank overdraft facility and the use of the SSA Foundation Line of Credit (see the Minutes of the Excomm Meeting on December 30, 2003).

The Budget and Finance Committee strongly recommends that you accept the proposed steps to improve liquidity, including Line of Credit borrowing from the Foundation.

Respectfully submitted

Doug Jacobs
SSA Treasurer

Reply-To: <alan@ssa.org>
From: "Alan Gleason" <alan@ssa.org>
To: <soarer@cox.net>
Cc: "Dennis Wright" <dennis@ssa.org>
Subject: RE: Draft Treasurer's Report
Date: Fri, 16 Jan 2004 17:10:22 -0700

Doug, Sorry this is so long.....

First I would like to pass along that I do not feel that after the final battle this weekend of getting all our data restored that it will make a very dramatic change in the current revenue and expense statement you now have, but I have been wrong before. The larger numbers that I knew were missing were included in the draft, they had been identified, just not reentered into the system. I believe the final missing numbers will mainly affect the balance sheet (inventory, Unearned Revenue and possibly payables) and not the revenue and expense statement. But we will know Monday and I intend to have final reports in the bluebooks.

In response to your question regarding our payables decrease. Of the \$47,546 decrease in payables, \$34,303 was merely a shift in the makeup of the liabilities of the SSA. If you will look at the Jan 03 balances in the "Due to Life Fund", "Due To or From Foundation", and "Due To or From Other Funds", these totals increased by \$34,303. We did a better job of paying our vendors at the expense of our internal accounts. However, the biggest player in this shift was the boards decision at Dayton to provide the SSF with the full amount of the Page bequest (62,000), which unfortunately at that time about 60% of the bequest had already been used. There still remains 12,000 of that bequest to be paid to the SSF. We also began receiving Atlanta registrations, we had cash coming in that was showing as a "due to convention fund", that will be shown on the revenue and expense statement after we close 2003 so as not to comingle accounting for Dayton with Atlanta, that cash was being used to reduce accounts payable. The liability shift and positive revenue totals to 44,864. The increase in other liabilities and the positive revenue account for all but 2,682 of the decrease in accounts payable. I intend to pay every vendor currently in the accounts payable account this weekend, then go into DMG before entering any vouchers, and make sure that the DMG balance is showing zero as it should be. I may or may not have a correction to accounts payable.

In your reference to a cash flow statement, something we have all been wanting for the last year, it cannot be built internally in the DMG system. So after getting the convention behind us, I intend to put together a spreadsheet that I can populate from the trial balances printed out by DMG. And I know this is nothing that anyone wants to hear, but the problems of the last 90 days has enlightened me to the many quirks that exist in the system. While it looks very good on the outside, when you start having problems it is in no way an easy system to deal with nor will it do what I had initially thought it was capable of doing. Some of these problems may be solved when we get the larger server, but most will not. There does not seem to exist any safeguards of any type to keep this from happening again and you will never know when it does happen until you start to work the data and discover

something is not right. And now they are hinting that what little support they do provide will be pulled this summer when they introduce their new software.

Alan.