

SSA TREASURER'S REPORT
PHILLIP C. UMPHRES
FEBRUARY 2015

I. YEAR END RESULTS FOR 2014

Preliminary (unaudited) financial results for SSA Core Operations for 2014 are shown in **Attachment A** (Statement of Revenues and Expenses, or Income Statement) and **Attachment B** (Balance Sheet). The “Income Statement” shows a net cash operating loss of \$113,864 for SSA Core Operations (aka, Capital Provided by Operations, which excludes depreciation and other non-cash adjustments.) However, there are two large items that distort this figure: (1) it includes the \$90,000 transferred to the General Endowment as an expense, (2) it also includes a transfer back to SSA from the Kunda Operating of \$35,000 which was money transferred in advance to pay for the Cloudstreet donation, although that expense has not yet been paid. After adjusting for these two extraordinary and unusual items the restated loss is “only” \$58,864. I believe that is the most relevant figure to understanding our current operating performance.

The good news is that SSA did not withdraw any money from the General Endowment Fund or the Life Member Fund in 2014. Had we done so, we could have “broken even” in 2014. We will begin relying on those revenue sources in 2015. Because SSA now needs to plan on using funds from the Foundation to support future operations, I also include as Attachments to this report the 2014 year end Income Statement (**Attachment C**) and the Balance Sheet as of December 31, 2014 (**Attachment D**) for the SSA Foundation so you can see what funds are available to SSA Operations from the funding sources in the Foundation (e.g., the General Endowment, the Life Member Trust and the Kunda Operating Reserve.)

II. FINANCIAL PROJECTIONS & BUDGET FOR 2015

The final budget for 2015 (Version 7A) is included with this report as **Attachment E**. When this budget was approved by the Excom in December, it was intended to be a “break even” budget; however, the HQ staff transferred \$35,000 from the Kunda Fund for Cloudstreet in December 2014, rather than in February 2015 as the 2015 budget originally anticipated, with the result that 2015 will now show a \$35,000 expense for Cloudstreet, but not the revenue. The result of this decoupling of the revenue and expense for this special item is to make it look like we anticipate a \$35,000 loss for 2015.

The bottom line is that the current budget assumes that – excluding the special program items such as Cloudstreet and the Airshow glider project that will be paid for with money from the Kunda Fund – we will end 2015 with non-discretionary administrative and magazine expenses exceeding normal operating revenues by about \$50,000, a deficit that will be covered by taking \$41,000 in available support from the General Endowment Fund (the Foundation Trustees have authorized withdrawing up to \$50,000 in 2015) and \$8,550 from the Life Member Fund (a calculated number based on \$10 per Life Member as of the date of the calculation.)

A. Structure of the Budget and SSA Operations Income Statement

Before getting into the details of the budget, I would like to note that we have tweaked the way items of revenue and expense are displayed in the Income Statement and in the Budget with the goal of making our financial statements more transparent and easy to understand. I had been concerned that too much detail was being buried in individual line items and so I asked Kathey Pope to rework the statements. I hope you all find the revised format more useful to you.

On the revenue side, the major presentation change from last year is to provide more detail under the category of Eagle Fund and Foundation Contributions. I hope by breaking out more clearly the specific funds from which we are drawing financial support from the SSA Foundation we can better understand (1) the importance and performance of our Eagle Fund campaign and (2) the degree of support from the various SSA Foundation “buckets” or Funds on which we have come to rely.

On the Expense side, all of our discretionary expenditures on programs and marketing had previously been buried in a single line item called “SSA Committee Expenditures.” We have now broken those expenses out into a more detailed grouping called “Programs and Marketing Expense.” From this breakout, you can now tell more clearly what the costs are of our various programs and marketing efforts, including the costs associated with attending and participating in airshows.

B. Revenue Assumptions behind 2015 Budget

1. We are projecting net dues and subscription revenue to be \$534,430 in 2015, compared to actual revenue of \$519,299 in 2014. This assumes that SSA will continue to lose members at the rate we have been seeing over the past several years, but the dues increase that went into effect January 1 accounts for the net increase over 2014. By the way, Denise reports that we have not seen any noticeable

exodus of members protesting the dues increase so I think our revenue projections here remain realistic.

2. Magazine advertising revenue is assumed to be roughly what it actually was in 2014.
3. Eagle Fund donation revenue is budgeted at slightly less than we actually realized in 2014 (\$64,300 in 2015 vs \$67,407 actual in 2014.)
4. Merchandise revenue is budgeted to be slightly more than it was in 2014. While we expect our mail order sales to continue growing, we won't have the benefit of a convention in 2015 and so don't expect any material increase in this revenue source in 2015.
5. We are not budgeting any revenue or expenses from the 2016 convention in 2015 although we will no doubt incur some costs and receive some revenue this year. This is because – for financial reporting purposes – we have begun deferring convention revenue and expenses from the year prior to our bi-annual convention into the year of the convention. For 2015, these items will show on the balance sheet rather than on the income statement as either an asset (prepaid expense) or a liability (revenue received, but unearned.) The accounting theory is that by consolidating all associated revenues and costs into a single year's financial statement we can more easily see the true profitability of the event.
6. The SSA Foundation Trustees have authorized the use of up to \$50,000 from the General Endowment Fund and \$8,550 from the Life Member Fund in 2015. We are projecting that we will draw \$41,000 from the General Endowment and \$8,550 from the Life Member Fund in support of general operations. Support for special programs and projects (Cloudstreet, the Airshow Glider project) will be coming from the Kunda Reserve Fund, as previously approved by the Board, as well the funds to pay for certain HQ maintenance needs that have now arisen since the budget was approved. As noted above, in December 2014 we had already drawn \$35,000 from the Kunda Fund to pay the Cloudstreet pledge.

C. Cost and Expense Assumptions behind 2015 Budget

1. Denise and the staff do a pretty good job of estimating salaries and administrative costs for our HQ in Hobbs, so I think most of those figures in the 2015 budget are pretty reliable, except that we have had some personnel changes since the budget was prepared that should have a modest favorable impact on salary and wage expenses (see below.)
2. The costs and expenses that are variable are mostly in the area of programs and marketing. As noted above, most of those costs – at least for 2015 – are earmarked to be funded out of the Kunda Fund.

D. Probable Variances from the Budget

We already know that the existing 2015 budget (V. 7A) is going to be off target for a variety of reasons. However, some of these known variances are favorable, some unfavorable and at the end of the day we don't know what the end result will be on our financial performance for 2015.

One known issue is that the portion of the contest sanction fees that have been allocated to the SSA Contest Committee under an agreement existing since 2008 have not been showing up as an expense item on the SSA Operations Income Statement. There is a technical reason for this and there has been no accounting impropriety involved – ask me individually if you want to hear the reason, which is a bit complex and technical. However, in order to make these fees more transparent the Contest Committee share will now be reported as a “contra revenue” item under “Miscellaneous Revenue,” in the same manner as the expense identified as “Sanction Fees Paid to US Team.” However, we have not gone back and restated the 2015 budget (or the 2014 income statement) to account for this reporting change. These fees were \$7,836 in 2014. How much they will be in 2015 is a matter that is in the process of being decided (see discussion below.) Whatever amount they turn out to be will have an adverse impact on our bottom line by that amount that is not currently shown in the budget.

III. OTHER FINANCIAL ISSUES AND CONCERNS

A. Audit of 2014 Financial Statements

We have once again engaged the accounting firm of Johnson Miller to conduct a

full audit of our books for 2014. The expected charge by Johnson Miller should once again be about \$37,000, although that cost includes some non-audit related accounting work that JM also does for SSA.

B. Bequest from Walter & Gloria Burke

SSA has been blessed by Walter and Gloria Burke, who made SSA beneficiaries in their testamentary trusts. SSA has previously received a total of \$54,324.98 from the Trusts, which was placed in the Kunda Operating Reserve. We expect to receive a final distribution of about \$6,700 in the next couple of months as the estate is wound down. The Excom will evaluate and decide whether to apply this money to current year operations or add it to one of the Foundation accounts for future use.

If any of you know the Burke family, please express our gratitude. And, if you have not already done so, please consider adding SSA to your will!

C. Sanction Fees

As noted above, the sanction fees collected from contest pilots are currently allocated between SSA HQ, the US Team and the SSA Contest Committee under an agreement between those three groups reached in 2008. The amount attributable to the Contest Committee, as it turned out, was far larger than most of us had really appreciated, amounting to over \$74,000 through 2014, as shown in the spreadsheet attached as **Attachment F**. The Contest Committee has spent about \$14,000 of this amount, the balance has been accumulating “off the books” in the SSA “restricted” bank account.

In July 2014 SSA transferred \$90,000 in excess cash from various SSA bank accounts into the General Endowment. As it turns out, some \$50,000 of that amount was money that had been allocated to the Contest Committee. The result is that the financial statements for 2014 and prior years are misleading to the extent that they fail to include as an expenses the Contest Committee’s previously agreed share of the sanction fees. Similarly, the SSA Foundation balance sheet is in error because \$50,000 of the \$90,000 amount that had been transferred to the General Endowment should have gone to a separate fund for the Contest Committee. To “fix” these problems, we are going to do several things that will show up in the SSA and SSA Foundation financial statements in 2015.

1. A new “bucket” is being created in the SSA Foundation to hold the money allocated to the Contest Committee.

2. \$50,000 will be transferred from the General Endowment to this new Contest Committee bucket.
3. Whatever additional money is necessary to bring the Contest Committee share up to the agreed amount will be transferred from SSA Operations to the SSA Foundation and put in this bucket.
4. Chairman Richard Maleady will be overseeing an ad hoc committee tasked with addressing the amount and allocation of contest sanction fees going forward.
5. As noted above, the future amounts transferred to the control and use of the Contest Committee – in whatever amount is eventually agreed to – will be treated as an expense on the SSA Operations income statements.

Very Truly Yours,

**Phil Umphres,
SSA Treasurer**

ATTACHMENTS TO 2-2015 TREASURER'S REPORT:

- A. Preliminary (unaudited) Statement of Revenues and Expenses for SSA Core Operations for the twelve months ended December 31, 2013
- B. Preliminary (unaudited) Balance Sheet for SSA Operations as of December 31, 2014
- C. Preliminary (unaudited) Statement of Revenues and Expenses for SSA Foundation for the twelve months ended December 31, 2013
- D. Preliminary (unaudited) Balance Sheet for SSA Foundation as of December 31, 2014
- E. Budget for SSA Operations for calendar year 2015 (budget Version 7A)
- F. Sanction Fees spreadsheet: amount allocated to SSA Contest Committee and uses of those funds for years 2008 through 2014