

SSA TREASURER'S REPORT
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FEBRUARY 2008

I. THE BIG PICTURE

Given the financial turmoil of the past several years, SSA's financial condition is astonishingly bright. We have eliminated the major financial uncertainty facing us as the IRS has waived all penalties on the late payment of payroll taxes and reduced the interest assessed to \$45,000, an amount that has now been paid. We ended 2007 with an operating surplus for the year of approximately \$212,000 (and no, that number is not a typo). The cash generated by that surplus was used – among other things – to pay the IRS, to reduce our accounts payable balance, and to reduce the principal balance owed on the loan from the SSA Foundation by more than \$78,000 over the past year.

There is no longer any question about SSA being a financially viable organization. However, that does not mean that we do not face some financial challenges in the next several years. Our operating surplus results primarily from reduced staffing at SSA HQ, with resulting reduced wage and salary expenses. This reduced staffing puts considerable strain on the remaining staff and forces volunteers from the membership – e.g., the Executive Committee of the Board of Directors and Doug Easton, who serves as our webmaster – to handle some activities that normally we would expect the staff in Hobbs to handle. We owe both the staff and the volunteers a debt of gratitude for their dedication, long hours and hard work over this past 18 months. Now, we need to hire additional staff and take some other steps to ease their workload (such as improving the financial accounting system) or we risk burning out and losing critical employees and volunteers.

II. RESOLUTION OF IRS ISSUES

As previously reported to the directors and to the membership, the IRS has accepted our appeal and has waived all penalties and most of the interest (including interest on the penalties) out of the more than \$230,000 initially assessed against SSA after the untimely filing of our payroll tax returns for 2003, 2004 and 2005. In the end, SSA was assessed only interest on the late payment of the actual taxes, an amount that totaled approximately \$45,000 (including some \$10,000 paid previously and credited by the IRS against the final total owed). The balance owed of approximately \$35,000 has now been paid in full.

While we were in the middle of resolving our appeal to the IRS regarding the payroll tax returns we learned that SSA's former management – Alan Gleason and Dennis Wright – had also failed to file annual information returns (IRS Form 5500) in 2004 and 2005 for two pension plans for SSA employees that had been terminated in 2006. Fortunately, under a special amnesty program offered by the IRS and the Department of Labor, we were allowed to file these returns late with only a small penalty of \$1,500. These returns have now been filed and the penalty paid. Thus, at this point, to the best of our knowledge, we are now current on all obligations to the IRS.

III. PRELIMINARY FINANCIAL RESULTS FOR 2007

The preparation of quarterly financial statements for SSA, which is an organization with annual revenues in excess of \$1 million, is a time consuming task. Preparation of quarterly financials normally takes between 45 and 60 days after the end of the fiscal quarter. The year end statements, which are even more complex, take even longer.

Nevertheless, our over-worked Accounting Manager, Judy Blalack, has prepared preliminary financial statements which show that, for 2007, SSA Operations (consisting of all SSA activities except for the US Team, the Soaring Safety Foundation, and the SSA Foundation) realized an operating surplus of \$212,000. As I have said in previous Reports to the BOD, there are two main reasons for this surplus: (1) significantly increased contributions by members and (2) reduced staffing levels in Hobbs which resulted in significantly reduced costs for wages, benefits and taxes.

Copies of the preliminary financials for 2007 are included as attachments to this Report. I will be prepared to discuss them in more detail at the BOD meeting in Albuquerque. In the meantime, feel free to contact me before then if you have particular questions. My e-mail address is pumphres_ssa@yahoo.com.

IV. FINANCIAL PROJECTIONS FOR 2008 & PROPOSED BUDGET

The Budget and Finance Committee (consisting of myself, SSA Chairman Dianne Black-Nixon, BOD member Richard Kellerman, Chief Administrative Officer Denise Layton and Accounting Manager Judy Blalack) has prepared a proposed budget for 2008 that is included as an attachment to this report. The budget projects an operating cash surplus (revenues minus expenses, excluding non-cash expenses of amortization and depreciation) of \$120,000. We project spending \$85,400 of this surplus in payments of principal and interest on the SSA Foundation loan and another \$26,400 on capital improvements, including the acquisition of a new financial accounting software package,

the need for which is discussed below. The result is a projected cash surplus of \$8,500 for the year and a net operating deficit, after deduction of non-cash expenses of amortization and depreciation, of \$12,800.

The key revenue assumptions on which this proposed budget is based include: (1) dues and subscription revenue is assumed to be approximately the same as it was in 2007; (2) expected donations from members to the Eagle Fund campaign are projected at 80% of what they were in 2007; since donation to this year's campaign as of January 8, 2008 were running ahead of where they were this time last year, we believe this projection is realistic, if not conservative; and (3) other revenue streams are assumed to be the same as they were in 2007, with minor adjustments.

The single most critical expense assumption on which the proposed budget is based – and the only expense item that is subject to any significant control – is the projection for staff compensation. Total employee compensation (including compensation, benefits and taxes) is projected to be \$362,000. This assumes that the staff at SSA HQ will consist of (a) Denise Layton as the Chief Administrative Officer, (b) six full time and one part time employee, and (c) a new editor for Soaring Magazine, whose salary is projected to come onto the payroll beginning March 1, 2008. Note that this compares to total employee compensation costs of \$275,000 in 2007 (7 employees on payroll as of 6/1/07), \$396,000 in 2006 (9 employees on payroll as of 6/1/06) and \$416,000 in 2005 (10 employees on payroll as of 6/1/05). Clearly, staffing levels are the key to whether we operate in 2008 – as well as in future years – at a surplus, at breakeven, or at a loss.

V. BEYOND 2008: IS OUR FINANCIAL FUTURE DARK OR BRIGHT?

Although we expect to finish 2008 in the black, it is prudent to look several years down the road to see if we can expect SSA to continue profitable operations. As Treasurer, I see both bad news and good news.

As for the bad news, or at least in the way of potential bad news:

1. On revenue side, SSA membership has been in a long period of slow decline as our membership ages. In 2008, dues are projected to provide over 58% of our revenues. If revenue from this source declines, we will either have to reduce expenses or raise the money somewhere else.
2. The membership has really supported SSA through donations to the Eagle Fund campaign over the past two years. As SSA moves away from the

recent crisis, will the membership continue to support SSA financially through voluntary donations at the same level?

3. 2008 will be the last year for annual conventions. We realized net revenue of \$45,000 from our convention activities in 2007 and project net revenues of \$28,000 from the convention in 2008. How will we replace that lost revenue in 2009 and other off years in the future when there is no convention?
4. Turning to the expense side, we can expect expenses to rise across the board, simply as a result of inflation.
5. The most significant increased expense, however, will undoubtedly be wages and benefits for the staff. Even if the number of staff is not enlarged, annual raises will cause some increase. But the biggest increase to this expense line item will no doubt come from the need to hire additional staff, including, at a minimum, a paid webmaster to replace SSA member Doug Easton, who has been performing this function as a volunteer.

In the way of good news, I am gratified that we are making excellent progress in paying off the SSA Foundation loan faster than we originally thought we would. The loan is currently being amortized over a four-year payout schedule, with the final payment due in October, 2010. However, we were able to make an extra \$40,000 payment of principal in 2007. We also anticipate making an additional early payment of at least \$50,000 in March 2008 as a result of the receipt of a \$50,000 restitution payment from Alan Gleason as part of his criminal case, as a result of a very generous bequest of \$25,000 received in January 2008, and as a result of generous Eagle Fund campaign donations. Thus, it looks like we may be rid of the drain on our cash flow caused by the quarterly loan repayments (budgeted to be \$83,000 in 2008, excluding the anticipated extra \$50,000 payment in March) much sooner than we had originally anticipated. The extra \$83,000 annually in available cash will be most welcome.

VI. SO, IS A DUES INCREASE CALLED FOR AT THIS TIME?

At the Fall Board Meeting in Elmira, NY, I raised the issue of a possible dues increase and promised to report back to the BOD at the meeting in Albuquerque regarding my recommendations. Given the current levels of membership support, and given the likelihood of early repayment of the SSA Foundation loan, I frankly cannot recommend a dues increase at this time. Most fundamentally, I find it impossible to justify a dues increase right now when we are projecting an operating cash surplus for 2008 of over \$120,000 and a total net surplus (after deducting the non-cash expenses of amortization and depreciation) of nearly \$100,000. Additionally, I think raising dues when the

membership has stepped forward to support SSA with their voluntary contributions through the Eagle Fund campaign is unwise on several levels.

Thus, I do not support a dues increase at this time. However, I think this is an issue that the BOD should keep in mind and should revisit annually.

VII. OTHER FINANCIAL ISSUES AND PROJECTS

A. AUDIT OF 2007 FINANCIAL STATEMENTS

We have engaged the accounting firm of Johnson Miller to conduct a full audit of our books for 2007. Although certain year end procedures have already been completed (notably, the year end inventory count), the field work on the audit will not commence until after April 15. (By delaying the start of field work until after tax season, JM was able to give us a discount on their rates.) It is expected that the audit will be a much smoother process this year as – thanks to last year’s audit – we have a clear picture of our beginning balances. The expected cost of the audit is about \$23,000.

B. NEW ACCOUNTING SYSTEM

The financial accounting software that has been used by SSA since 2006 – Peachtree for Non-Profits – is a \$250 off-the-shelf accounting program that is simply not up to handling the complex financial needs of SSA. While it has been an adequate stop-gap measure as we terminated use of our previous web-based system, in my opinion we need to replace it with a more robust software package if one can be obtained at a reasonable cost.

The budget for 2008 includes \$15,000 to purchase a new financial software package, run it parallel with Peachtree for three months, and train the SSA staff in using the new system. That amount was based on an estimate given to me by a sales person for a possible vendor of a new system and it may or may not prove realistic. In any event, we intend to seek bids and see if a suitable system can be obtained within the budgeted cost. The Budget & Finance Committee and the Excom will oversee this project.

C. INTERNAL CONTROLS

As Treasurer, I continue to be cognizant of the need for adequate internal controls over the financial activities of SSA. The most important of these controls, in my opinion, is the division of accounting and bookkeeping responsibilities between multiple staff members at Hobbs. The recent hiring of Kathy Pope as an Assistant Accounting Manager was a crucial step in restoring our financial operations to normal. With the addition of Kathy we now have – for the first time since I have been Treasurer – two full time staffers who are trained in financial accounting and who can divide the accounting functions as they properly should be divided, who can serve as a check and balance on each other, and who can step in and insure the smooth operation of our financial system if one of them gets ill, takes a vacation, or leaves SSA.

In addition, the existence of adequate internal controls will be one of the issues looked at during the audit this spring. I look forward to receiving the accountants' Management Letter advising us of their findings regarding what controls are working and what are not working.

D. ACCOUNTING PROCEDURES MANUAL

As I have previously reported, when our previous Chief Financial Officer, Alan Gleason, was fired he left behind no accounting manual or written set of instructions explaining SSA's financial processes. The absence of any such documentation has been a huge problem as Judy Blalack and I have sorted out any number of accounting and bookkeeping questions over the last year and was one of the weaknesses in SSA procedures noted in the Management Letter provided by the auditors following their audit of our 2006 financial statements.

I have begun the process of outlining the contents of such a manual, but have not made as much progress on the project as I would have liked. It is my intention to continue working on the manual with the goal of having it completed sometime before the end of 2008.

ATTACHMENTS TO TREASURER'S REPORT:

- A. Preliminary (unaudited) Balance Sheet for SSA Core Operations as of December 31, 2007
- B. Preliminary (unaudited) Statement of Revenues and Expenses for SSA Core Operations for the twelve months ended December 31, 2007
- C. Proposed budget for SSA Operations for calendar year 2008