

SSA TREASURER'S REPORT
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SEPTEMBER 27, 2008

Your Treasurer's Report for the September 2008 BOD meeting is a good one. We have regained control of our financial accounting, have competent and adequate staff in Hobbs handling our financial reporting and have a reliable financial accounting system in place, albeit one that still has some deficiencies, as discussed below. Moreover, we continue to operate "in the black" in terms of our finances. For the upcoming year (2009), we project that not only will we have funds available to meet our minimum operating needs, but there should also be funds available for new programs and improvements to existing SSA programs and member benefits. Some new programs and improvements are already included in this draft budget; the Board may chose to add additional ones as funds are available for at least some additional items.

A. Current financial status

Through the first six months of 2008, we show an operating surplus (or profit) of more than \$118,000, which is \$86,000 ahead of budget. While \$35,000 of that amount is due to the funds raised as a result of the incredibly generous donation of our Chairman, Dianne Black-Nixon and her matching gift challenge, and \$24,000 is a function of having not yet paid for the cost of our audit of the 2007 financial statements (more on the audit status below), there can be no denying that the financial results for the first six months were excellent. I have no reason to believe that the results for the second six months of 2008 will be anything other than profitable, although I do not expect the results to be anywhere near as spectacular as the first six months have been.

As previously reported to the membership, we have used our operating surplus this year to retire our debt to the SSA Foundation early, thereby saving more than \$17,000 in interest over what we would have paid had we adhered to the original five year payoff schedule. By paying off the loan, we now free up over \$80,000 in cash annually that otherwise would have been earmarked for loan payments.

As I note at every available opportunity, our excellent financial performance over the past two years is a function of three things: (1) our membership has been extremely generous and has given freely both to our annual Eagle Fund campaign, as well as to our Chairman's matching gift challenge, (2) our Chief Administrative Officer, Denise Layton, has done a wonderful job of controlling costs in Hobbs, for which we all owe her our thanks, and (3) we no longer have a staff member in Hobbs who is embezzling large sums of money from us.

B. Budget for 2009

Attached to this report, as the sole attachment, is a proposed budget for SSA Operations for 2009 (this excludes the SSA Foundation, the Soaring Safety Foundation, and the US Team, all of which report their finances separately). The proposed budget predicts a positive net cash flow for the year of \$30,000 and a total net capital increase for the year (cash flow, less non-cash costs of amortization and depreciation) of \$4,300. This proposed budget has been approved by the Administration Committee (which reviews salaries) and the Budget and Finance Committee, but has not yet been reviewed by the Excom. As noted below, the proposed budget does not include some expenditures that the Excom or the full Board of Directors may elect to include after discussing them in Wichita.

The devil to something like this is always in the details. Set out below are some key points about the proposed budget.

1. Dues revenue is down \$7,500 from 2008. This is a realization of our declining membership.
2. Magazine subscription revenue is down \$7,500 from last year. However, our Accounting Manager, Judy Blalack, tells me this is not really a function of lost subscriptions, but rather an improvement in the accuracy of our accounting. Prior to last year, we lumped subscription revenue in with dues revenue but at my insistence we are now accounting for these two revenue items separately.
3. Magazine advertising is down \$31,000, but this is an illusion as it is offset by a reduction in advertising expense of \$30,000. SSA previously had been booking the page value of advertising in Soaring magazine utilized by SSA to promote the Eagle Fund, the convention, etc. both as revenue and as an expense. I am told that this was done to indicate the value of Soaring magazine to total SSA revenues, but at the insistence of our accountants we have stopped the practice.
4. Contributions revenue is shown as essentially flat compared to the 2008 budget, down only \$1,000. This, of course, is the big wild card on the revenue side. We are working to develop a theme for the upcoming Eagle Fund drive that will enthruse the membership and generate as enthusiastic a response as we had to last year's campaign.

5. To me, the biggest surprise on the revenue side is the predicted reduction in merchandise net revenue of \$25,000. I am told that this is a function of there being no convention in 2009. Apparently, we sell a huge amount of merchandise at the convention. Thus, the decision to go to a biannual convention has cost us not only the loss of the direct convention revenue (about \$15,000), but also the lost merchandise revenue, which I don't think anyone anticipated. Bottom line, the decision to go to a biannual convention has cost us \$40,000 in revenue in the non-convention years!!
6. Turning to expenses, the largest single component is wages and benefits. Denise Layton and the Administrative Committee have given careful consideration to employee raises, and they are reflected in the proposed budget (all raises will be effective 3/1/2009).
7. While total compensation (line 60 on page three, the first page of the expense portion of the budget) is down \$40,000, this is somewhat illusory. Last year we had the projected salary for the magazine editor included in the staff salaries line item, but Chuck Coyne elected to be treated as a contract employee so his salary is actually included under Contract Labor. **Bottom line on projected personnel costs for 2009:** combining salaries and contract labor, total personnel costs are projected to be just about what they were in 2008.
8. Structurally, the most significant change in the budget from last year is shown at lines 83-87 of the first page of "Cash Outflows From Operations" (page 3 of the attachment). I strongly believe that we need to empower our volunteers and committees by making some money available for them to institute programs and member benefits. Accordingly, we have budgeted a contingent expenditure of \$10,000, which may or may not get spent depending on whether any director or committee comes up with useful and creative ways to spend it. **Please don't overlook this line item: this is money available to the Directors, to member committees and to working groups to spend if they come up with good ideas. Please find ways to spend it making SSA a better organization that is more valuable to the membership.**
9. The line item for SSA HQ - Promotion of soaring (line 88) deletes the \$2,500 set aside for Oshkosh that was in this line of last year's budget. I understand that David Newill's will submit a report on our Oshkosh experience this year that will address whether we should budget support for

next year's Oshkosh air show. In the end, I believe this is an issue on which the full Board should make the decision.

10. One pleasant surprise is that the projected expense for "Supplies" (line 89 on page 3) is down \$9,000 from last year. Judy Blalack tells me this is because our CAO, Ms. Layton, keeps close tabs on Hobbs office expenses and that this cost reduction is largely a result of her prudent management.
11. Doug Easton has requested that we budget \$20,000 for some improvements and additions to the website that he does not have time to do on a volunteer basis. These include, but are not necessarily limited to, placing the entire Soaring magazine archive and the Sailplane Directory on line so that they will be available to SSA members. The magazine and sailplane directory projects should cost in the area of \$15,000. The Excom decided on 9/9/2008 to earmark the requested funds for these projects in next year's budget. Accordingly, the draft budget includes \$20,000 for website improvements (at line 94 on page 5).

In addition to noting what *is* in the proposed budget for 2009, the BOD should note what *is not* in the proposed budget. While I do not necessarily support or oppose any of the items listed below, I do believe the BOD should carefully consider them should one of the board members propose these expenditures in Wichita.

1. There is no money in the budget for continued support of a formal SSA presence in Oshkosh. It is my understanding that Dave Newill or one of the other members of the Growth and Promotion committee will make a presentation on this topic at the full BOD meeting in Wichita.
2. There is no money in the proposed budget for financial support of the Cloudstreet video project. A proposal was made by one of our members that we make a financial contribution to the project in return for certain rights and benefits regarding the project. It was the opinion of the Budget and Finance Committee that this proposal has not yet been adequately developed and so consideration of it should be deferred to a later time.
3. In response to my request for ideas on how SSA Committees might spend money if it was available, Director Steve Northcraft suggested that we make some money available to reimburse Directors and other SSA members for travel expenses incurred while on official SSA business, such as travel to meet with the NAI, the FAA and other government or regulatory bodies. While I am not necessarily opposed to reimbursement of at least some travel

costs incurred by volunteers, I do believe that formal rules and procedures for such reimbursement should be developed on what is, and is not, reimbursable before we open what could be a very expensive Pandora's Box.

4. After the Budget and Finance and the Administrative Committees had already reviewed this draft of the budget, Frank Whiteley suggested that we establish a mechanism for conducting web seminars for the SSA membership. This very creative idea could be used (1) to provide instruction and training to members scattered across the globe, (2) for committees to conduct meetings, (3) for SSA divisions and affiliates (e.g., 1-26 Association, Women's Soaring Pilots Association, etc.) to conduct meetings. It would be possible to record programs and post them on the SSA website for viewing at a later time. If I understand Frank's e-mail on this correctly, he thinks the cost for establishing this would run about \$2,000 per year. This is an intriguing idea that needs to be explored and, if the cost is really as low as \$2,000, I suspect we will include money for it in the final draft of the budget.
4. Finally, I had asked the Clubs and Chapters committee to consider whether there was something we could do to make it more attractive financially for the clubs and chapters to collect SSA dues from their members and remit them to SSA each year. Formerly, SSA provided the clubs with a significant rebate for collecting the dues, but that program is prohibitively expensive. Although the Clubs and Chapters committee has discussed this issue, neither a rebate program nor anything short of the rebate program is included in the proposed budget.

C. Status of the Audit of our 2007 financial statements

At the time this is being written, I do not yet have the audit report for the accountants' review of our 2007 financial statements. We are a little behind schedule on completing the audit this year for a couple of reasons: (1) we delayed the start of the audit until after April 15 in order to receive a 10% discount on the audit fee, (2) our lead audit partner at our accounting firm became very ill during the course of the audit work and was incapacitated for several weeks. Even after returning to work, her health was still fairly precarious for some time.

Nonetheless, I expect to receive the audit opinion before the scheduled fall board meeting and will make it available to the directors and to the SSA membership when it is

available. At this time I have no reason to believe that the audit will disclose anything unusual.

D. Status of our relationship with the IRS

As part of their work on the audit, the accountants will also prepare our IRS forms for 2007. They have filed the appropriate extensions and our returns are not due until November 17, 2008. Of course, our quarterly payroll tax returns are being timely filed on a quarterly basis.

E. Financial Accounting Software

At our last BOD meeting in February 2008, the BOD was advised that the financial accounting software we were using in Hobbs, Peachtree for Non-Profits, was simply not adequate and that we were exploring alternatives. We have been studying this issue for the past seven months. Unfortunately, the accounting packages we have located are expensive, on the order of \$40,000 or more for the software license, initial installation and staff training alone.

Fortunately, the company that makes Peachtree has come out with an upgrade package that we have now purchased and installed and that, to our pleasant surprise, may be enough of an improvement that we will not need to go to a completely new system. For the moment, our Accounting Manager, Judy Blalack, wants to work with the Peachtree upgrade and see if it will do what we need it to do. If it does, our preference is to stay with Peachtree even if it does not have all the features we would like an accounting system to have.

One thing Peachtree will not do even with the most recent update is allow us to generate balance sheets that are accurate until the previous accounting year has been closed out, and we can't close the books until after the annual audit is completed and we have the required audit adjustments. However, we think we have come up with a "workaround" to this problem that will allow us in the future to generate timely balance sheets on a quarterly basis, even before the completion of the annual audit and final closing of the books. We plan to institute this workaround at the beginning of next year.

F. Accounting and Financial Procedures Manual

We continue to work on an accounting and financial procedures manual so that, when inevitable changes in financial staff in Hobbs or in the volunteer leadership of SSA occur, there will be a record of key financial procedures and information. I had hoped the initial version of this manual would have been completed before now; the delay in getting

it completed is all mine and not the fault of the staff in Hobbs. I still intend to have Version 1.0 of this manual completed by the end of this year.

G. Improvement in financial and accounting activities for the Soaring Safety Foundation (SSF)

Finally, I would like the Board to recall that at the fall board meeting last year we instituted a new set of financial procedures to improve the financial accountability of the Soaring Safety Foundation. For the record, I wish to note that the relationship between the SSF and the accounting staff in Hobbs has been entirely satisfactory as a result of those changes as well as, in no small part, to the efforts of the current SSF Treasurer, Bernald Smith. I still wish the SSF would post their financial information on their website, but they have not. However, any Board member who wishes to see their financial statements has only to ask and I will have Judy Blalack provide them.

Respectfully submitted,

Phil Umphres,
SSA Treasurer

ATTACHMENTS TO TREASURER'S REPORT:

- A. Draft budget for SSA Operations for calendar year 2009