

SSA TREASURER'S REPORT
PHILLIP C. UMPHRES
FEBRUARY 19, 2016

I. YEAR END RESULTS FOR 2015

Preliminary (unaudited) financial results for SSA Core Operations for 2015 are shown in **Attachment A** (Statement of Revenues and Expenses, or Income Statement) and **Attachment B** (Statement of Assets, Liabilities and Fund Equity, aka Balance Sheet). The "Income Statement" shows a net cash operating loss in 2015 of \$12,634 for SSA Core Operations (aka, Capital Provided by Operations, which excludes depreciation and other non-cash adjustments.) However, that amount includes the \$35,000 expense of the Cloudstreet support payment paid in 2015 without any offset because the money to fund that payment came out of the Foundation (Kunda Operating Reserve) in 2014 and was recognized as income in that year. **So, absent the Cloudstreet payment, we finished the year \$22,366 in the black.**

While that performance is encouraging, **we were able to achieve it only because we took a total of \$40,000 in distributions from the General Endowment Fund and \$8,550 from the Life Member Fund.** While those Funds are there to support our operations and so the distribution of those funds from the SSA Foundation to SSA, Inc. was entirely appropriate, we should all be nervous about the fact that we are now relying on our endowments for a substantial portion of our annual operating funds.

Because distributions from our endowment accounts now comprise a material portion of our annual operating revenues, I also include as Attachments to this report the 2015 year end Income Statement (**Attachment C**), Balance Sheet as of December 31, 2015 (**Attachment D**) and "Fund Tracker" spreadsheet (**Attachment E**) for 2015 for the SSA Foundation so you can see what funds are available to SSA Operations from the funding sources in the Foundation (the General Endowment Available Fund, the Life Member Trust and the Kunda Operating Reserve) that are available to support SSA general operations.

A few items to note in the SSA Ops Income Statement:

- A. No revenue from the 2016 convention in Greenville shows up in the 2015 income statement. Rather, \$53,620 in revenue received as of 12/31/15 for the 2016 convention has been recorded on the balance sheet as "deferred revenue" (a liability) and \$16,190.79 in expenses paid in 2015 and prior

years has been treated as “prepaid expenses” (an asset.) In 2016 these items, along with all other convention revenues and expenses, will be recognized in the income statement to report a total profit/loss for the convention on the 2016 income statement for SSA Operations. The 2016 budget anticipates that the Greenville convention will contribute a “profit” of \$22,450 to SSA’s bottom line for 2016.

- B. **Eagle Fund revenues** remain an important part of our overall revenue stream, **amounting to \$65,937 in 2015.** We should all be *very* thankful for the support from our members.
- C. Revenue in the form of withdrawals from the Kunda Fund in 2015 was \$6,000 under budget, but that is a wash with expenses since we also did not spend in 2015 the \$6,000 on the L-13 show glider project that money was intended to support.
- D. **Merchandise sales** continue to make a material positive contribution to our bottom line, **producing \$32,638 in net income in 2015.** This figure does not allocate any staff time or general administrative overhead to this income area, which is consistent with all our other operational categories shown on the Income Statement.
- E. The most noteworthy item on the expense side in 2015 was the printing cost for *Soaring* magazine, which was \$13,757 under budget. The staff tells me that this savings was primarily because, with a reduction in membership, we have cut back on the number of magazines printed, although in 2014 we also benefitted from a very nice savings in printing costs because our former editor, Chuck Coyne, found us a printer who is much more economical. So I think the savings in 2015 is a combination of the two things – fewer magazines combined with reduced printing costs overall.

II. FINANCIAL PROJECTIONS & BUDGET FOR 2016

The final budget for 2016 (Version 6) is included with this report as **Attachment F**. A draft of this budget was presented to the full BOD at the fall meeting and then the final 2016 budget was approved by the BOD acting through the Excom at that group’s meeting in Houston on December 12, 2015 and so no action is required on the budget by the full BOD at this winter BOD meeting.

A. Critical Revenue Assumptions behind 2016 Budget

1. Dues Revenue

We are projecting total net dues and subscription revenue to be \$495,823 in 2016, compared to actual net dues revenue of \$535,042 in 2015. This is a projected revenue decline from 2015 of \$39,219, or slightly more than 7%. That budget estimate may be a bit pessimistic, but in 2016 we will almost certainly see some decline in total dues revenue from the prior year.

As an aid in seeing how our dues revenue has been declining, set out below is a schedule showing actual *gross dues* revenue (not *net dues* revenue for technical reasons related to a change in the structure of our income statements in 2012), plus the budgeted *gross dues* (top line) revenue for 2016, along with the actual number of *full members* (not *total members*) for the years 2009 through 2015. These numbers clearly show the long-term downward trend in our membership numbers and, consequently, our downward trend in dues revenue. The average decline in gross dues revenue over this six year period has been more than \$15,000 per year.

Year	Gross Dues	\$ change from prior year	% change from prior year	Full members as of 12/31	# change from prior year	% change from prior year	Comments
2016	533,858	-32,629	(5.76)				Budget Projection
2015	566,487	10,832	1.95	7,931	(179)	(2.21)	Dues increase effective 1/1/2015
2014	555,655	-30,717	(5.24)	8,110	(180)	(2.17)	
2013	586,372	-21,589	(3.55)	8,290	(91)	(1.09)	
2012	607,961	13,038	2.19	8,381	133	1.61	Format change to Inc. Statement
2011	594,923	-15,111	(2.48)	8,248	(262)	(3.08)	
2010	610,034	-18,676	(2.97)	8,510	(140)	(1.62)	
2009	628,531			8,650			
Average Annual Change 2009 - 2015 (6 years)		-15,808	(2.64)		(120)	(1.43)	

As I have done repeatedly in the past, I point out to the Board once again that SSA simply cannot sustain its current organizational structure and membership benefits in the long term if this decline in

membership dues revenue continues. We are holding our own financially for now thanks to our ability to draw from our endowment resources (e.g., General Endowment Available Fund, Life Member Trust and Kunda Operating Reserve), but in a very few years (certainly no more than four or five) I predict we will be at a point where we begin running very real operating deficits unless we either increase our operating revenue streams or begin to reduce expenses in a meaningful way. There are very few options open to us in the way of meaningful expense reduction and all of them are painful. It would be preferable by far to find ways to increase revenues – or at least arrest the decline. Therefore, I encourage all of us to do everything we can to support Chairman Sorenson in his efforts to grow our sport and our organization.

2. The SSA Foundation Trustees have authorized the use of up to \$42,000 from the General Endowment Fund and \$8,550 from the Life Member Fund in 2016. The budget projects that we will withdraw all of these allowed amounts from the Foundation in 2016. **If we do so – and if our other budget projections are on target as well – we will end 2016 with a \$15,599 cash operating surplus (e.g., Capital Provided by Operations, as reflected in the 2016 Budget.)** If it does indeed look like we will end the year with a surplus, I likely will recommend that we not take all of the monies available from the General Endowment during the 4th Quarter of 2016 and leave the extra in the General Endowment Available Fund for use in future years.
3. The projected surplus for 2016 is possible only because this is a convention year and we are anticipating a total of \$22,450 in net income from the convention. **In 2017 we are not scheduled to have a convention and so 2017 could well see a true deficit budget.**

B. Cost and Expense Assumptions behind 2016 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 2016 budget are pretty reliable and – without reducing staff even further – are pretty well pared to the bone already.

2. The costs and expenses that are discretionary are mostly in the area of programs and marketing. However, virtually all of the budgeted \$23,600 in program and marketing costs – at least for 2016 – are earmarked to be funded out of the Kunda Fund, not general operating revenues. The balance of the total of \$33,500 budgeted to be drawn from the Kunda Fund is earmarked to be spent on badly needed HQ building repairs and maintenance. (See the budget line item for “Maintenance Buildings and Grounds” expense.)

III. OTHER FINANCIAL ISSUES AND CONCERNS

A. Audit of 2015 Financial Statements

We have once again engaged the accounting firm of Johnson Miller to conduct a full audit of our books for 2015. They have already begun their work, having participated in the year-end inventory count in December 2015. 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. Pending Bequest from Estate of Ben Greene

For those who don't know, SSA member Ben Greene died in 2015 and left approximately \$100,000 to SSA – or rather, technically, to the SSA Foundation. The estate's lawyers are working through the fact that the SSA Foundation is not a 501(c)(3) charitable organization and so the donation may or may not be entitled to a tax deduction. Whether the money technically goes to the SSA or to the SSA Foundation, it will be available for the use and benefit of SSA, Inc. We expect to receive the donation in 2016 at which time the BOD – either in full or through the Excom – will need to decide what to do with the money. I probably will recommend that most – if not all – of it go into the General Endowment.

C. SSA Future Move Fund

As some of you will remember, in 2011 an anonymous donor gave \$1 million to SSA and allowed SSA to decide where it was to go. Among other uses for the money, the BOD voted to put \$250,000 in a dedicated fund to finance a possible move of SSA HQ to Elmira, NY. However, the

BOD further provided that if SSA HQ does not move to Elmira by October, 2016 (4 years after approval by the BOD at the October 2012 BOD meeting of the motion on what to do with the money, see minutes of winter 2014 BOD meeting, agenda item 5.3) the BOD will then have the ability to spend the money on other projects important to the well-being of the SSA, if the BOD so wishes. And, if the money is not spent or otherwise allocated by May 1, 2018, the money by default and without the need for further action by the BOD is to be added into the General Endowment. To date, no action has been taken by the BOD to redirect the use of this money, which has now grown, with accumulated earnings in the Foundation, to a total of \$325,440.75 as of December 31, 2015. It may be time for the BOD to begin thinking about what to do with this money.

D. Need for a Dues Increase in 2017?

As noted above, we continue to see an apparently inexorable decline in membership and therefore dues revenue. One possible way to increase revenue is with a dues increase. As you can tell from the chart shown on page 3 above, we had a nice bump in gross dues revenue in 2015 versus 2014 because of our dues increase that took effect 1/1/2015 even though we continued to lose members in 2015. I am not ready to recommend a dues increase for 2017 at this time as the topic needs additional study and analysis before anything. However, I wanted to give advance notice that at the Fall BOD meeting the odds are high that I will recommend to the Board a small dues increase to take effect January 1, 2017.

IV. SUMMING UP: THE BIG PICTURE

SSA is now dependent on taking the maximum permissible withdrawals from the funds available in the SSA Foundation General Endowment and Life Member trust funds in order to balance our annual budget. While we have about \$295,000 in the Kunda Operating Reserve and potentially another \$325,000 in the “Future Move Fund,” it is my view that tapping the principal of these Funds to support ongoing normal operations is inadvisable. We need to find a way to live within our means using only normal operating revenues and using the income from our available Foundation monies (General Endowment and the Life Members Trust) in a way that does not deplete their principal.

I really think it is time for this board to do some serious thinking about how this organization is going to operate when the time comes – in the very near term – when our

income (including the income from our various Foundation accounts) may not be sufficient to cover our normal administrative costs – much less fund any additional programs or special projects. We need to get serious about doing some long term planning. We either need to find a way to grow our dues and other revenue streams (by far, the preferable route) or we will have to make some very painful decisions about how to cut costs. Possible ways to cut costs include:

1. Reduce the size of *Soaring* magazine,
2. Reduce the number of issues of *Soaring* magazine annually from 12 to 6,
3. Dispense with the annual audit of SSA's financial statements and do only a less costly "review," a change which would require a bylaw amendment and a legal analysis to see if such a change puts the organization out of compliance with regulatory requirements,
4. Reduce HQ exterior maintenance (Denise tried this before and the city fussed about it),
5. Reduce staff.

None of those cost reduction options is very pleasant. It is far better if we can find a way to grow the revenue. But time is running out on that option.

Very Truly Yours,

Phillip C. Umphres

**Phil Umphres,
SSA Treasurer**

ATTACHMENTS TO 2-2016 TREASURER'S REPORT:

- A. Preliminary (unaudited) Statement of Revenues and Expenses for SSA Core Operations for the twelve months ended December 31, 2015
- B. Preliminary (unaudited) Balance Sheet for SSA Operations as of December 31, 2015
- C. Preliminary (unaudited) Statement of Revenues and Expenses for SSA Foundation for the twelve months ended December 31, 2015
- D. Preliminary (unaudited) Balance Sheet for SSA Foundation as of December 31, 2015
- E. "Tracker" worksheet for SSA Foundation funds as of December 31, 2015
- F. Budget for SSA Operations for calendar year 2016 (Budget Version 6)