As most readers of this report will know, I assumed office as Treasurer of the SSA on January 1 of this year with no prior service as an SSA officer or Director. In preparation for assuming office I began in November to participate, as an observer, in weekly Executive Committee telephone conference meetings in order to gain familiarity with the issues facing this organization. I want to thank all the current members of the Excom, as well as outgoing Treasurer John Volkober, for their encouragement and assistance in getting up to speed.

One of the first conclusions I have reached is that SSA is very fortunate to have Judy Blalack now handling our financial books at the Association’s offices in Hobbs. I have been impressed with her diligence and dedication to helping unravel the Association’s tangled financial records. I have also concluded that – while I have many, many questions about the Association’s finances – the best thing I could do initially was to get out of her way and let her complete the process of bringing our books and records up to date and to get them ready to be audited. Thus, I am not yet prepared to discuss SSA’s finances in any great detail and this report by me will be brief.

I. Financial Statements for the year just ended

As of the time this report is written, Ms. Blalack is still completing SSA’s Statement of Revenues and Expenses for the year just ended (2006) as well as the Association’s Balance Sheet as of December 31, 2006. This has been a tremendously difficult undertaking for multiple reasons. First and foremost among these reasons, the books kept by the previous chief financial officer contain many, many inaccuracies and omissions, some of which go back several years. Each of these accounting anomalies, when discovered, has to be laboriously analyzed and tracked to its source. Additionally, SSA – by a stroke of bad luck – has been phasing out the old DMG database management and accounting system and the conversion of that accounting data has greatly complicated Ms. Blalack’s efforts. Moreover, her efforts come when the rest of the SSA staff in Hobbs is already working overtime preparing for the convention; thus she has had less help from other staff members than we would have liked.

I have been working with Ms. Blalack in her efforts as have the accountants with our outside auditing firm, Johnson Miller. If they can be completed in time, we will append to this report a draft income statement and balance sheet for the year just ended.
and include them as part of the Board Bluebook materials. In any event, preliminary financial statements (subject to audit and correction of additional errors as they are discovered) **WILL** be available no later than the Board meeting. If the statements are not ready by the time the Directors’ Bluebooks are mailed, we will try to get them to you somehow before we gather in Memphis (probably by e-mail.)

I will have more to say about the financial statements at the Board meeting in Memphis. However, I have seen enough to be very encouraged. While we have been damaged by the actions of our past chief financial officer and the lack of oversight by our former executive director, the damage is not fatal and I believe SSA is, at the core, a financially viable organization. Again, I’ll be able to address what I feel the financial statements show in more detail at the convention.

**II. Auditing of SSA financial statements**

We have engaged the accounting firm of Johnson Miller, which did the last audit of SSA in 2002, to audit the Association’s books as of December 31, 2006. Given the numerous errors, inaccuracies and false entries that existed in the books prior to Ms. Blalack commencing her work, the audit will be difficult, time consuming and expensive. However, the Excom believes that there is no alternative to accepting the cost and obtaining an independent outside review of the Association’s books.

The auditors are scheduled to commence their field work on January 22. (Note: work actually commenced the week of February 12.) Because certain audit procedures (such as verification of account balances with outside parties) take several weeks to complete, and because of the complexities in the current year’s finances, there was simply no way to have the audit completed by the time of the February board meeting. I am advised that we should expect an audit opinion approximately six weeks after field work commences, or about the week of March 5 (Note: revised to March 26.) The opinion will, of course, be provided to the Board when it is received.

Accountants from Johnson Miller already have been working with and will continue to work with Ms. Blalack and so we have already had the benefit of their review of some aspects of our books and records. One such benefit is a preliminary review of internal accounting controls. Johnson Miller accountant Mary Hinds has already made several recommendations regarding safeguarding and handling of Association Funds (such as having two people open the mail and the preparation of a daily cash receipts log) and these have already been implemented.
SSA’s corporate bylaws require that the Association’s books be audited annually. However, as noted above, there has been no audit or other meaningful outside review of SSA’s books since 2002. I am told that in the intervening years audits were dispensed with because of cost concerns. I believe that recent events show that decision to have been penny wise and pound foolish. One issue facing the current Board is whether, after the audit of the 2006 financial statements is completed, the Board wishes to enforce the requirement of annual audits in the future or go back to an irregular schedule for outside financial reviews. I assure you that I will be a strong advocate for formal annual reviews by outside professionals.

III. Budget process

I have made the first priority of Ms. Blalack completion of the 2006 financial statements so that we can provide the Board with that information by the February board meeting. It is my belief that we need accurate historical information before completing a proposed 12 month budget for 2007. We expect to have a draft budget available for review by the Board at the meeting in Memphis, although one is not yet available at the time this report had to be completed and given to SSA headquarters for duplication and distribution in the Directors’ Bluebook materials.

IV. The job of the SSA Treasurer

I am indebted to the outgoing Treasurer, John Volkober, for his assistance in orienting me to the job of the SSA Treasurer and much of what I now know about SSA’s finances and the job of the Treasurer I learned from him. Nonetheless, I was surprised to find that there did not appear to be any clear, written statement of the Treasurer’s responsibilities when I came on board. Thus, I have crafted a formal statement of the SSA Treasurer’s job, which has been approved (at least informally) by the Excom and is attached to this Report.

The SSA Treasurer is a volunteer, as all the Board members are, and cannot be responsible for the day to day operations of SSA’s finances. Rather, the job of the Treasurer must be to provide oversight to the professional staff in Hobbs – primarily SSA’s Executive Director and Chief Financial Officer. In exercising that oversight, SSA has in the past provided for a Budget and Finance Committee to assist the Treasurer. It is my intent to reactivate the Budget and Finance Committee and to have that committee spend a considerably portion of its efforts in a financial oversight role.

As I view it, our most pressing task, in terms of regaining control of SSA’s

SSA Treasurer’s Report, January 15, 2007
Phillip C. Umphres, Treasurer – Page 3
finances, is to reconstruct our historical books and records so that we understand what our historic revenues and expenses have been as well as what our current assets and liabilities actually are. Our second task is to craft a budget for the upcoming year that maintains critical services for our members, yet allows SSA to repay the Foundation loan according to schedule and puts SSA on the road to a positive cash flow situation as soon as possible. Once those critical priorities are under met I intend to turn my attention to instituting procedures and oversight controls so that the sad events of the past several years are far less likely to repeat themselves.
ATTACHMENT A TO TREASURER’S REPORT TO THE BOARD:
SSA TREASURER JOB DESCRIPTION

As Defined by Phillip C. Umphres
For 2007 Board Term

I. SUMMARY

A. Board duties

1. Director at large
2. Membership on Excom
3. Membership on Committees as assigned by Chairman
   - Budget & Finance
   - Administration
4. Other duties as assigned by Chairman

B. Treasurer function

SSA Bylaws, Article V, Section 7: The TREASURER shall receive and disburse funds of the Society under direction of the Chair and Directors and shall perform such other duties as may be required by the Directors including the preparation of a quarterly financial report.

1. Oversight of Financial Reporting
2. Oversight of Annual Budget Planning
3. Oversight of Annual Audit
4. Monitoring of Internal Accounting Controls and other Financial Policies and Procedures
5. Coordinate with Treasurer for SSA Foundation

II. BOARD DUTIES

1. Director-at-Large (one year term expiring 12/31/2007)

2. One of four Vice Chairs of Board of Directors
   - (Easton, Skydell and (vacant as of 1/2007) are the other Vice-chairs)

3. Membership on EXCOM
- Members are:
  - Black-Nixon (Chair)
  - Easton (First Vice-chair)
  - Skydell (Vice-chair)
  - Umphres (Vice-chair)

- Other participants on EXCOM (non-voting members) are:
  - Carswell (Secretary)
  - Executive Director (currently Denise Layton)
  - EBPTF members (Al Tyler)
  - RTF observers (Pixton, Dixon and Harth)

4. Membership on Formal BOD Committees
   - Administration Committee
     - Charged with general oversight of the Hobbs office, including setting of compensation for office staff.
   - Budget and Finance Committee
     - Note: The membership and charter of the Budget and Finance Committee is laid out in Agenda Item 4.1, proposed action item at the SSA Fall 2003 Board meeting, which adopted the proposal set forth therein.

5. Oversight of other SSA committees as assigned by Chairman

II. SSA TREASURER FUNCTION

The formal description of the duties of the SSA treasurer is found at Article V, Section 7 of the SSA Bylaws, where it states that:

The TREASURER shall receive and disburse funds of the Society under direction of the Chair and Directors and shall perform such other duties as may be required by the Directors including the preparation of a quarterly financial report.

While the Treasurer is formally charged with responsibility for the Association’s finances, in practice the day to day receipt and disbursement of the Association’s funds is in the hands of the professional financial staff at Hobbs. The Treasurer exercises his or her corporate responsibilities primarily through oversight of the Association’s multiple financial functions. A more expanded description of these

Attachment A to Treasurer’s Report to the Board:
SSA Treasurer Job Description
oversight duties follows:

1. **Oversight of Financial Reporting**

   Financial reporting includes reports of profit and loss (income statements), statements of assets and liabilities (balance sheets) and cash flow statements. The reporting obligation also includes requirements to account separately for restricted and dedicated funds donated to the SSA, such as those managed by the SSA Foundation.

   The obligation to prepare periodic financial reports is, primarily, the responsibility of the Executive Director and the Chief Financial Officer at the Association’s offices in Hobbs, NM. The Treasurer’s responsibility is to oversee this function and to insure that appropriate and accurate financial information gets reported on a timely basis to interested parties.

   Users and readers of this financial information include:
   - The Association’s members
   - The BOD as a whole
   - The Excom of the BOD
   - The various subsidiary SSA organizations whose finances and operations are commingled with the larger SSA, including:
     - The SSA Foundation
     - The US Racing Team
     - The Soaring Safety Foundation
   - Third parties with whom SSA has financial dealings (including banks and lenders) and who may have a legitimate business interest in reviewing the Association’s financial position
   - State and Federal Taxing authorities
     - IRS
     - State of New Mexico Office of Revenue
     - State of New Mexico Department of Labor
   - State corporate and regulatory officials
     - State of New Mexico (AG office, Registrar of Charitable Organizations)
     - State of Delaware (state of incorporation)

   The Treasurer will insure that the following financial information is prepared by the staff and disseminated in a timely manner:

**Attachment A to Treasurer’s Report to the Board:**

**SSA Treasurer Job Description**
- Annual financial report to be presented to BOD and membership no later than the winter BOD meeting in February each year. (Generally, the financial information for this meeting is due by about January 15).
- Quarterly financial statements to be presented to the Excomm and the BOD no later than 45 days after the close of each fiscal quarter, with posting on the SSA website as soon thereafter as approved by the Excom.
- Paragraph 7(iii) of the Loan and Loan Facility Agreement between SSA and the SSA Foundation requires that certain financial information be furnished to the Foundation’s Treasurer on a monthly basis:
  - Monthly financial statements (including an actual vs budget cash flow statement), due not later than 4 weeks following the close of the month.
  - Monthly statements showing the source or application of all transfers of funds to or from the Foundation, and details of charges made by the SSA for services provided by the Society for the Foundation. (No due date is specified in the Agreement, but should be provided not later than 4 weeks following the close of the month.)
- All necessary federal and state tax returns, e.g.
  - IRS Form 941 (Employer’s Quarterly Federal Payroll Tax Return)
  - IRS Form 990 (annual) (Exempt Organization Tax Return)
  - IRS Form 990-T (annual) (Exempt Organization Tax Return for Taxable Portion of Income)
  - NM CIT-1 (Annual New Mexico state Corporate Income and Franchise Tax return), along with copies of federal Forms 990 and 990-T
  - NM AG’s office, Registrar of Charitable Organizations, is to receive a copy of the IRS Form 990 annually
  - NM CRS-1 (Monthly, due 25th of each month): this is the NM state sales and WH tax form
  - NM ES903A (employers quarterly wage and contribution report): this is the unemployment tax return
  - NM Form WC-1: quarterly workers compensation report and fee.

2. Oversight of Annual Budget Planning

The Executive Director and the Chief Financial Officer at the Association’s offices in Hobbs, NM are responsible for preparing annually a proposed budget for operations of the SSA for the upcoming fiscal year. The budget will ordinarily be reviewed by the SSA Budget and Finance Committee and

Attachment A to Treasurer’s Report to the Board:
SSA Treasurer Job Description
submitted to the Excom for review at the fall BOD meeting with formal approval at the Winter BOD meeting in February.

The role of the Treasurer is – operating through the Budget and Finance Committee – to review, and modify as necessary, the draft budget prepared by the Executive Director and Chief Financial Officer in Hobbs. The final draft of the budget to be submitted to the BOD is the responsibility of the Treasurer, with the assistance of the other members of the Budget and Finance Committee.

3. **Oversight of Annual Audit**

SSA’s Bylaws require an annual audit. Article VIII, Section 2. The Treasurer, with the assistance of the other members of the Budget and Finance Committee and subject to approval by the Excom, will select an accounting firm and make arrangements for the audit prior to the close of the fiscal year in question. (Selection of the auditor prior to the close of the fiscal year is important as certain year end procedures, such as inventory count, must be observed by the auditors.)

4. **Monitoring of Internal Accounting Controls and other Financial Policies and Procedures**

The small financial staff employed by SSA means that employees with access to SSA funds face relatively few obstacles should they decide to steal or embezzle from SSA. Accordingly, it is important that internal accounting controls, policies and procedures be crafted and followed to minimize the risk of employee misconduct.

Since the purpose of internal controls and procedures is to reduce the risk of financial loss from misconduct by the staff who handle funds at Hobbs, responsibility for designing and monitoring internal controls cannot be the responsibility of that staff. Instead, it is the responsibility of the BOD – and primarily the Treasurer – to see that appropriate internal financial controls are in place and are being followed. In performing this responsibility, the Treasurer is expected to rely on the guidance and advice of outside professionals, such as the accounting firm that performs SSA’s financial audits and the advice of other members of the BOD and of the Budget and Finance Committee.

**Attachment A to Treasurer’s Report to the Board:**
SSA Treasurer Job Description
5. Coordinate with Treasurer for SSA Foundation

The financial operations of SSA, Inc. and of the SSA Foundation overlap, but are not completely duplicative. The SSA Treasurer should coordinate with the Treasurer of the SSA Foundation to see that, with their combined efforts, Foundation funds are being properly received and accounted for and disbursed in accordance with any applicable donor restrictions.

6. Coordination with Treasurer of Soaring Safety Foundation

7. Coordination with Treasurer for US Team