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## Fiscal Year 2012 Year End Report

Attached is a comparison of ICS' income and expenses for Fiscal Year (FY) 2012 and FY 2011 along with an explanation of any large discrepancies.

A large error was recently identified in 2012 caused by the double application of deferred income during the month of June last year with regards to the Australian Tribe. The error caused your Treasurer to incorrectly anticipate a very large loss for this year as stated in the 3<sup>rd</sup> quarter report. To prevent any repetition of the error, ICS will be changing the manner in which deferred income from dues is recorded starting January 1, 2013.

For those of you who are accounting inclined or otherwise interested, previously all dues income was credited to Membership Income (40102) and then at the end of the month an entry was made to Deferred Membership Adjustment (40106) to correct for the overage that should have been deferred originally. The adjustment was calculated by Village Press and we essentially backed into the correct amount for our total Membership Income (40100). This system was established several years ago in order to allow total membership revenue to be compared with previous years. Making this process change now will prevent future problems, but will also mean that for FY2013, we will make membership revenue comparisons differently. ICS already receives a report tracking total membership numbers which is reviewed monthly and easily compared to previous year information.

Looking at the bottom line of the Profit and Loss Report, ICS lost \$13K in 2012. The reason is, as previously stated in the 3<sup>rd</sup> Quarter Report, that during 2011 only 11 issues of the *Flyer* were paid for and in 2012 there were 13 issues paid for. Since a typical issue costs \$14K per month, ICS actually made a profit of about \$1K if the *Flyer* is taken into account ( $\$14K - \$13K = \$1K$ ). Similarly 2011 profit should have been \$3K instead of the \$17K reported.

Let's look at the Profit and Loss FY2012 specifics and compare them to FY2011.

- Membership income (40100) is up over 2011 by \$3K due to an increase in membership.
- Membership donations to CFF (40190) are down, but this has no bearing on ICS profitability as we are a 'pass through' via account 60250.
- Advertising (40200) is less than expected by \$1.2K. This is not unexpected and continues the general decline in GA business.
- Inventory sales (40300) had a strong 4<sup>th</sup> quarter and finished out the year with \$500 short of 2011.
- Interest Income (40600) is down by \$1.1K which continues the decline in interest earnings as our CDs mature and roll over to a much lower interest rate. All new CDs have one year duration to allow us to take advantage of any increase in rates that might occur. Note also the amount earned (\$3.1K) is greater than the \$1K of non-related income allowed to be exempted from taxation; the ICS Board of Directors has earmarked the \$2.1K excess for education in order to avoid income tax.

- Special Project income (41000) is up \$0.9K thanks to Hans Neubert's landing gear DVD sold at Airventure and the larger than anticipated purchase of Killough pilot operating handbooks.
- Miscellaneous income (42500) is an unexpected contribution by Heritage Aero to help cover our Airventure expenses.
- As stated previously, Flyer costs (60000) are not actually higher, but appear to be higher than anticipated as there is one more issue reflected in the 2012 numbers due to differences in accounting procedures from the previous year. This situation should not happen again.
- Village Press Management expense (60100) is up only \$300 total for the year. The large variations for the subaccount amounts between each year is due to the 2011 numbers reflect only a partial year; this information is now being broken out from the previous total in an effort to better understand our expenses.
- Cost of Items Sold (60300) is down by \$300 from 2011. Note that storage (60305) is up as the 2011 amount reflects only a partial year.
- Bank Charges (62000) are up \$500 as the credit card processing and PayPal fees are higher as well as fewer people are writing checks.
- Event Promotion (63400) was down \$3K this year, but the details are important. Airventure total expenses were about the same; but the ICS actual cost was lower thanks to a \$3K (50% of the total) cost sharing by the CFF due to the inclusion of many operational and maintenance seminars. ICS did not participate in Sun 'n Fun as a cost saving measure. Unfortunately the Baltimore convention loss sharing was \$4.2K higher than the previous Savannah convention.
- Special Expenses (63500) was only a third of the budgeted amount due to cost control measures including the new electronic voting process.
- Professional Expenses (64000) originally included accountant, tax preparation, legal, and web site related activities. Since the IRS does not include web consultants within its definition and to allow all web site expenses to be clearly visible, a new web site operation account (67000) was broken out. Web activities were the vast majority of the budgeted \$10K, but we spent only \$2.7K thanks to our frugal webmaster.
- Bad Debts (68000) includes written off amounts totaling \$1195 in unpaid advertising from Aircraft Specialty Services, Ada Aircraft Painting, and Linda Lou; these bills were unpaid for more than 18 months and no efforts to collect were successful. In the 3<sup>rd</sup> quarter report, I mentioned there had been a disagreement between me and Webco over the amount owed ICS for Killbough manuals. I elected to accept their figures and absorb the discrepancy which QuickBooks equated as a non-performing debt. I have moved this to account 68001. Please note Webco is current in all accounts and does not reflect badly on Webco.
- Taxes (69601) as explained previously are from FY2009 and FY2010 back taxes. There will be no reoccurrence of this.
- ICS Other Charitable Donations (69702) are the cost of two close-out shirts and one close-out cap donated by ICS to the Civil Air Patrol at Airventure. ICS made no donation to CFF this year due to the erroneous belief that would be a large loss.

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Let's look at the Balance Sheet Comparison between FY2012 and FY2011. The major differences not previously discussed above are:

- Significant increase in cash assets due to closing out a 2CDs this year. CD 7101 matured and was left in savings. CD 8256 previously earned 4.97% and matured in November; it was rolled into a new CD, United 070, at 0.4% for 12 months. The interest income will continue to drop significantly next year due to the lower interest rates.
- The current 53 Securities (101056) value is \$35.5K which is slightly more than the \$35K 'face' value. Although this is classified as a Certificate of Deposit (CD) maturing on 29 Dec 2016 and invested with Barclays Bank, the actual earnings are not based on a specified interest rate, but are predicated on the stock market value of the ten companies listed below. The invested funds are FDIC insured and will return at least the original \$35K investment.
  - Verizon Communications (VZ)
  - Eli Lilly and Company (LLY)
  - Apple (AAPL)
  - Intel Corporation (INTC)
  - Berkshire Hathaway (BRK/B)
  - Las Vegas Sands Corp (LVS)
  - Wynn Resorts, Limited (WYNN)
  - NetFlix (NFLX)
  - Questar Market Resources (QEP)
  - CareFusion Corporation (CFN)
- Deferred Membership (20800) is significantly higher because we have more members now than at this time last year.
- Similarly the Deferred Membership LT (20900) (long term – meaning two year memberships) is also significantly higher than last year because we have a larger number of people who chose two year versus one year memberships.

The bottom line: ICS total assets are \$11.6K behind the previous year principally due to the extra *Flyer* issue. ICS remains in sound financial shape, but needs to be vigilant to remain so.

Respectfully submitted,

*Patrick Donovan*

Treasurer