

CFO REPORT

**PACIFICA FOUNDATION
CHIEF FINANCIAL OFFICER
PACIFICA NATIONAL BOARD MEETING
WASHINGTON, DC
JANUARY 29 – JANUARY 31, 2010**

The Pacifica Foundation, as communicated in the Houston PNB meeting in October 2009, enters a new era of accountability and sustainability with a new 2010 Budget and now the Fiscal Accountability Motion. We are now walking through the valley of “let the enemy face the problems to come” scenario. We, unlike prior senior management and all national boards up to the one that was seated in January of 2009, choose to address the financial instability of WBAI 99.5 FM and WPFW 89.5 and other deficiencies in the infrastructure of the network.

The successful business model of the Foundation as laid out in the beginning of the Foundation sixty years ago is to raise funds through on air drives to cover the cost of operations and to maintain reserves to cover the Foundation during the lean times. The failed ideology as supported by the previous national boards and accelerated by the first nationwide elected and seated Board in 2004 is to borrow money initially from the Foundation reserves in the National Office with no plan or promise to repay the loan. The National Office accumulates the debt as an interstation receivable which is in excess of \$1.0 million dollars and undermines the financial stability of the National Office and the Foundation. As stated in the prior reports, the simple fact is that on air fundraising is the only method that is available to the Foundation to raise significant funds to pay off the debts of the Foundation whether these debts are internal or external.

In fact, a motion was passed in the National Finance Committee in September that would rescind the PNB motion for all stations to share in reducing the internal promissory note to pay back the Heath Foundation bequest motion that passed at the PNB meeting in New York in July 2009. The internal promissory

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note was used to pay off the \$300 thousand dollar line of credit borrowed in August 2008 and was due to Wells Fargo in August 2009. The 2009 budget was developed and passed by the 2008 seated PNB and did not include a plan to address the LOC payback to Wells Fargo or the projected negative cash flows in the National Office. The failure to plan to discharge this debt and infuse cash into the National Office placed the whole Foundation at the risk of insolvency. The Foundation avoided this projected financial debacle based on a failed financial model.

A brief history on the 2008 route to financial instability starts with the \$300 thousand dollar line of credit. (See the note from the July PNB CFO Report.) The other major route to financial instability was the \$1.1 million dollar loan that was floated by the NFC in 2008 that contained a balloon payment and mortgaged assets of the Foundation. The Foundation conquered the hurdles placed in her path and placed skilled national and station management in key positions resulting in a projected budget that is based on a success model plus hope and light at the end of this tunnel.

The pre-audited preliminary results for fiscal 2009 as reported in October 2009 for the Foundation reflect both the performance of management and the performance of the US economy with rising deficits, rising unemployment, and continuing upward redistribution of wealth as inherited by the new Obama administration in January. The preliminary audited results are to be presented by the Auditor along with the management letter that will show the deficiencies in the organization. Preliminary revenue totals \$13.7 million dollars which is \$(1.1) million dollars or (7.4) % worse than budget. The 2009 comparison to 2008 revenue of \$17.8 million is \$(4.1) million dollars or (23) % worse which shows a marked deterioration in performance again reflecting the overall economic downturn and the budgeting process that did not promote new strategies to achieve the projected revenue. Other details of the preliminary results are in the notes below. Adding in capital expenditures, the results year-to-date show a deficit of over \$(1.0) million dollars or \$(1.5) million dollars worse than budget. The management changes at WBAI and WPFW

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implementing successful techniques in fund raising and adherence to the mission to allow the unfettered creative energies of the community and the staff to produce good radio are the basics steps to turning around the decline in revenue and to lifting the network to achieve the success of the past.

The Foundation enjoyed an unrestricted cash position of \$1.1 million dollars on December 30, 2009. KPFK holding all cash in unrestricted accounts now holds the greatest cash balance with KPFT continuing to enjoy the best cash to monthly expense ratio or reserves of all units. The average monthly expenses of KPFT before central services are approximately \$80 thousand and the cash balance at the end of December 2009 was \$222 thousand dollars or almost three months of reserves. Congratulations again to the management and staff of KPFT.

The results for the first quarter of fiscal 2010 follow. Revenue totals \$3.8 million and expenses also total \$3.8 million resulting in almost breakeven results or a deficit of approximately \$(21.7) thousand dollars after cash and capital of \$17.8 thousand dollars. KPFA and WBAI are in deficit spending for the first quarter. Part of the KPFA deficit spending is due to salaries and related expenses where the expected staff reduction was not implemented resulting in continued overspending somewhat offset by the severance and vacation payoff package. The WBAI deficit spending is due primarily to listener support income being held at the Post Office due to dual business reply accounts combined with business reply envelopes imprinted with differing written and encoded zip codes. The challenge to deliver on the back end of the fund drive is the opportunity that we have to make the revenue targets set in the budget.

The many accomplishments of the Finance Department include generating the individual station budget templates and working with station management, local LSB Finance Committees, and Chair of the NFC in providing updates and answers to the many queries about the station budgets. The Finance Staff also enthusiastically supports completing the Financial Close process on the 5th workday which should result in a vast improvement from the generally accepted close of the 23rd of the month as practiced before May 2009. The Financial

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Profit/ Data Base Manager at WBAI serves an integral part in consolidating the Foundation budgets in addition to completing other tasks related to deficiencies in the finance process at WBAI. He performs a major role in meeting other critical requirements from audit to the major task of correcting the WBAI Membership database for the Local Station board Election. The National Finance Office and the station Business Managers are in a position at this point to continue to implement improvements in the Finance process as we assess skill levels to requirements of the finance positions.

The National Finance Office began the fiscal year understaffed with two staff cuts in November 2008. The consolidated budget was not finalized until March when the “hole in the budget” was resolved by making the central services transfers net to zero. The WBAI central services transfers were added to the National Office central services. In addition, the new CFO was placed in the position on February 1, 2009. Also, a new outside Auditor was assigned in 2008 to complete the 2008 audit and was in the process of completing the audit at the time that the new CFO began working. The Finance Department again is in a unique position where the deficiencies were identified this year and the means to improve the processes are in the planning stage.

In addition, a professional architect and professor of architecture used the Berkeley Headquarters and KPFA radio campus as a renovation project in two phases that includes the former restaurant. The project proposals were reviewed. The major emphasis of this project was to create a ‘green’ renovation of the structures that may serve as a springboard for a major national capital campaign.

Many issues challenged the Foundation to develop processes to correct deficiencies in the organization. One of the issues that needed to be addressed was to align revenue recognition and distribution with accountability. The pivotal event that resulted in the Fiscal Accountability motion passed by the PNB was a check issued to KPFA in November 2008, in the amount of \$375,000 dollars that was held and not deposited in a Wells Fargo restricted account. A brief outline of the history of the check follows.

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The Foundation and KPFA received two checks each from the Heath Foundation in November 2008. The National Office deposited the two checks immediately. One check totaling \$375,000 dollars was the Heath Foundation bequest. The second check of over \$50,000 was the interest on the bequest. KPFA received the identical two checks; however, only the interest check was deposited.

Currently, the KPFA check is no longer valid since it is now nearly fourteen months since the November 12, 2008, date of issue. Foundation Counsel, Ricardo deAnda, is currently in conversation with the Heath Foundation Legal Counsel to reissue the \$375,000 dollar check. The Auditor is requesting a confirmation from the Heath Foundation Attorney that a check in the amount of \$375,000 dollars will be reissued.

The accountability for Foundation revenue lies with the Foundation as the audit produces results for one entity; however, the current process for revenue accounting allows stations to have control of all revenue as an independent entity. The control of Foundation revenue must lie within the purview of the entity that has accountability. Although the National Office can view the various checking accounts of KPFA, PRA, WBAI, and the restricted account for WPFW; the other stations report checking account balances through bank reconciliations and/or confirmation of the monthly "Consolidated cash in bank" report from the National Office. The failure of KPFA to report that the \$375,000 dollars was not in the Wells Fargo account requires that the Foundation correct the process that leads to the possible loss of Foundation funds. In addition, this failure to deposit the check tarnishes the Foundation's reputation in the not-for-profit funding community and hinders the ability to raise funds.

The Finance Department welcomes the challenges in 2010 to begin the route to strong fiscal management.

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Notes to the Preliminary Results:

Listener support income was down (19) % or \$(2.4) million dollars from fiscal 2008. Total expenses of \$14.6 million dollars are \$(417.5) thousand dollars or (2.9) % worse than budget. Salaries account for the major portion of the negative variance at \$(413.5) thousand dollars or (5.5)% offset by national board expenses totaling more than \$90 thousand dollars or 46% better than budget; programming expenses of \$106 thousand dollars better than budget; and development expenses of \$85.4 thousand dollars better than budget. The expenses are improved over the prior year by more than 13% or \$2.1 million dollars due primarily to programming expenses at 17% better than prior year and Total Board Expenses leading the improvement over prior year expenses by more than 36%. The net income/ (loss) for fiscal 2009 is total \$(906) thousand dollars or \$(1.1) million dollars worse than budget.

Note from New York PNB Meeting:

We have a motion from the National Finance Committee that embraced my proposal to use restricted funds held by the National Office to pay the \$300 thousand dollar line of credit borrowed from Wells Fargo last year that is payable this year on August 1st. This is another instance of the “problems to come”. The donor imposed restriction on the endowment allows use of the funds other than for the purpose stated in the gift in “exigent circumstances”. Our Foundation Counsel advises us that we are in “exigent circumstances” and further advises us that we can write a promissory note to ourselves at interest (a requirement of the endowment) to pay back the funds into the restricted account rather than going to the credit markets and borrowing the funds with the interest going to the bank. We are fortunate to have Mr. de Anda to advise the Foundation on issues of restructuring debt at not-for-profit institutions.