

Interim **Pacifica National Board**

**Finance Committee Meeting – January 9, 2004**

MINUTES

Interim Board Finance Committee  
January 9, 2004 - Telephone Conference Call

Six Committee Members Present, constituting a quorum: Rob Robinson, Carol Spooner, George Barnstone, Lydia Brazon, Leslie Cagan, Lonnie Hicks

Five Committee Members Absent: Marion Barry, Pete Bramson, Janice K. Bryant, Charles Smith, Jabari Zakiya

Also Present: Executive Director Dan Coughlin, and Director Teresa Allen (not a member of the Finance Committee)

The meeting was webcast via kpftx.org

Rob Robinson chaired the meeting in the absence of the iPNB Treasurer, Jabari Zakiya.

Briefing from Executive Director: The October and November '03 income statements are up on the Pacifica web page, and there is a memo for the board with some financial updates and an update on the audit. He would also like the board to approve the financial policies and procedures manual.

He visited WBAI this week. They have raised several hundred thousand more dollars in November and December, including a \$55,000 jump in web income. They will be revisiting the WBAI situation in early February. Needs to get board orientation manuals in order, especially in the finance area. They will be sending the new board orientation materials as soon as possible. It is important that the CFO be able to go on the record, especially in high risk situations, so he would appreciate the board approving him as a voting member of the finance committee.

Spooner: Would like to know when the finance committee will be able to get income statements on a station-by-station basis, so that board members can see how their stations are doing, rather than folding it all into consolidated statement? Has tried in several memos to explain what is that is motivating her to try to put some policy guidance/restrictions on what is needed in budget. It is because "unbudgeted" expenses over the past two years have required the national office to go to stations that have money in the bank for emergency funds. This has created a management problem for the stations who had planned other uses for that money. We need to do a better job of planning for "extraordinary" expenses for outstanding or ongoing litigation and settlements. We have a pretty good idea how much we need to budget for this. Suggests we determine what percentage of our annual listener support from each station is

necessary to cover this expense and do a "special assessment" on the stations to cover it, take it out on a regular basis and put it into a board restricted fund to use for that purpose only. That will eliminate the confusion, lack of clarity and also reduce the strain on station managers in planning their own cash flow. This should be a number one priority in the budget - to cover these "extraordinary" expenses. We also need to plan for any inter-divisional or inter-station transfers that may be needed to cover WBAI this year, if they can't do it. It's not enough to just look at the bottom line and see that overall network-wide it's positive. We need to show the inter-division transfers from one place to another that will be needed to cover deficits at WBAI, the national office, and the Archives. The Archives is showing a \$157,000 deficit that is caused by their not getting their 3% Central Services money. We have not changed that policy, although the Policies and Procedures manual that Lonnie and Dan are asking us to approve shows lowering that to 2.5%. We have not approved that, and the budget doesn't show the Archives getting that 2.5%, either. We need our budget to show how much money is coming out of each station, in addition to central services, to cover debts and legal expenses.

It is Pacifica policy that the national "units" (including national programming, affiliates program, and administration) lives within 17% Central Services, and the Archives gets 3% of central services. The budget does not show the national office staying within the 17% for ordinary operating expenses. It is using money that should be going to the archives for ordinary national expenses (not including the legal expenses and debt). We need to solve this. We need a plan for the national office that lives within its central services money, even if they can't do everything they would like to do this year due to reduced listener-support at some of the stations.

Hicks: That's a lot. The stations are touchy about revealing their bank accounts, and getting income statements from the stations is somewhat difficult. Each station has a budget this year for national debt retirement. Any new unbudgeted expenses need to come back to the board. WBAI has raised \$300,000 since the last report, so their problems will not be as severe as it looked like in November. PRA doesn't have a \$157,000 deficit in its budget. This was a function of trying to mix operating and capital expenses in the budget (which the iPNB requested at its March meeting). We have separated those expenses again, because it is confusing to mix them up. The 17% Central Services to the national office history is "murky." But we have increased PRA on-air fundraising, so they don't need the 3%. The managers agreed at a meeting that the national office will get the full 20% central services.

Brazon: Disagrees with Hicks on the Archives issue, and agrees with Spooner. Critical to have more clarity on the money going out of the stations for debt retirement and legal expenses. This money needs to go into a board designated fund, and any that is left over needs to go back to the stations. The KPFK GM has been asked for "emergency" unbudgeted funds in the past and there is a great deal of resentment about this. The GMs were told it was a "loan" to national, and now it's not. Still believes it would be valuable for the board to have a call with the GMs and the Archives Director. She has spoken with Brian DeShazor and he does not agree that the Archives doesn't need the 3% central services.

Coughlin: There are some inaccuracies here. He states "unequivocally for the record" that the stations have done a fantastic job of rallying together to tackle that debt. The national office is facing day-to-day ongoing issues with regard to that debt. Last year (2002) we decided to contract national operations drastically to tackle the debt. There were massive staff layoffs (Pacifica Network News). But station budgets increased, including staffing increases. It is absolutely untrue that the national office is taking money from the stations for debt retirement and that this money is somehow "sloshing around." This allegation impugns the integrity of our finance staff. This is destructive to the work we are trying to deal with here. Most of the old 1999-2001 debt is behind us, and we do have some pending litigation costs, but most of the problems are behind us now.

Brazon: She was not implying that the National Office has a surplus. But she does want to emphasize that debt retirement funds contributed by the stations have to be supervised, and we need some policies about that. She's talking about the future, if there is a surplus, where the stations contribute more than was needed, then it needs to be returned to them. She is not trying to impugn anyone.

Robinson: Wants to move the agenda to the resolutions at hand.

Brazon: Wants a resolution that if there is a surplus, that it would return to the stations.

Motion by Robinson, Spooner 2nd:

That CFO Lonnie Hicks be allowed to vote as a member of the committee.

4 Yes - Brazon, Cagan, Spooner, Robinson

1 No - Barnstone

Abstain - none

The motion Passes.

Motion by Spooner, Barnstone 2nd:

Resolved:

That the annual budgets presented to the board for approval shall include:

1. A normal operating budget

2. A cash flow budget

3. A capital budget

and the board will not approve any budget unless all three budgets are presented together for the period.

Will try to do a cash flow budget next week.

Discussion: Hicks says cash flow budget requires him to have access to all bank statements for each station, but that's touchy. The operating budget and capital budget is doable. Thinks the cash flow budget is crucial.

Cagan: Supports this and is concerned that it is difficult to get bank records from stations.

Hicks: Stations are proprietary about what cash they have and don't want to give him that information. The bylaws emphasize local autonomy. Would like a companion motion from the board to make this info available.

Spooner: The bylaws do not give the local stations the right to withhold financial information from the national office. They say that the local board will approve the local budget. That is a very different thing. She is shocked to hear that the CFO has trouble getting this information and will propose a resolution to that effect.

Question called:

6 Yes - Barnstone, Brazon, Cagan, Hicks, Robinson, Spooner

0 No

The motion passes.

Motion by Spooner, Cagan 2nd:

Resolved:

That all station financial records and information, including bank records, shall be made available to the national financial office on a routine basis. This is without limitation, and this information shall also be available to the national board.

6 Yes - Barnstone, Brazon, Cagan, Hicks, Robinson, Spooner

0 No

The motion passes.

Motion by Spooner, Cagan 2nd:

Resolved:

That a new column shall be added to the budget that will include income and expense for national programming and the affiliates program.

Discussion:

Spooner: This is to implement Board Resolution of 11/12/03, pasted below. that the budget will include a "responsibility center" for national programming.

Hicks: This is possible, but difficult to include the affiliates with national programming.

Spooner: This separates administrative from program expense, and allows us to see whether our affiliates program and national programming are self-sustaining or not. We do currently show the affiliates income going to the archives. If that's where we want to use that money, that's OK, and I believe we have done that for many years. But it would seem to make more sense to show that money going to the affiliates program, and raising the Archives Central Services to replace it. Although the Archives business manager does the accounting and bookkeeping for the affiliates accounts, and an adjustment would be made to cover that.

Hicks: Will make the attempt and we'll see what it looks like. It would be good to see if national programming and the affiliates programming are self-sustaining.

Allen: As chair of the Affiliates Committee, she agrees this is a good policy.

Question called:

6 Yes - Barnstone, Brazon, Cagan, Hicks, Robinson, Spooner

0 No

The motion passes.

Motion by Spooner, Robinson 2nd.

Resolved:

That the "listener support" shall include website income at the stations for purposes of calculating Central Services due.

Discussion: Spooner, as we're doing a lot more internet broadcasting, we're getting a lot more internet income. It is immaterial whether the listener-support comes by phone or over the internet for CPB reporting purposes. The only station that reports it separately is WBAI. It's good to show it separately so we can see how successful our web broadcasting is. But it should still be included in listener support for purposes of calculating the stations' central services.

Hicks: Agrees, but needs to see if there is a mix of "commerce" items and premiums in the web income.

Spooner: On air fund drives offer premiums, web site income also offers premiums. We're not selling a CD for \$200. The donation is listener support, either way, and the premium expense is shown down in the expense items.

Hicks: Agrees. Has no objection to the resolution.

Question called:

6 Yes - Barnstone, Brazon, Cagan, Hicks, Robinson, Spooner

0 No

Motion passes.

Motion by Spooner,

Resolved:

That "listener support" shall be broken down into subcategories in the station budgets, showing income generated by DN, FSRN, and other national programming separately from income generated by local station programming. These subcategories, and website income, shall be shown on the "Consolidated Budget", and shall be subtotaled, together with website income, for purposes of calculating Central Services due.

Discussion: Spooner, all stations are receiving income from national programming. We hear all the time "why are we paying all this money for Democracy Now!" This would show why national programming is valuable to the stations. The stations make money on these programs and national is paying for it. Showing this would reduce the tensions around the network about this.

Hicks: Isn't sure all the stations can identify income by program.

Spooner: KPFA keeps track of every donation by program in the Memsys program & they keep track of the fulfillment rate by program. This should be the policy and everyone can work on getting their record-keeping up to speed.

Coughlin: Maybe this should be an informational report, rather than a budget matter. Changing the budget format could be difficult.

Hicks: Thinks this report should be done, but maybe not in the budget.

Spooner: Willing to table the motion and let the next board grapple with this. But budgets and financial statements are public and people can see what is going on. She gets many questions from the public about this. When she tells them how much money Democracy Now raises, they don't believe her. If people have to go to a different report on a different page, it is more difficult for them to see this income.

Cagan: Perhaps the notion of an annotated budget and annotated financial statements would solve the problem, so that people don't have to go to a separate report somewhere to get this information. Would like Hicks to report back how best to handle this.

Motion Tabled without objection.

Motion by Spooner

Resolved:

That the projected revenue and expenses shall be as accurate as possible. (The mistake showing a \$276,748 "Grant-Non-operating" to the Archives this year shall be eliminated.) .

Discussion: Spooner wants to withdraw the motion. It's obvious that budget lines should be accurate. We shouldn't need a resolution in order to get that.

Motion by Spooner, Brazon 2nd:

Resolved:

That the \$582,748 "Debt retirement" line in this year's budget shall be broken out into 2 separate lines -- one line for actual pre-1/1/02 debt retirement budgeted this year, and -- one line for current legal expense contingency fund budgeted for this year -- this line will include anticipated expenses to defend, settle or pay judgments in the Schubb, Daughtry & Wash litigation this year. These debt retirement and legal contingency expenses shall be shown as

National Office expenses, not station expenses. Interdepartmental transfers from the stations to the national office shall be shown in the budget to cover these expenses. The bottom line "net surplus/deficit" after these interdepartmental transfers shall not show a deficit for any station or national department.

Discussion: Spooner wants debt retirement to include only old debt incurred before this interim board came into being. New legal expenses need to be in current expenses, not thrown in with the old debt. If there is a deficit at the national office. But this should be discussed in Executive Session at the end of this meeting.

Tabled to Executive Session without objection.

Motion by Spooner, Brazon 2nd

Resolved:

That the board shall receive the following financial reports: (note: these are the recommendations from the California Management Assistance Program "Nonprofit Genie" [http://search.genie.org/genie/ans\\_result.lasso?cat=Financial+Management](http://search.genie.org/genie/ans_result.lasso?cat=Financial+Management)) and their explanatory notes are included in the motion to clarify the purpose of these reports.)

#### Monthly Reports

- Statement of Position (Balance Sheet)

What is our financial health? Can we pay our bills?

- Statement of Activities (consolidated) showing budget to actual information

What has been our overall financial performance this month and to date?

- Departmental and Station Income and Expense Statement, showing budget to actual information

How does actual financial experience compare with the budget?

Is specific action called for, such as limiting expenses in certain areas?

Does experience indicate a change in the budget is appropriate?

- Narrative report including tax and financial highlights, important grants received, recommendations for short term loans, or other means of managing cash flow

An executive summary of financial highlights, analysis, and concerns.

#### Quarterly Reports

- Fundraising Reports; actuals vs. projections for donations; status report on all grant proposals.

Are fundraising results on track?

- Cash flow projections for the next six months

Do we anticipate a cash surplus or shortage?

#### Annual Reports

- Annual Federal forms, including 990 and Schedule A; State Reports

Has the organization fulfilled its reporting responsibilities to federal and state governments?

- Draft financial statements for year: Consolidated Statement of Activities; Statement of Position; Statement of Cash Flows; and Income Statement for each station and department. Aggregated

financial statements with narrative showing key trends

Focus: Internal management decision-making.

What was our financial performance over the past year?

In what ways and for what reasons was performance different from the budget?

What financial implications must be taken into account when planning the upcoming year?

- Audited financial statements for the entire organization, including Statement of Position, Statement of Activities, Statement of Cash Flows, Statement of Functional Expenses

Focus: External accountability and financial disclosure to funders and the public

- Management letter from the auditor

What recommendations has the auditor made related to the accounting system, internal controls, and financial planning?

Who Prepares These Reports and Who Should Review Them?

The CFO prepares and the Executive Director reviews all reports prior to presenting them to the board finance committee to ensure that the financial information makes sense and can be translated into issues and opportunities facing the organization. In addition, key staff members such as the Controller, General Managers, Development Directors, Business Managers should have the opportunity to review income and expense reports for the whole organization.

The board finance committee reviews all financial statements with the CFO and the Executive Director, and reports on financial activity to the full board.

The finance committee will often review the numbers in greater detail than the full board. The full board may be better able to respond to aggregated information with important financial trends and issues highlighted in an accompanying narrative report. While each board member should have the opportunity to review organization-wide income and expense reports to understand the impact their department's activities have on the whole organization, members who are inexperienced at reading financial statements may get lost in overly detailed statements. To help the board fulfill its oversight function, it is important for the executive director and the finance committee to present the information in as clear and concise a manner as possible.

The audit and management letter are addressed directly to the board of directors because of its oversight function. The auditor works with the Board Audit Committee, and the finance staff to prepare federal and state reports and may be included at board meetings during which presentations are given.

Discussion: Hicks some of these reports are necessary, but not sure all of them are. Would like a timetable for implementation. Has enormous implications on how we do business.

Coughlin: There are also cost implications.

Spooner: Believes that if our accounting system is working properly, and data is being entered



properly and timely, that these reports should be pro forma. The problems we have in producing these reports now are different from station to station, but those problems need to be fixed. The board has to have this information, and the LSBs need it too, to perform our financial oversight duties. Costs are not a convincing argument. This is what every other organization she has ever been associated with does, and it will help tremendously to unsnarl the conflicts around money around the network if everyone can just see these reports and understand our finances. She is not unmoved by the difficulties. But the board has been asking for this for about 2 years (most of it not during Lonnie Hicks' tenure). The board has been assured time and again that we're "almost there" with our financial reporting. The board has been "flying blind" and that makes Spooner feel anxious and vulnerable, and possibly liable for negligence for not requiring these requirements. Wants to pass the resolution, maybe with a final sentence that the CFO will provide an implementation timetable within 60 days.

Hicks: Will do the work to come up with a timetable in 60 days, telling the board what can be produced.

Coughlin: In the last 3 months there have been at least 20 comprehensive financial reports provided to the board. The financial reporting on the web sites is comprehensive and detailed. Income statements, actual vs budgets are detailed. We don't need more information, but rather more clarity about what kind of information is needed and when. We already do narrative reports. He is frustrated with this denunciation of the business managers and the finance office, with the implication that they are trying to hide something or are stonewalling.

Brazon: Yes, we are getting more reports than we got in the past. But we need to improve on that. She has been approaching major donors, and she needs to be able to respond to questions she can't answer. We need to restore the confidence of the people who used to give large amounts to the station. As board members, we need to be equipped with the kind of clarity that we don't have yet. We are faced with specific questions that we can't answer.

Robinson: Appreciates the reports we have been getting, and doesn't think anyone is trying to hide or stonewalling. But financial reporting is a lot like programming, it is by doing it as a regularly and routinely is as important as what is there in substance. It's been a long time that we were not able to get these reports at all. Would like the CFO to tell the board what reports he thinks it should get monthly, quarterly, annually, etc., so we can look at it.

Spooner: She is taken aback by the notion that needing monthly, quarterly and annually evokes such a response here. She knows that a lot of work is going on. But we don't have monthly reports, and we don't have quarterly reports, and except for the annual audit we don't have any reports on the cash flow. So, we are flying blind as a board and it is our responsibility to get those reports. She likes what Lonnie said he would do, which is to report back on feasibility and time line within 60 days.

Question called on the motion, with the proviso that the CFO will report back within 60 days (by

March 9th) on the time line and feasibility of producing the reports.

6 Yes - Barnstone, Brazon, Cagan, Hicks, Robinson, Spooner

0 No

The Motion Passes

Meeting adjourned to executive session without objection.

Respectfully submitted,

Carol Spooner

Secretary, Pacifica Foundation

*These minutes were approved on 12/10/2007.*