

WBAI Treasurer's Report
August 10, 2016

The National Finance Committee (NFC) met on July 19, 2016. The local Finance Committee met on August 4, 2016.

At the July 19, 2016, NFC meeting the CFO told the NFC that the FY14 audit was still being held up because Pacifica still owes the auditors money. He said that he needs to be able to pay them at least \$40,000 in order to be able to negotiate with them. He said that unless the FY14 audit is done Pacifica can't renew the Pacifica National Board's Directors' Insurance, which expires on August 11, and Pacifica can't negotiate with the Empire State Building (ESB) regarding WBAI's rental agreement. CPB money for FY16 can't come in until after the FY15 audit is done, so there is a real possibility that Pacifica will again get no CPB money this year.

In terms of cash flow the CFO said that WBAI was not able to make its July 15, payroll. Some salary advances were given, which the CFO said was not enough and not all Paid Staff got them, also WBAI had not paid a health insurance premium of about \$9,000. This affects the other stations. Pacifica Radio Archive (PRA) was also not able to pay its health insurance premium.

All of the stations are in serious financial straits. KPFA has had to tell its Union to prepare for salary reductions on the order of \$200,000.

The CFO said that the National Office is struggling with a work load that's double what it had been doing and the CFO is having to bring new employees up to speed.

The CFO reported that the PNB had passed a motion to use a \$50,000 bequest that KPFK had received to pay \$40,000 to the auditors and then to use the rest to help pay for the postage for the 2016, election. The CFO told the NFC that the interim Executive Director told the KPFK interim General Manager to pay \$38,377 for the election expenses, leaving not enough to make a substantial payment to the auditors. The CFO said that the National Office couldn't locate any extra cash anywhere in Pacifica to come up with enough money to allow him to negotiate with the auditors about the FY14 audit.

At this meeting the NFC passed the following **Motion**: "The NFC recommends to the PNB that payment to the auditor be made before payment of a postage advance for mailing the election ballots." The NFC was told that the check had already been cut and mailed out to the place that will mail the ballots for the election. At the time of this NFC meeting the PNB was not scheduled to meet for another 10 days, so there was really no hope for that motion to be acted on by the PNB before the check was cashed.

The CFO said that a number of stations are not making their Central Services payments at this time and the National Office and the PRA are experiencing a cash flow shortage. He said that this has impacted the National Office's finances very badly, and that the National Office was reduced to paying only the most critical services.

The CFO said that the National Office was swamped with work as they try to close FY14, prepare for the FY15 audit, and keep the books going for FY16. They are also trying to get important tax returns done, like the 990 forms that are required to be filed, and there is a long list of urgent items that have to be covered. The CFO said that the National Office was also preparing the groundwork for putting out balance sheets and cash flow statements, which have not been seen in Pacifica for years. The CFO is having to train new people to do these jobs. The CFO said that he has requested General Managers to make their stations' Central Services payments, but he cannot compel them to do so.

No station, nor the National Office, nor PRA, had a FY17 draft budget as of the July 19, 2016, NFC meeting.

I asked the CFO and the WBAI General Manager about the WBAI draft FY17 budget at the start of August and the CFO said that he was sending the General Manager some templates to fill out from which the National Office will construct a draft FY17 budget for WBAI.

The CFO's written report to the July 19, 2016, NFC meeting is appended at the end of this Treasurer's Report. Note: under "**Cash Flow Concerns**," Item #9 "**Internal Controls**" references an, "... attachment which

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describes, briefly, the current constraints and deficiencies in internal controls and some of the steps taken.” That attachment was included with the CFO’s report to the PNB, it was not presented to the NFC.

On July 23, 2016, the CFO sent out the “Income Statement For the Nine Months Ending June 30, 2016,” which shows WBAI with a net deficit of \$417,969 after depreciation and Pacifica with a net deficit of \$431,400 after depreciation. For WBAI this income statement accrues the deferred payments to the ESB. If the ESB agrees to forego the difference between the lease rent and the \$12,000 a month that WBAI is actually paying then the WBAI net deficit is much lower than what the income statement is showing, although it will still amount to tens of thousands of dollars for FY16 alone.

The WBAI local Finance Committee met on August 4, 2016. The General Manager told the local Finance Committee that at that time WBAI had \$27,783.94 cash in bank. He *projected* that WBAI would receive \$139,210 in revenue between August 4, and October 1. This led to a projected total of \$166,993.94. He projected that WBAI’s operating expenses for that period would amount to \$141,100. Addition expenses would be Central Services fees to the National Office and PRA, along with \$5,000 toward the \$31,000 debt WBAI owes to pay off a loan the station got from WPFW some years ago, and \$5,000 to be paid to CCNY for an installment on the \$35,000 that WBAI owes in rent from a couple of years ago, all of which amounts to \$53,500. The General Manager projected the total expenses for the period to be \$194,700. During a discussion of the General Manager’s Report it was established that there should be an additional \$14,500 in expenses for premiums, and other on-air fund raiser expenses. This would bring the General Manager’s projected deficit to \$42,206 by October 1.

The committee discussed how the General Manager is handling consultants, and there was a discussion regarding whether or not some people working as consultants at WBAI are actually *de facto* employees. This is a discussion which the local Finance Committee has been through with successive General Managers for the past 12 years. The General Manager was strongly urged by committee members to consult an attorney on this issue.

The General Manager said that the station was current with payroll, which I take to mean that the station has caught up with the payments that had been late.

There was also a discussion of the legality of having money donated to WBAI for some premiums in an on-air fund raiser being sent to the person or organization offering the premiums which would then forward the donation, minus the premium’s expense, to WBAI. Part of the issue is that WBAI is required to send out tax deduction letters to donors every year stipulating the tax deductible portion of their donation. The General Manager was strongly urged to bring this matter to an attorney also.

I asked the General Manager if all premiums offered during the completed Spring and current Summer on-air fund raisers were licensed. He said that they were.

The General Manager said that WBAI has accrued about \$1.2 million owed to the ESB so far.

The General Manager said that WBAI is using Skype as a work around because the station can’t pay the \$28,000 phone bill for one of the station’s phone lines.

The 2016, Summer on-air fund raiser had been scheduled to run from July 18, through August 7, but Management has announced that it has been extended for another week. This will make it a four week on-air fund raiser. The tally, from the information Management has given out, comes to \$181,172 after three weeks, which is a daily average of \$8,627 a day. The goal for this on-air fund raiser was \$260,000 with a daily average of \$12,381. So far this on-air fund raiser is coming in at just under 70% of goal.

The General Manager told the local Finance Committee that the WBAI Fall on-air fund raiser would start on October 3, 2016.

The bottom line is that revenue is inadequate all over Pacifica. WBAI has had payroll problems and has

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had to be helped out by the National Office and the other stations. In July there was not enough cash available to enable the National Office to make WBAI's payroll on time. While WBAI is in pretty bad financial shape, WPFW may be in worse shape. In addition KPFK has lost a labor issue in arbitration. The NFC has not heard the magnitude of the financial hit that KPFK will experience due to this decision, but it will not be small. And there are further labor issues that are still to be decided at KPFK. On a couple of occasions in FY16 WBAI has been some days late with payroll. The next time the station can't make payroll there may again be insufficient cash available from the rest of Pacifica to meet the need. Chronic late payrolls can cause legal problems for the station, and if the degree of tardiness of late payrolls increases this can cause problems for the stations and to those Paid Staff who have to rely on their WBAI salaries to make a living.

Regarding CPB money, Pacifica has lost millions of dollars of CPB grant money over the past couple of years because its audits are not prepared on time. From what the CFO has reported to the NFC it looks like the FY15 audit will not be done until next year; the FY16 audit is due no later than June 30, 2017. The CPB disburses its grant money in a timely way, and when Pacifica is very late Pacifica loses out on *all* of the CPB grant money that it might have had for that year. If Pacifica were to get the CPB grant money that had been usual in the past, WBAI's share would go a long way to making the station self sufficient or close to it.

The question of how much longer this can go on is an open one.

On August 3, the FCC granted Pacifica a renewal on WBAI's broadcast license. This is good but it may raise some issues. There are people in the west coast Pacifica stations who have advocated solving Pacifica's financial problems by selling WBAI. There are people on the WBAI LSB who are the political allies of those people who want to sell WBAI. While WBAI's license was still in FCC limbo the station could not be sold. Now that the license is Pacifica's again there is a danger that the move to sell WBAI's broadcast license could again be in play. These are perilous times for WBAI and Pacifica.

The next NFC meeting is scheduled for August 16, 2016. The next local Finance Committee meeting is scheduled for September 8, 2016, at 388 Atlantic Ave.

CFO Report to PNB – July 7, 2016

FY 14 Audit Fees Outstanding

1. As per E-mail received from the auditors, substantial amount of outstanding balance for FY 14 audit fees (\$52,566.93), must be paid before they can release the audited statements. Auditors are working with the Station Managers to update their Management letter and are in the last stages of finishing their audit.
 - a. Absence of audited statements are holding up negotiations with Empire State Building for WBAI tower rent
 - b. Statements are also critical for insurance renewal. Several demands have been made by Underwriters. As per latest E-mail attached, they are requesting audited statements latest by 7/15/16
 - c. FY 15 audit can-not commence until old dues are cleared

Cash Flow Concerns:

1. WPFW

- a. Station has not paid Central Services for 8 months and Health Care for approximately 3 months. Total outstanding amount as of date is \$144,799 (for FY 2016 only).
- b. It has exhausted Restricted Grants (against the applicable laws, and against my objections) in payment of operating expenses and do not have any significant money left in this account
- c. YTD May, 2016 statements show a loss of \$ 244,135 which effectively represents the cash shortfall as the station did not have the money to pay its bills
- d. As per current cash flow situation, it is expected that they may run out of payroll money in July, unless they hold back payment of essential services like Rent, utilities etc. and keep creating backlog of payments till the next fund drive
- e. **Fact is that they can-not make their payroll if they pay Central Services. So, they are consciously holding back payment of Central Services for a long time. This is also helping them avoid the unavoidable – i.e. restructuring their operations so that they can become sustainable**

2. WBAI

- a. Cash flow is expected to be very tight from July onwards. It is doubtful if the station will be able to make its payroll or other essential services
- b. Station has been lurching from one fund drive to another fund drive, catching up with bills as the money comes in and again becomes delinquent when the money runs out
- c. No credible strategy has been formulated for last several years to stem this crisis

3. PRA

- a. Operating model for PRA is broken. It is heavily dependent upon receiving Central Services from Stations which are themselves struggling to pay their bills.
- b. Given right strategies, PRA operations can become self-sufficient and save considerable amount for other stations

4. KPFA

- a. Station has given notice to Union that it is experiencing financial difficulties and layoffs are imminent
- b. It is planning mini-drive which is not a good option

5. National Office Finances

- a. National Office finances have been affected very badly as several stations have failed to pay Central Services and health care dues. It is currently able to pay only those expenses which are “urgent and critical”.
- b. It is not finding any surplus money to pay for FY 14 audit fees
- c. Payment for Election expenses has been put on hold

6. Workload and Priorities

- a. Attached is a list of National Office Workload and Priorities in a summary form.
Because of backlog from prior years, there is extraordinary volume of work for next several months
- b. All efforts are being made to take care of the priorities. Request for information from members is

complied with as possible, given time and resources.

c. Absence of Business Managers at 3 Stations is making the task extremely difficult and time consuming

7. Update on National Office Finance Staffing

a. We have replaced 3 staff members from 2015, who did not have the required skills, with 2 new hires.

There is one Senior Accountant and One Payroll / Office Assistant. We have also engaged one Temporary help to complete and coordinate FY 2015 books and audit. This staffing is at least one short of 2015 levels. Salaries offered to the new hires are lower than the comparable levels for last year.

b. There is a critical shortage of One Senior Accountant who may be highly skilled in Great Plains / FRX reporting and advanced accounting. This has been put on hold as the asking salary is quite high. This is creating serious bottlenecks in generating complex reports or perform other advanced accounting functions on a daily basis

c. WPFW and WBAI accounting has now been transitioned to the National Office effective June 1 and is being handled by current staff

d. Volume and complexity of work has almost doubled from last year as we are completing FY 14 audit, completing FY15 books and keeping FY 16 books current. Also ground work is being done to prepare Balance Sheets on a monthly basis, as effectively only half of accounting was done in the past. This has been possible through better skills in the new hires and full capacity utilization

e. Absence of a skilled HR person is creating serious problems in handling such matters.

These are employee related and time sensitive. Interim Controller is spending extraordinary amount of time to address these issues which is not proving effective and is not a good use of his time.

8. Great Plains Accounting Software

a. It is critical that we upgrade Great Plains Accounting software. System crash will be disastrous and will require extremely painful steps to get back again

b. We are currently operating on early 2000 version whereas current version is Great Plains 2016. In terms of analogy, we are like operating on Windows XP, whereas a number of subsequent versions like Windows Vista, 7,8, 8.1 have become outdated and we are currently on version 10

c. Microsoft does not support our version and we do not have any service agreement.

Hence we are not provided any service packs. This is also a serious security threat as the software is vulnerable to malicious attacks

d. Hardware hosting Great Plains software is about 15 years old, is outdated and IT is getting very reluctant to support any further. Apparently these issues have been brought forward before, but no decisions were made

e. Various estimates for the upgrade, put the cost around \$50,000. Attached is a brief illustrative diagram

for Great Plains upgrade process

9. Internal Controls

a. Refer to Attachment which describes, briefly, the current constraints and deficiencies in internal controls and some of the steps taken

b. I have limited supervisory authority as only Business Managers report to me. Interim Executive Director is having wide authority over General Managers, and indirectly over other staff. Actions taken by her regarding segregation of duties will be important steps in establishing missing internal controls

Recommendations:

1. Focus must shift from cost cuts to revenue growth. We can-not cut our way into prosperity. In the absence of any tangible plan on the table how to grow the business, Foundation is forced into the default option of cost cuts.

2. INTERIM EXECUTIVE DIRECTOR and WPFW Station Manager to jointly, prepare, a 30-60-90 day plan, consult with CFO, and present to PNB within 15 days from today, with specific details how to sustain the current operations

3. INTERIM EXECUTIVE DIRECTOR and WBAI Station Manager to jointly, prepare, a 30-60-90 day plan, consult with CFO, and present to PNB within 15 days from today, with specific details how to sustain the current operations

4. INTERIM EXECUTIVE DIRECTOR and PRA Interim Director to jointly, prepare, a 30-60-90 day plan, consult with CFO, and present to PNB within 15 days from today, with specific details how to sustain the current operations (and contingency plan if Stations fail to make payment of Central Services)

5. PNB to authorize CFO to demand payment of Central Services from the Station, where it is in 3 months arrear, in preference over payment of other bills, except for payroll and health insurance

6. Highly recommend that we upgrade Great Plains to latest version, even if we may have to take external financing