

June 18, 2004

Finance Committee
Pacifica Foundation
1925 Martin Luther King Jr. Way
Berkeley, CA 94704

This is a report to the Board of Directors on a variety of topics this month.

They include:

- 1) The Financial Reports for the two months of April and May. (May has been hurried so as to provide perspective and a forecast to the end of our fiscal year.)
- 2) My analysis of the overall report with a station by station review of how each station is doing
- 3) A report on WBAI situation and an update on it finances
- 4) Recommendations which I am putting forward to deal with certain crucial financial issues
- 5) A summary of legal costs which does not include full detail-I will save that for the Finance Committee itself
- 6) A salary report which will match our budget figures for FY 05

May Financials--The Overview

There are several highlights to the May Report:

(I have foregone April since May reflects our current financial situation)

First, some changes I have made to the report"

- 1) In Cash and Capital I have added a Cash and Capital report for each month, in the YTD report and also a forecast for the Cash and Capital Report at fiscals end.
- 2) In this same report I show Legal Assessments made to the stations, actual inflows from the stations to National in response to those legal assessments, and, actual legal payments made to legal vendors and others by National (see legal payments line.) I also show the transfer of funds from National to PRA in support of their efforts.

May Financial Summary

Revenue for the month is below budget slightly (79k) while the Year to Date figure is also off slightly by (87k). These are small variations and not particularly worrisome except the figure for listener support—which is down by 231k. This is because KPFK in Los Angeles had a transmitter problem and began its drive late and its listener support revenues were off budget by 345k. That drive is currently underway and the revenue picture should clarify this month. My “K” forecast shows that “K’s” revenue picture will likely even out by fiscal end.

On the Network side, the forecast is that revenues will be up by 385k. But, but, but--so will expenses such that the net surplus (expense) figure will, in this forecast will be a negative 119k.

Highlights

Some of the variances in this May report merit special attention:

- 1) The salary variance is negative 246k--on projection offsetting the revenue gain of 345k. We increase income and we also increase expense. This is somewhat normal and while salary expense is up—revenue more than makes up for the increase.
- 2) The variance which is most worrisome is that of LAB elections. It shows a negative variance YTD in April of 138k. On projection, I have received word that the new elections this summer and fall will cost the network an additional 160k. **This will bring total election costs in this fiscal to a grand total of 347k.** (I had projected 268k by fiscal end but this new figure supercedes that number.) This figure of 347k is 29% of the Network’s working capital figure! Governance costs here are actually higher when we include National Board expenses (168k), Board related legal expenses (50k), telephone costs (15k)—all in one fiscal year. **This totals 580k!** Remarkably, the Network despite this cost will show, on projection, “only a 119k negative variance—coming in at 878k surplus rather than the 997 budgeted. But, as we all know, revenue is fragile and all of this could quickly get worse very soon with one bad drive. What to do? Clearly salaries and governance costs are to be controlled and I will have recommendations in these areas. But, to be clear governance is the main concern at this point since no revenues flow from this while revenues offset the salary to some extent.
- 3) Legal expenses are a special case. Happily we will pay down that bill- which began as a 4 million dollar cost item several years ago- has now been whittled to a remaining balance of 271k by the end of this fiscal year. Wonderful.

Station by Station—How Does It Look?

KPFA:“A’s” income for May has positive variance of 120k and may be by fiscal’s end be up by 271k. This is again a very strong performance in the income area.

After expenses and capital outflows “A” will show, on projection, a positive variance of 138k. But, again the station has capital needs which might total as much as 200-250k and they have lost an experienced business manager. Management, staff and Board are working on this. This position is a crucial one.

KPFF: “K” as mentioned above, had a down transmitter and therefore did not begin the spring drive on time. This, of course, creates a large variance against budget (333k). Total expenses are off by 23k but, overall, the lost revenue from the missed drive date gives “K” a negative variance for the month of 318k. This, of course, will look very different next month when drive revenues begin to arrive.

KPFT: “T’s” revenue for the month is off 20k but the YTD figure is 16k. Expense reductions, however, offset these revenue variances and “T” through the month of May shows a positive variance against budget of 4k. This is good. Congratulations to the team at “T” for managing resources carefully.

WBAI: “I” income at May was above budget figures but this is likely more a result of conservative budgeting. The management at “I” deliberately reduced budget expectations for this fiscal compared to last fiscal, and, this was probably wise.

Expenses are up in the month of May by 28k. The long term issue with “I” finances is that of expense in the salary area. The projection is that while revenues are up by 201k against budget salary expense along is also up by 329k, offsetting this revenue gain. Management is well aware of this and plans are underway correct the expense situation. Overall due to expense reductions which on projection take effect over time “I” will have a negative variance of 55k by fiscal end. Rather than the one month’s operating expenses we had sought of 253k the actual surplus will be in the neighborhood of 197k. Also this assumes that “I” will be able to launch an effective summer drive and raise its fulfillment rate. Diligence is still required. Projections are only plans. Finally, budgets are not cash flow and the station has to look to manage this area as well.

WPFW: “W” has an income dip in May of negative 47k but its drive results show that by fiscal end they will exceed the revenue budget by 93k. This is a good result. Overall “W” will, by this projection, have exceeded overall surplus expectations by 45k by year’s end. Fingers crossed and hope that nothing intervenes to stop this prospect. Good work here.

National Office: In May the National Office exceeded the revenue budget by over 146k. On projection revenues will exceed budget by 120k. This is due primarily to a very successful mailing including both Network and acquisition lists asking listeners to support Pacifica’s plans for National coverage of Election Year activities. The response has been just terrific.

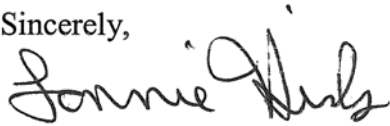
Administrative costs have negative variances in the legal and the insurance areas totaling, on projection, over 270k. The latter is an old insurance bill unpaid from two years ago and the former is a reflection of on-going legal costs related to past cases and to some legal settlements. Board expenses are up, computer expenses are up, but savings in other areas will reflect only a 15k negative variance in the administrative area and overall, the National Office variance will only be a small one (12k) by fiscal end.

PRA: The PRA (archives) has only a small income variance for May but a missed opportunity to fund-raise on the air deprived this group of 100k. Plans are to make up this amount are in the works and include a national mailing, fundraisers in the summer and new premium offerings. A new grant of 59k is helping. Meantime support from the National Office is bridging the gap. By fiscal end, my expectation is that the Archives will meet budget and perhaps exceed. However, the over-arching Archive situation is a grave one where our tapes and recordings are at risk with a cost of 12 million to preserve them adequately. This is our main hurdle.

Summary and Conclusions

- 1) ***Governance costs, projected at 580 thousand dollars are 48% of our required working capital, and 4.4% of our total expenses.*** This does not include other normal administrative expenses, insurance and other requirements. We, as a Network, cannot survive this kind of expense. There are several solutions we can attempt, none of them particularly easy ones. But, even if we raised this money today, the question remains should we spend listener resources in this way and in these amounts?
- 2) Salary expense: Well, we have all seen this movie many, many times. Nothing new to add here.
- 3) Listener support. I remain convinced that listener fatigue is an issue and, equally difficult, is the issue of those 9 listeners of 10 who listen but do not choose to pledge. There we have friends who await the incentives we can offer to bring move them into becoming active supporters. Here lies one tremendous opportunity which must be seized. Ideas welcome here.

Sincerely,

A handwritten signature in cursive script that reads "Lonnie Hicks". The signature is written in black ink and is positioned below the word "Sincerely,".

Lonnie Hicks
Chief Financial Officer