Oregon University System

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Memorandum

To: Mary Cullinan, President, Southern Oregon University

From: Patricia A. Snopkowski, Chief Auditor and Executive Director
Oregon University System Internal Audit Division

Subject: Jefferson Public Radio & JPR Foundation, Inc. Asset & Liability Review

Date: September 22, 2011

Background

The Internal Audit Division (IAD) recently completed an engagement of Jefferson Public Radio (JPR) at Southern Oregon University (SOU). This engagement was performed at the request of the Oregon University System (OUS) Chancellor in response to several factors. These factors include the impending expiration of the operation agreement between SOU and the JPR Foundation, the open actions from prior consultations between SOU, IAD, and OUS Legal Counsel related to reporting structures, and media reports of the JPR Foundation acquiring additional assets.

JPR was established in 1969 on the SOU campus as a small student-run station named KSOR. KSOR grew into a network of satellite radio stations owned and operated by SOU and was renamed JPR. JPR "extends the university's regional educational mission by promoting lifelong learning and fostering the development of the human creative and intellectual spirit in the region." JPR provides public broadcasting to listeners in southern Oregon and northern California.

The JPR Foundation (JPRF) was established in 1997 as a non-profit organization that supports the public service objectives of JPR with tax-exempt status under IRS Section 501(c)3. The JPRF is governed by a 14-member Board of Directors who oversees its activities.

The Executive Director of JPR, assisted by the Associate Director, oversees 13 university employees. The Executive Director also oversees the employees of JPRF: 3 radio staff members and 3 full-time and 9 part-time/seasonal staff members at the Cascade Theatre in Redding, CA. The salaries for the Executive Director of JPR and the Associate Director are partially funded by the JPRF.

The Corporation for Public Broadcasting (CPB) Application of Principles of Accounting and Financial Reporting to Public Telecommunication Entities requires combined financial statements for financially interrelated organizations, such as JPR and the JPR Foundation. JPR and the JPRF had over $9 million in combined assets at June 30, 2010. JPR is supported by state appropriations, indirect administrative support from SOU, contributions from donors, grants from the CPB and other sources. The JPRF is supported by private donations and revenues generated from internet service, rents, royalties, and Cascade Theatre operations. JPR and the JPRF's combined total revenues, support, and other income was approximately $4.2 million in 2010.

Objectives and Scope

Dan Temmesfeld, Audit Supervisor, led the engagement. The objectives of the engagement were to:

- Ensure that the ownership of assets and liabilities is appropriately recorded and clearly identified between SOU and the JPR Foundation.
- Determine whether any liabilities or commitments that exist for the university are tied to JPRF debt and other agreements.

Our engagement procedures included the following:

- Interviewing key management staff of SOU, JPR, and JPRF to obtain and document an understanding of the accounting for assets and liabilities held by each entity as well as potential commitments or obligations of the JPRF and whether those represent potential liabilities or contingencies to SOU.
- Interviewing external audit firm and obtaining documentation to support assets owned and liabilities owed by each entity to arrive at the combined financial statements as of June 30, 2010.
- Reviewing detailed capital and intangible asset records through April 2011 to assess whether ownership of select property and equipment is recorded and defined as related to JPR/SOU, the JPRF, or comingled between the two entities.
- Reviewing JPRF debt and lease agreements through April 2011 to evaluate impact to JPR/SOU's operations.
- Reviewing JPRF's debt ratios to evaluate their ability to maintain debt separate from SOU's operations.
- Reviewing operating agreements, leases, and license agreements that would provide evidence of:
    - any contingencies for SOU linked to JPRF bonds or other obligations, or
    - lack of segregation of duties when entering into contracts.

This engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. The fieldwork took place from April through May 2011 and focused on accounting information included in the combined financial statements as of fiscal year end, June 30, 2010, and events and transactions subsequent to fiscal year end through April 2011.

Our test work and conclusions are based upon representations made to us by management, which were verified on a judgmental basis. IAD plans to perform a follow-up engagement in 2012.

Conclusions

Based upon procedures performed, IAD has concluded that the accounting records to support the ownership of assets and liabilities between SOU and JPRF were readily available and clearly identified. The combined SOU JPR and JPR Foundation operational financial statements as of June 30, 2010 are attached. IAD did not note any significant, material liabilities or commitments that would exist for the university linked to JPRF.

IAD did note JPRF commitments related to newly purchased and donated buildings that could result in an additional strain to the JPRF debt burden and community fundraising. The following issues were also noted: a lack of segregation of duties by the Executive Director of JPR when entering into contracts, a need to conduct capital asset reconciliations between JPR asset records and SOU's Banner system, as well as a need to clarify ownership license records with the Federal Communications Commission (FCC).

The IAD provides three possible ratings: high risk, medium risk, and low risk. Based upon the results of procedures performed, the control risk over the key areas tested is high. High risk means controls may exist, but IAD noted unmitigated risk that may significantly impact SOU if not resolved.

Implementing the following recommendations should decrease the likelihood of internal control breakdowns in the future.

Recommendations

1. **Evaluate the future fundraising and financial impacts of JPRF capital projects on SOU's mission.**

   In fiscal year 2011, the JPRF acquired two facilities and have made plans to acquire a third facility, which has placed an additional debt and fundraising burden on the Foundation. The acquired properties are the Holly Theater and the Larson Warehouse, both located in Medford, Oregon. Additionally, on June 17, 2011, the JPRF Board of Directors authorized the execution of a purchase agreement for a $350,000 building on Front Street in Medford. The Front Street purchase would require annual interest-only payments for five years with final principal and interest due December 2016.

   Without considering the potential $7 million combined estimated renovation costs for Holly Theater and Larson Warehouse, JPRF's debt burden ratio as of June 30, 2010 was:

$$\textit{Debt Burden} : \frac{\text{Principal + Interest}}{\text{Total Operating Exp}} \quad \frac{340{,}512}{2{,}422{,}251} = 14.1\%$$

   The Oregon State Board of Higher Education policy on debt considers the debt burden ratio as one of three ratios to determine institutional financial viability and states a "guideline maximum debt burden ratio of 7%."

While JPRF has been successful in the renovation and subsequent growth of the Cascade Theatre in Redding, California, over the past decade, their current debt burden ratio exceeds limits that SOU should deem prudent. If the new renovation projects are not debt-financed, there are concerns over the local fundraising pool being able to sustain the significant planned renovations. The expected $7 million need for cash in JPRF is significant for the shared community donor base where SOU is soliciting funds for competing educational and capital development.

The current SOU and JPRF contract to exchange services and support is written pursuant to Oregon Administrative Rules (OAR) 580-046, Institution Foundations, and acknowledges the JPRF as a recognized associate foundation.

OAR 580-046-0005 at subsection (3) states:

> To be eligible for recognition and to maintain continued recognition, a foundation must: (a) Be created and operated with the primary purpose of support of the institution;

In order to preserve its legal status as an associate university foundation, the JPRF must act in a manner that is consistent with supporting the overall mission, goals and policy objectives of SOU, as identified by the President. JPRF's decisions, described above, to acquire new properties and take on additional debt may not align with policy interests of SOU and may, in fact, harm SOU by limiting the fundraising ability of the SOU Foundation related to their own fundraising priorities.

We recommend that the SOU President and the VP of Finance & Administration evaluate how the JPRF acquisitions, especially those that require significant financial commitments, impact SOU's mission and consider, in consultation with legal counsel, whether it is appropriate that SOU continue to recognize JPRF as an associate university foundation or if some other mutually beneficial relationship between SOU and JPRF is appropriate. If JPRF continues in an association with the university, we recommend that a plan of action be developed by December 31, 2011, that involves working towards a rewritten, renegotiated contract for exchange of services and support agreement.

SOU Management Response:

Management agrees. The President and appropriate staff will work with the OUS Office of Legal Counsel to evaluate how JPRF acquisitions and commitments affect SOU. The evaluation will be completed by November 30, 2011. A rewritten, renegotiated agreement between SOU and the JPRF will be completed by June 30, 2012.

2. **Eliminate the conflict of interest that exists with the JPR Executive Director and the JPR Foundation.**

Currently one individual, an SOU employee, serves as the Executive Director of JPR, which is a department of SOU, and as the Executive Director of JPRF, which is a separate non-profit organization. His position is 13% funded by JPRF and 87% by SOU. During our fieldwork, we noted that this SOU employee executed several agreements (debt, lease, purchase) on behalf of JPRF in his role as the Executive Director of JPRF. Some of these agreements were between SOU & JPRF.

We note that one individual cannot adequately represent the interests of two separate parties to the same agreement or contract. As an SOU employee, the act of executing contracts on behalf of JPRF when SOU was a separate party to the contract presented an apparent and actual conflict of interest. Per SOU contract policy, it is the responsibility of the signature authority to ensure that no real or apparent conflict of interest exists on the part of the approving individual or any other individual or organization involved in the transaction.

Additionally, per OAR 580-046-0025, Foundation Independence from Institution:

(2) To assure independence, a foundation's governing body, employees, and agents:

(a) Shall not be subject to control by the institution or an institution employee;

(b) Shall not give the appearance that the institution or any of its officers or employees control the foundation or its property, including investment of gifts and endowments made to the foundation.

More generally, one individual performing these dual roles has resulted in recurring actual or apparent conflicts of interest. The Executive Director of JPRF is required to take part in and execute the operational and policy decisions of JPRF. In cases where those decisions do not align with the best interests of SOU, the Executive Director, as an SOU employee, is unable to adequately represent the interests of both JPRF and SOU. Accordingly, the present situation, in which one individual serves as both the Executive Director of JPR and JPRF, presents a potential conflict of interest.

The history and background leading up to the creation of the JPRF, as well as the Executive Director's high level of involvement in the Jefferson Public Radio organization as a whole, contributed to the lack of distinction between his roles within the two organizations.

We recommend that the SOU President eliminate the conflict of interest by not allowing the current SOU employee to serve in both capacities.

SOU Management Response:

Management agrees. The SOU President will consult with appropriate stakeholders and develop a conflict of interest elimination plan by November 30, 2011. The plan will include actions that will be taken to eliminate the conflict of interest by June 30, 2012.

3. Clarify station licenses with the FCC upon renewal.

The radio station licenses identified as owned by SOU do not always name SOU as the license holder. In seven instances, the University of Oregon (UO) is named in the license renewal. These station licenses have potentially high value given the scarcity of frequencies available. OUS legal counsel endorsed clear correction of FCC license records as owned by SOU "through the Oregon State Board of Higher Education." Improper identification of FCC licenses could cause legal and asset custody issues in the future.

According to JPR management, when radio station licenses were obtained years ago, the Chancellor's Office based at UO was involved and mistakenly changed the name with the FCC to indicate UO instead of SOU. JPR management has contacted the FCC in the past to attempt to clear up the name changes, but the FCC has not effectively made the changes in a consistent manner.

We recommend that upon renewal of radio station license authorizations from the FCC, JPR management again attempt to clarify that ownership of the SOU licenses is with the Oregon State Board of Higher Education for SOU.

SOU Management Response:

Management agrees. SOU/JPR will continue to make every reasonable effort to clarify and correct FCC records regarding ownership of SOU owned radio station licenses upon their renewal in 2014.

4. **Perform timely reconciliations related to capital asset records.**

IAD was unable to confirm all of the SOU-owned property listed in the JPR accounting records as items recorded in Banner. In addition, the acquisition costs do not appear to be consistent between SOU Business Services' Banner database and JPR's supplemental accounting records.

OUS FPM 55.100, Fixed Asset Accounting Policies, stipulates use of the Banner Fixed Asset module, which captures information critical for "(1) safeguarding of capital assets, (2) financial and managerial reporting, (3) insurance coverage, (4) facilities and administration rate proposals, and (5) distribution of insurance assessments." FPM 55.100 goes on to state that "departments maintaining supplemental databases of capital assets are responsible for reconciling those databases to Banner Fixed Assets."

Accounting records maintained by SOU Business Services and JPR finance management are not consistent, which lends itself to inconsistent reporting and potentially insufficient facilities or operations management. It is difficult to match up assets in the two accounting systems (SOU: Banner & JPR: Peachtree/Excel), since each use a different numbering system for land, buildings, and equipment.

We recommend that JPR finance management include the Banner asset tag number in JPR accounting records for identification of SOU-owned assets. In addition, we recommend that periodic (annual) reconciliations are performed between the JPR supplemental records and Banner.

SOU Management Response:

Management agrees. JPR finance management will update their records to include the Banner asset tag number by October 31, 2011. Quarterly reconciliations will be performed between the JPR asset shadow system and the official Banner Fixed Asset System starting in January 2012.

We thank you, the Southern Oregon University and Jefferson Public Radio staff for their cooperation and assistance and appreciate your commitment to resolve the issues discussed during the course of our engagement. If you have any questions, please feel free to contact me at (541) 737-0505.

Attachment: JPR & JPRF combined financial statements, 6/30/2010

c: Ron Kramer
James Klein
Liz Shelby
Craig Morris
Steve Larvick
Steven Nelson
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George Pernsteiner
Jay Kenton
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File 11-F-388

Jefferson Public Radio
Combined Balance Sheet
June 30, 2010

		JPR SOU	JPR Foundation	Combined
Assets				
	Current Assets			
	Cash - non interest bearing		62,509	62,509
	Savings and temporary cash investments	3,658	793,375	797,033
	Pledges receivable		186,190	186,190
	Accounts receivable	50,382	54,531	104,913
	Prepaid expenses and deferred charges	152,489	113,295	265,784
	Investments - Publicly Traded		88,881	88,881
	Investments - Other		33,750	33,750
	Non-Current Assets			
	Land, buildings and equipment	4,910,030	1,206,974	6,117,004
	Leased Equipment		200,148	200,148
	Intangible Assets			
	FCC station licenses	328,700	1,335,854	1,664,554
	Other Assets		20,200	20,200
	Total assets	**5,445,259**	**4,095,707**	**9,540,966**
Liabilities				
	Current & Long Term Liabilities			
	Accounts payable & accrued expenses	165,213	54,131	219,344
	Deferred revenue	1,051	348,758	349,809
	Notes payable	729,291	687,971	1,417,262
	Leases payable		196,516	196,516
	Total liabilities	**895,555**	**1,287,376**	**2,182,931**
Fund Balances				
	Unrestricted	4,549,704	2,808,331	7,358,035
	Total fund balances	**4,549,704**	**2,808,331**	**7,358,035**
	Total liabilities and fund balances	**5,445,259**	**4,095,707**	**9,540,966**

Jefferson Public Radio
Combined Income Statement
For Year ended June 30, 2010

		JPR SOU	JPR Foundation	Combined
Revenue				
	State appropriations	200,581	0	200,581
	Indirect administrative support	674,001	0	674,001
	Corp. for Public Broadcasting grant	371,576	27,421	398,997
	Memberships, contributions and other grants	0	1,205,657	1,205,657
	Program underwriting	0	529,997	529,997
	Donated services, programs and equipment	21,401	15,926	37,327
	Fundraising events		145,663	145,663
	Jeffnet internet services	0	63,030	63,030
	Cascade Theatre operating	0	957,217	957,217
	Rents & royalties	53,891	0	53,891
	Interest & dividends	3,501	3,105	6,606
	Investment gains	0	9,178	9,178
	Gain on sale of assets	0	7,500	7,500
	Transfer Southern Oregon University (operating)	937,421	0	0
	Total revenue	**2,262,372**	**2,964,694**	**4,289,645**
Expenses				
	Programming and production	864,358	154,217	1,018,575
	Broadcasting	664,328	45,610	709,938
	Program information and promotion	90,305	58,987	149,292
	Cascade Theatre operating	0	948,863	948,863
	Management and general	267,413	31,666	299,079
	Fundraising and membership development	215,287	113,708	328,995
	Underwriting and grant solicitation	116,531	7,468	123,999
	Depreciation	317,455	124,311	441,766
	Transfer Southern Oregon University (operating)	0	937,421	0
	Total expense	**2,535,677**	**2,422,251**	**4,020,507**
Fund Balance				
	Excess or (deficit) for the year	**(273,305)**	**542,443**	**269,138**
	Net assets balance at beginning of year	4,823,009	2,265,888	7,088,897
	Fund balance at end current year	**4,549,704**	**2,808,331**	**7,358,035**