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Controller

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MEMORANDUM

TO: Supervisor Bevan Dufty
Supervisor David Campos

CC: Ben Rosenfield, Controller
Monique Zmuda, Deputy Controller
Brooke Oliver, General Counsel, SF Pride
Board of Directors, SF Pride

FROM: Catherine Spaulding, City Performance Deputy Director,
Controller's Office
Nikhila Pai, Analyst, City Services Auditor, Controller's Office

DATE: December 21, 2010

SUBJECT: Fiscal and governance assessment of San Francisco Pride

The Controller's Office performed a fiscal and organizational assessment of San Francisco Pride (SF Pride) at the request of Supervisor Bevan Dufty and Supervisor David Campos. With its \$1.8 million budget, SF Pride hosts a yearly parade and two-day celebration held on Joseph B. Alioto Performing Arts Plaza (Civic Center Plaza) the last weekend in June to celebrate Lesbian, Gay, Bisexual and Transgender culture. The Controller's Office found that SF Pride has fiscal and governance shortcomings that it needs to resolve in order to function smoothly. This memo presents our recommendations, followed by sections detailing findings, methodology, and background on SF Pride.

The Controller's Office has provided these recommendations to SF Pride. The organization supports many of these recommendations and is already implementing several of them. SF Pride is considering their next steps in the coming months and will take the remaining recommendations under advisement.

I. RECOMMENDATIONS

1. Reduce Organizational Debt and Rebuild Reserves

SF Pride currently has a debt of \$225,000 and inadequate operating reserves. The organization should:

- Create a plan to repay the \$225,000 debt and rebuild reserves.
- Broaden board responsibilities to include yearly fundraising goals for members.
- If choosing to hire or retain current fundraising staff, set fundraising goals or other appropriate benchmarks for review at regular intervals to monitor progress.

2. Transition to a Governance Board

SF Pride board members did not recognize the financial problems of the organization and thus did not take timely action. SF Pride's board considers itself an 'activist' board – individual board members participate in program and administrative work, which involves volunteering for tasks such as managing stages or other day-of-event duties. However, the role of a board as a governing body should involve collectively working together to make long-view business decisions for the organization, including providing oversight on finance, administration, program (event-work), and fundraising. The SF Pride board should:

- Unite as a collective to perform governance-level responsibilities.
- Obtain training to improve financial understanding and thus better provide oversight, including better comprehension of financial documents.
- Create job descriptions and ideal skill sets for board members to enhance governance abilities within the group as a whole.
- Expand the board to increase the overall board's skill set.

3. Improve Policy Documentation

SF Pride lacks adequate documentation on and dissemination of policies and procedures relating to external partner organizations and administrative operations. The organization should:

- Properly document and share policies managing business activities with partner organizations including beverage booth participant organizations and projects requiring fiscal agent services from SF Pride.
- Revise contracts with partner nonprofits to include more detail on terms and conditions, such as specific net operating expense line items.
- Expand the fiscal policies and procedures manual to address administrative operations including internal controls, financial reporting, accounts payable and receivables, petty cash procedures, payroll, and fiscal agent responsibilities.

4. *Rebuild Senior Management*

SF Pride currently lacks an executive director. The organization should:

- Develop the Executive Director job description and recruitment plan, if possible, with assistance from a specialist in the field of nonprofit recruiting of fiscal turn-around candidates.
- Ensure that financial management responsibilities are successfully carried out, such as developing accurate financial reporting and budget documents as well as engaging a qualified firm to produce regular audits.

I. FINDINGS

Deficit

- ***SF Pride has a current deficit of \$225,000.*** This debt includes delinquent payments totaling \$53,000 due to the City and County of San Francisco Department of Public Works. The organization closed the 2009-10 fiscal year with a negative balance of approximately \$380,000; SF Pride reduced the shortfall by \$155,000 by using their reserves. SF Pride has furloughed paid staff in December 2010 and has recently set up committees to pursue cost cutting and fundraising in order to address the deficit. They have also recently received \$45,000 from a donor as well as a pledge for a \$55,000 bridge loan.
- ***The FY 2009-10 closing balance of negative \$380,000 represents 24 percent of additional expenses above FY 2009-10 revenue.*** As compared to FY 2008-09, the organization spent an additional \$42,600 on operating expenses, \$126,000 in event expenses (which included \$40,000 on 40th Anniversary related expenses) and \$204,500 on personnel. Had SF Pride monitored cash flow (expenses and income) on a regular basis, they could have balanced their budget by year-end.
- ***Despite hiring a fundraiser, FY 2009-10 income did not increase as compared to FY 2008-09 income.*** In FY 2008-09, SF Pride maintained a total income of \$1.73 million. In FY 2009-10, despite projections of raising an additional \$215,000, total income equaled \$1.75 million or an increase of only \$17,600. If SF Pride had met its fundraising goals, it would still have ended the fiscal year at a negative balance of \$165,000.
- ***SF Pride maintains no substantial financial reserves or assets.*** As a result of the FY 2009-10 deficit, the organization was forced to use approximately \$155,000 from its various savings and investments. The organization did not provide the Controller's Office with information on their plans to rebuild reserves.

Governance

- ***SF Pride board members approved a FY 2009-10 budget which projected a negative \$345,500 balance at year end.*** In a November 3, 2009 meeting, the board approved the proposed budget that would exceed the \$1.8 million income by 19 percent. Board meeting minutes reflect that board members questioned the negative year-end balance and that the Executive Director suggested that they might cover the expenses with either additional income or cash reserves for a balanced budget at year-end. However, minutes do not reflect a reasonable business rationale for potentially draining cash reserves to cover the deficit. In interviews with the Controller's Office, SF Pride representatives stated that they subsequently approved a balanced budget in January 2010 and never intended to budget for a loss.
- ***Despite substantial negative balances on profit and loss statements as well as repeated Treasurer's report statements on tight cash flow, board members did not recognize the financial problems of the organization and therefore did not take timely action.*** From December 2009 to May 2010, SF Pride's profit and loss statement balances moved from negative \$67,900 to negative \$242,400. Although it increased its balance in June to \$278,000, SF Pride's profit and loss statements immediately dropped to negative \$43,000 in July, negative \$172,000 in August and negative \$335,000 in September. Board meeting minutes do not reflect discussion of these dramatic swings. In an interview with the Controller's Office, SF Pride's legal counsel stated that board members are now making a careful and deliberate assessment of revenue sources and expenses in the coming months.
- ***Two board members were paid for professional service on behalf of SF Pride, contrary to agreements signed by board members.*** Payment to board members is allowable under federal and California State laws as well as SF Pride's bylaws, although not under SF Pride's Board Agreement and Code of Conduct, which are inconsistent with SF Pride's bylaws in this respect. When the payment of board members was brought to the attention of the larger board membership, both individuals were asked to either return the money to SF Pride or resign from the board. One member resigned and the other is repaying the organization through in-kind services. SF Pride informed the Controller's Office that the board members were paid below market rate and worked nearly full-time for several weeks in exchange for payments of no more than \$2,500 each.
- ***SF Pride board members and Executive Director did not fundraise for the organization until very recently.*** Board members are not required to raise funds and their Board Agreement only asks that board members support fundraisers or special events. The most recent Executive Director may have performed some fundraising duties, but she also relied on the previous Executive Director to act as a Sponsorship Director (a paid position) and hired an Assistant Director of Development.

- ***The board's current fiscal plan to resolve the \$225,000 deficit has begun to prioritize fundraising.*** The SF Pride board established a community advisory committee in November which has raised the issue of fundraising and governance as it has sought input from the larger LGBT community. As a result, this month a private donor gave the organization \$45,000 as well as pledged a bridge loan of \$55,000. Three other committees recently established by the board to focus on cost cutting measures should also include consideration of revenue options.
- ***SF Pride board focuses on programmatic and operational issues of the organization and does not provide sufficient focus on collective governance responsibilities.*** Board members did not adequately oversee the finance and administration of the organization, leading to problems including the FY 2009-10 debt, improper payment of board members for services, and misunderstandings with beverage partners and projects.
- ***The current board is made up of five board members, a third of the allowable number of members per the bylaws (15).*** By functioning with far fewer than the maximum allowable number of board members, SF Pride is not maximizing opportunities for its board to provide governance responsibilities or the wide range of skills (legal, public relations, finance, programmatic) needed by the organization.

External Partners

- ***SF Pride changed its indirect cost charge-back methodology without properly informing its beverage partners ahead of time.*** SF Pride did not document its methodology on charging for indirect costs on its web site or in its official contracts with its beverage partners. In previous years, SF Pride deducted direct expenses for items such as cups, alcohol, structures, etc. from the gross revenue generated at each booth from the sale of beverages and provided documentation of these charges to each of its beverage partners. In FY 2009-10, SF Pride added an additional charge for indirect costs that represented a percentage of the overall cost of hosting the two-day Pride event, but failed to provide documentation on the change or the overall charges for expenses. As a result, beverage partners received a smaller percentage of the net profit without an understanding of why the amounts were reduced. SF Pride apologized for the change and intends to pay additional funds to beverage partners based on the old methodology.
- ***SF Pride contracts for beverage booth participation do not reflect current policies.*** Specifically, these contracts do not specify net operating expenses that will be included on the final statement to beverage partners. The SF Pride board has recently directed its legal counsel to update these contracts.

- ***Fiscal agent relationships are not well documented.*** In recent years, fiscal agent relationships were based on oral agreements, and income and expenses for these projects were integrated into the organization's general chart of accounts. At this time, SF Pride recognizes this weakness, is formalizing these relationships, and is changing its accounting methodology to properly document the fund arrangement.

Noncompliance with Citywide Nonprofit Monitoring Standards

- ***The balance sheet does not conform to accounting principles.*** The September 30, 2010 balance sheet provided to the Controller's Office lists a negative balance for total equity under Liabilities and Equity. Money owed on a net asset would be considered a liability rather than a negative balance under assets. As a result of this negative net assets line, the balance sheet shows a positive balance, despite the fact that the organization is currently in deficit. In a meeting with the Controller's Office, SF Pride's auditor recognized the error and is in the process of evaluating SF Pride's financial documents.
- ***SF Pride does not maintain a cost allocation plan because they classify all of their revenue as general fund dollars.*** However, given that the organization acts as a fiscal agent, it would be appropriate to maintain a cost allocation plan for sponsored projects and overhead rate calculations.
- ***SF Pride is not up to date on completion of annual audits.*** No audited financial statements are available for fiscal year 2008-09. The latest audit that was completed was for fiscal year 2007-08. Minutes from December 2009 reflect an audit was in progress, but it was not made available to the Controller's Office.
- ***Fiscal policies and procedures documents focus solely on board of director responsibilities and do not address organizational financial management.*** A thorough fiscal/accounting policies and procedures manual would address critical financial practices including internal controls, financial reporting, accounts payable and receivables, petty cash procedures, payroll and fiscal agent responsibilities.

II. METHODOLOGY

This Controller's Office assessment is based on a review of select financial and compliance documents as well as qualitative interviews with key SF Pride personnel.

As per the methodology established by the Citywide Fiscal and Compliance Nonprofit Monitoring Program, SF Pride was asked to provide the following list of documents. **Bolded** documents were provided to the Controller's Office and used for this assessment:

- 01 - Agency-wide budget** (unaudited)
- 02 - Cost allocation plan
- 03 - Most recent audited financial statement** (fiscal year ending September 30, 2008)
- 04 - 2009 (FY 2010) 990 tax form if available (**extension for 2009 returns**)

- 05 - Fiscal policies and procedures manual** (on board-related matters only)
- 06 - Financial reports, balance sheets, and profit and loss statements** (unaudited)
- 07 - Time sheets for staff**
- 08 - DE6 and 941 tax filings for the two most recent quarters**
- 09 - Articles of Incorporation and Bylaws**
- 10 - Current board roster**
- 11 - Personnel policies and procedures manual**
- 12 - Subcontract agreements**
- 13 - Board minutes from three meetings over the past twelve months**

Controller's Office staff conducted two meetings on November 5, 2010 and November 18, 2010 with the following individuals:

- Amy Andre, SF Pride Executive Director
- Brooke Oliver, General Counsel
- Julie Burillo, paralegal to Brooke Oliver
- Arlene Mose, external auditor
- Nikki Calma, Board Co-Chair
- Shawn Parker, Board Co-Chair
- Jaime Fountain, Treasurer
- Joshua Smith, Board Member

III. BACKGROUND ON SF PRIDE

SF Pride is a nonprofit located at 1841 Market Street, 4th floor, San Francisco, CA 94103. Currently, the City provides SF Pride with a general support grant of \$58,400 through Grants for the Arts. The grant is provided on a cost reimbursement basis.

The mission of the San Francisco Lesbian, Gay, Bisexual, Transgender (LGBT) Pride Celebration Committee is to educate the world, commemorate their heritage, celebrate their culture, and liberate their people. The nonprofit pursues its mission through a yearly parade and two-day celebration held on Joseph B. Alioto Performing Arts Plaza (Civic Center Plaza) the last weekend in June.

The Civic Center Plaza celebration entails performances on 21 stages, over 250 exhibitor and vendor booths as well as 16 volunteer-staffed beverage booths. Proceeds for the event are shared among San Francisco nonprofits that serve the LGBT community, support the HIV community or provide breast cancer awareness services. SF Pride also hosts several auxiliary events, including a media party and a VIP party, and promotes hundreds of LGBT-content related events held over the SF Pride parade weekend.

Over the last two years, SF Pride has undergone turnover within its executive director position. When Lindsey Jones stepped down, after a brief interim director period, Amy Andre took on the role for a year and stepped down November 19, 2010. Currently, the organization does not have an executive director. According to their website, the organization's current staff consists of three staff plus ten contractors.