New Jersey Public Broadcasting Authority

Meeting of the Audit Committee

August 10, 2011 – 2:30 PM

NJPBA 4th Floor Conference Room
25 S. Stockton, Trenton, NJ 08608

MINUTES

DRAFT – NOT BOARD APPROVED

I. CALL TO ORDER, OPEN PUBLIC MEETING NOTICE, *Anthony Della Pelle, Chair, NJPBA*

Chair of the Audit Committee, Mr. Anthony Della Pelle, called the meeting to order. Chair Della Pelle confirmed with Mr. Blair that in accordance with the provisions of the Open Public Meetings Act of the State of New Jersey, notice of this meeting was filed with the Office of the Secretary of State, posted on the appropriate bulletin boards maintained for such purposes by the Authority, and distributed by press release to daily newspapers in New Jersey.

Chair Della Pelle then requested a roll call. Those present and participating at the meeting were Anthony Della Pelle, Chair (via phone), Guy Tassi, Christopher Mathews, Jill Ann Murphy, Sherise Ritter, Sam Braun, Lynn Pennell, John Blair, and Kavin Mistry. Also present was Nichol Gee *(taking minutes)*.

II. APPROVAL OF MINUTES FROM NOVEMBER 16, 2010 MEETING

Chair Della Pelle explained that since none of the current members of the Audit Committee were present at the November 16, 2010 meeting of the Committee, they were not voting on the contents of the minutes, but were voting to accept the record of the meeting.

Mr. Tassi made a motion to approve the minutes of the November 16, 2010 NJPBA Audit Committee meeting. Mr. Mathews seconded the motion. The motion passed unanimously.

III. DISCUSSION OF THE SCOPE OF THE FY 2011 AUDIT AND ANY NEW PROCUREMENTS OF DEVELOPMENTS IMPACTING THE NJPBA

Ms. Ritter briefly introduced herself and Ms. Murphy and shared their experiences working for Mercadien on past New Jersey Public Broadcasting Authority ("NJPBA" or

"PBA") audits. She explained that the initial audit period was to cover the time from July 2010 through December 2010, and that was then updated through June 30, 2011. Ms. Ritter stated that she and Ms. Murphy would discuss the scope of the audit, the anticipated timeline, and the responsibilities and expectations of all parties involved.

Ms. Murphy reviewed the letter from Ms. Ritter to the Audit Committee, stressing the importance of communications between the auditors, the Committee, and the staff. She said she has been working with Mr. Braun to obtain a list of required items and may request more items as the audit continues. Ms. Murphy stressed that the Mercadien staff is working independently of NJPBA but will talk to employees regarding what the internal controls have been. Ms. Ritter said they will need an understanding of how the internal controls have changed with the restructuring of the organization.

Ms. Murphy said that they will be assessing inherent risks and control risks. They will select samples for testing, and this process should be similar to what was done for the FY 2010 audit. Chair Della Pelle asked if they anticipate changes for the future. Ms. Murphy said they will need to review the current contracts. Ms. Ritter said they will need to address going concerns in the audit and will require cash flow projections and budgets to assess the impact for the future. Chair Della Pelle asked if that would alter the timeline for the audit. Ms. Ritter said she expected the audit process to be smoother and finish earlier this year given that they have been working with the staff already and that they made adjustments last year that may not arise again this year. Ms. Hyche concurred, noting that they cleaned up a lot of issues last year and that the NJPBA staff has more time available to devote to the audit this year.

Ms. Ritter stressed the need for a point person to facilitate communications between Mercadien, the NJPBA staff, and the Audit Committee, stating that in order to stay within the proposed timeline, Mercadien would need to receive information from the Authority in a timely manner. Chair Della Pelle said he wants to keep in touch with what is happening with the audit. Discussion of the timeline followed.

Ms. Murphy said she has scheduled 10 days for their field work, starting on September 6, 2011. After that, Mercadien staff will need to work for two more weeks in their offices preparing the financials. Mr. Blair said that the NJPBA Board will need to meet in September and December. He suggested the Audit Committee reconvene to review the audit prior to the December meeting. Chair Della Pelle agreed, provided that the audit would be complete by then. Ms. Ritter suggested the Committee plan to meet between November 1, 2011, and November 15, 2011. Chair Della Pelle agreed, but also said the Committee could convene sooner if necessary. Ms. Ritter said the Audit Committee does not normally need to convene during the audit unless there is an issue with management or if Mercadien needs clarity on something. Even so, Mercadien staff may reach out to any one of the Committee members individually. Ms. Ritter stated staff may not reach out to individual Committee members in this case, however, since most of the Committee members were not involved with the NJBPA in FY 2011. Brief discussion followed regarding the overlap of the NJPBA audit with the Foundation audit.

IV. DISCUSSION OF THE SCOPE OF THE ENGAGEMENT LETTER ADDENDUM: *"...contemplating disclosures related to potential transfer of operations and/or sale of assets, going concern matter and high risk audit."*

Ms. Ritter said that she tried to outline the potential need for additional time. She said subsequent event disclosures take additional time. The audit will be addressing the transfer of operations. The proposed timeline assumes that Mercadien will get everything the staff requests ahead of time, and if they need something when they are in the field, it will be made readily available to them.

Chair Della Pelle asked if this addendum needed to be confirmed by the Treasurer. Mr. Mistry said the Addendum was approved at the last NJPBA Board meeting and no further approval was needed.

V. DISCUSSION OF THE IMPACT OF THE DECEMBER 17, 2010 SEPARATION OF FNJPB AND NJPBA PER PUBLIC BROADCASTING TRANSFER ACT FOR COMBINED AUDIT FINANCIAL STATEMENT AND CPB REPORTING

Chair Della Pelle noted there was already a brief discussion of this point. Mr. Blair stated that Mercadien previously conducted side by side audits of the Foundation for New Jersey Public Broadcasting ("FNJPB") and the NJPBA. He said there was a six month Memorandum of Understanding between the two organizations that included financial obligations from the Foundation to the Authority which had been met, and this would need to be vetted by the auditors. Chair Della Pelle confirmed that this was already taken into account and wouldn't change the timeline of the audit. Ms. Murphy said Mercadien would prepare separate statements for the two organizations. Mr. Braun agreed, but then added that Mercadien would then also prepare combined statements for the Corporation for Public Broadcasting ("CPB"), as done in the past. Mr. Blair noted this was important for next year's CPB grant. Mr. Mistry said there had been previous attempts to combine the FNJPB and PBA Audit Committee meetings, but that was no longer an issue.

Ms. Ritter asked about what happened with the assets during the organizational changes. Mr. Mistry explained that, per legislation, the NJPBA continues to hold the television licenses, and there is a programs and services agreement in place with Public Media NJ ("PMNJ"), a subsidiary of WLIW, which is a subsidiary of WNET. Mr. Mistry said the PBA made financial commitments to WNET that include the CPB grants and EBS, Food Channel, and tower rental revenues in order to ensure New Jersey-centric programming on the channels. Mr. Mistry said the funds are all required in FY 2012. There was a clean break between the fiscal years. There weren't any funds collected in FY 2011 that transfer into FY 2012.

Mr. Mistry went on to explain that on the radio side of the business, there were two asset sale agreements executed on July 1, 2011, contingent upon FCC approval. During this

time period pending approval, there are short term operating agreements in place with NYPR for four of the radio stations, and with WHYY for the other five stations. There is a combination of cash and non-cash considerations in the sale agreements. FCC approval is expected in the fall. Discussion of the assets followed. The assets sold with the licenses do include some equipment. Mr. Blair mentioned there is minor reimbursement from the new operators to PBA in the interim period for expenses. Mr. Mistry said that when the revenue from the sale is received, it will be going into a trust fund, not coming directly to the NJPBA.

Mr. Mistry clarified that PMNJ is providing programming and services in exchange for the grants and funds they are receiving from the NJPBA. PMNJ is not paying anything in return. Chair Della Pelle said the Commissioners of the Board of the PBA believed that the Transfer Act required them to sell the radio licenses but maintain the television licenses. He said it is the continuing responsibility of the PBA to ensure PMNJ continues to do what PMNJ said it would do. Ms. Ritter clarified that the PBA outsourced their operations. Mr. Mistry confirmed that the PBA privatized their television operations for a $9 million to $11 million savings for the State; there is approximately a $2 million appropriation for the NJPBA for FY 2012. Mr. Blair clarified that there is approximately $7 million total in the NJPBA FY 2012 budget: nearly $2 million in appropriations for the expenses associated with being a licensee plus the $5 million in revenues which, as already discussed, will be passed on to PMNJ.

Mr. Mistry stated that the December 17, 2010 Memorandum of Understanding between the FNJPB and NJPBA expired on June 30, 2011, and there is no continuing, legal relationship between the two organizations. Mr. Blair said the State was allowing FNJPB to stay in the building through the audit, but then FNJPB would be moving. Mr. Mistry said most of the unwinding of the relations between the two companies was finished at the end of the calendar year. FNJPB now supports New Jersey Public Broadcasting in general. Ms. Ritter asked if FNJPB retained its net assets as of June 30, 2011. Mr. Braun said there is an outstanding sum of approximately $60,000 owed to NJPBA from FNJPB.

VI. OTHER BUSINESS

Chair Della Pelle asked if there was anything else to discuss, then recapped the timeline of the audit. He said the next meeting of the Committee would take place after the audit is complete on or about November 1, 2011. The goal of that meeting will be to review the audit and make a recommendation to the Board for the December meeting.

Ms. Ritter asked for clarification on who the point person would be for communications. Ms. Hyche stated that everything should go through Mr. Braun with copies to both Ms. Hyche and Mr. Blair. Ms. Hyche said that Mercadien should contact her directly if the Mercadien staff does not receive anything that was requested. Chair Della Pelle asked that anything directed to the Audit Committee go through Mr. Blair. Ms. Ritter said she will need information about the Board. Mr. Blair said he would provide that.

VII. ADJOURNMENT

Chair Della Pelle asked for a motion to adjourn the meeting. Mr. Tassi made a motion to adjourn the meeting. Mr. Mathews seconded the motion. The motion was approved unanimously.