



Memorandum

TO: MAKING GOVERNMENT
WORK BETTER COMMITTEE

FROM: Sara L. Hensley
Gerald A. Silva

SUBJECT: SEE BELOW

DATE: 10-17-05

Approved

Ray Winer

Date

10/17/05

SUBJECT: UPDATE ON NORTHSIDE COMMUNITY CENTER OPERATIONS

RECOMMENDATION

It is recommended that the City Council approve the updated cash flow, financial analysis, and operations report of the Filipino-American Senior Opportunities Development Council, Inc. (Fil-Am SODC).

BACKGROUND

The Making Government Work Better Committee (MGWBC) requested that the City Auditor's Office provide an updated cash flow and financial analysis to help assess the financial health of the Filipino-American Senior Opportunities Development Council, Inc. (Fil-Am SODC), which operates the Jacinto "Tony" Siquig Northside Community Center (Community Center). The MGWBC also requested information on the amount of overhead Fil-Am SODC is responsible for paying to operate the Community Center, and an operational report showing the current programming at the Community Center.

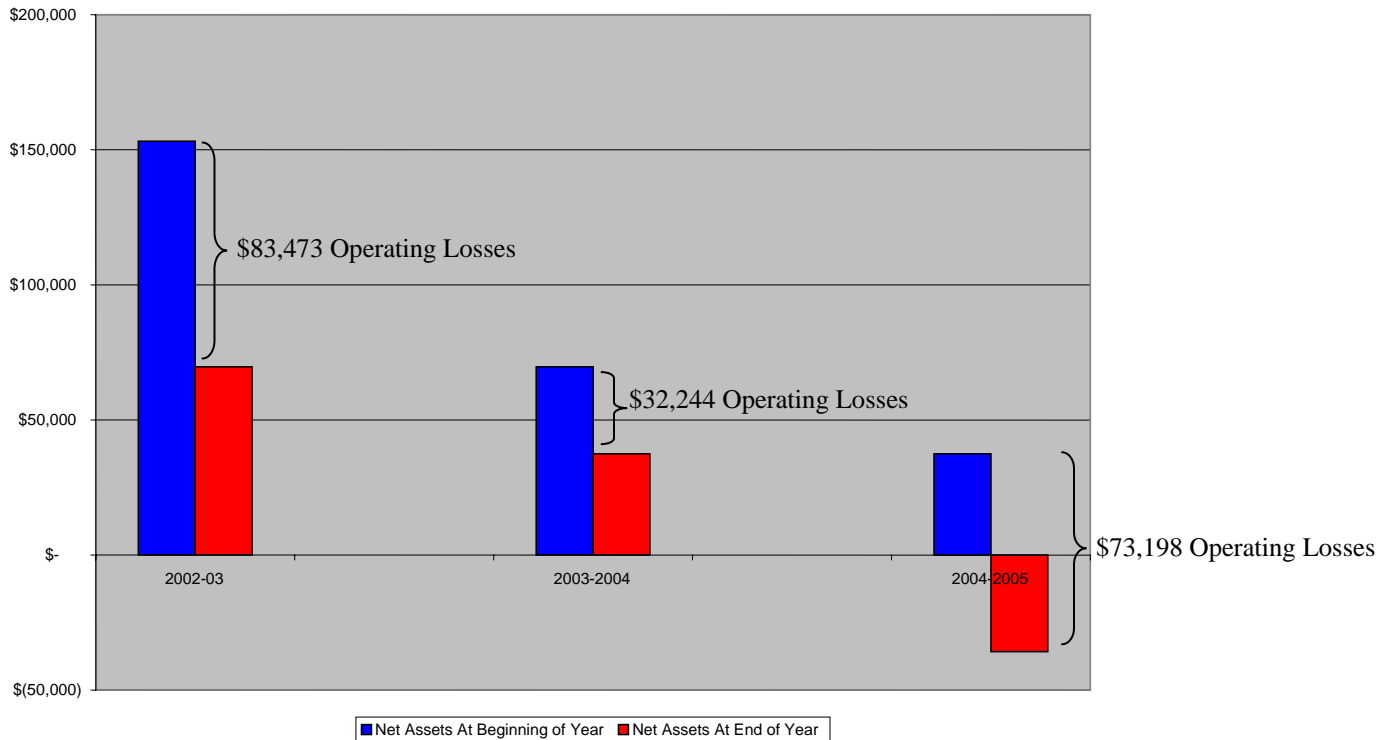
ANALYSIS

Historical Financial and Cash Flow Data

Fil-Am SODC provided the City Auditor's Office with its accounting data for 2004-05 and its check register data for the first quarter of 2005-06. Based on the City Auditor's analysis of the information Fil-Am SODC provided, it appears that Fil-Am SODC is severely cash-strapped, has incurred significant liabilities, and does not currently have sufficient funding in place to operate even at its recently reduced level of programming at the Community Center.

During the last three fiscal years from 2002-03 to 2004-05, Fil-Am SODC depleted its net assets¹ with three consecutive years of losses. These operating losses drew down Fil-Am SODC's assets by nearly \$189,000 in three years. At the beginning of 2002-03, Fil-Am SODC's reported assets were over \$153,000. By the end of 2004-05, Fil-Am SODC's reported assets showed a negative balance of nearly \$36,000. The following chart shows how the operating losses have depleted Fil-Am SODC's assets to a negative balance.

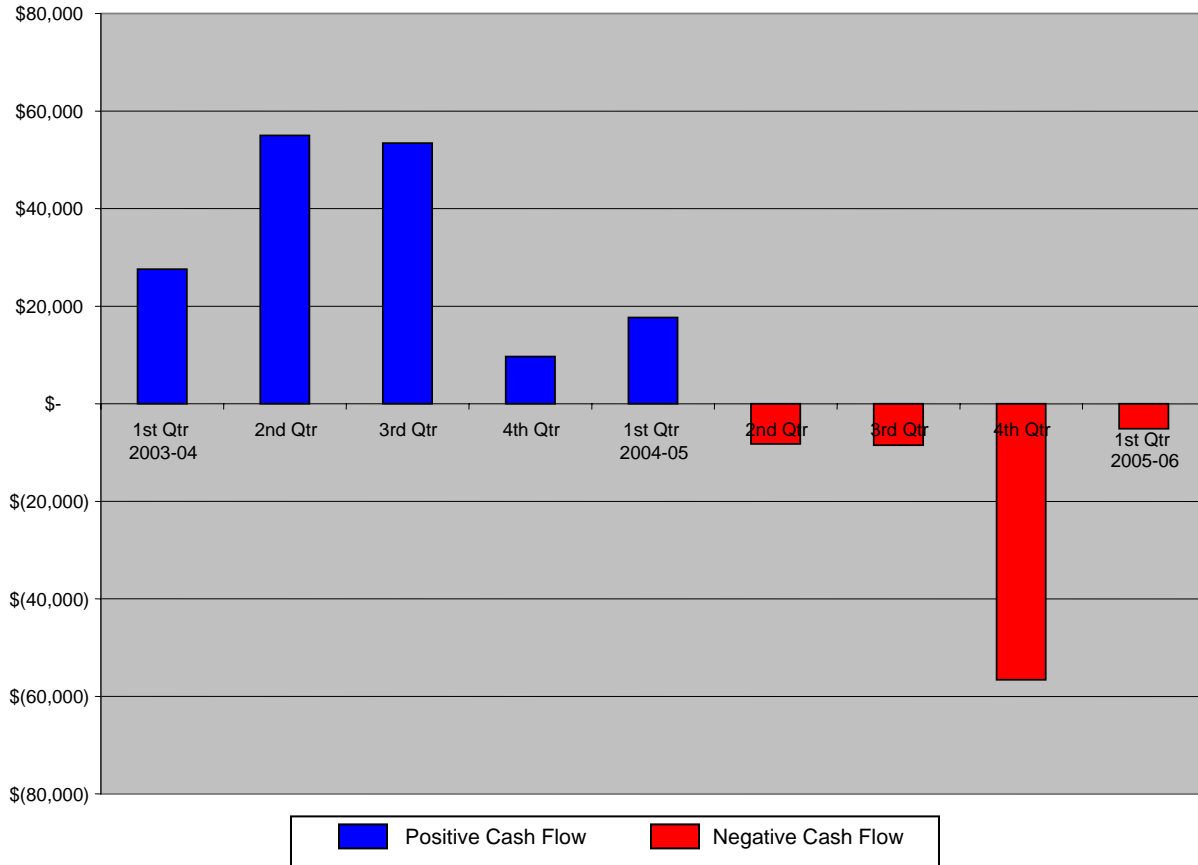
Exhibit 1: Fil-Am SODC's Operating Losses From 2002-03 to 2004-05 Have Depleted Its Net Assets



Fil-Am SODC's recurring losses have also affected its cash balance. By the end of 2004-05, Fil-Am SODC's cash balance was overdrawn by \$57,000. Fil-Am SODC used the revenues it received during the first quarter of 2005-06 to reduce its negative cash balance at the end of 2004-05. By the end of the first quarter of 2005-06, Fil-Am SODC had a negative cash balance of over \$5,000 to sustain its operations. This negative cash balance is in addition to the \$37,650 balance Fil-Am SODC borrowed against its \$50,000 line of credit by September 30, 2005. The following chart shows the overall decrease in Fil-Am SODC's quarterly cash balance.

¹ Fil-Am SODC's net assets consisted of cash, receivables, and equipment.

Exhibit 2: Fil-Am SODC's Ending Quarterly Cash Balances 2003-04 to Q1 2005-06



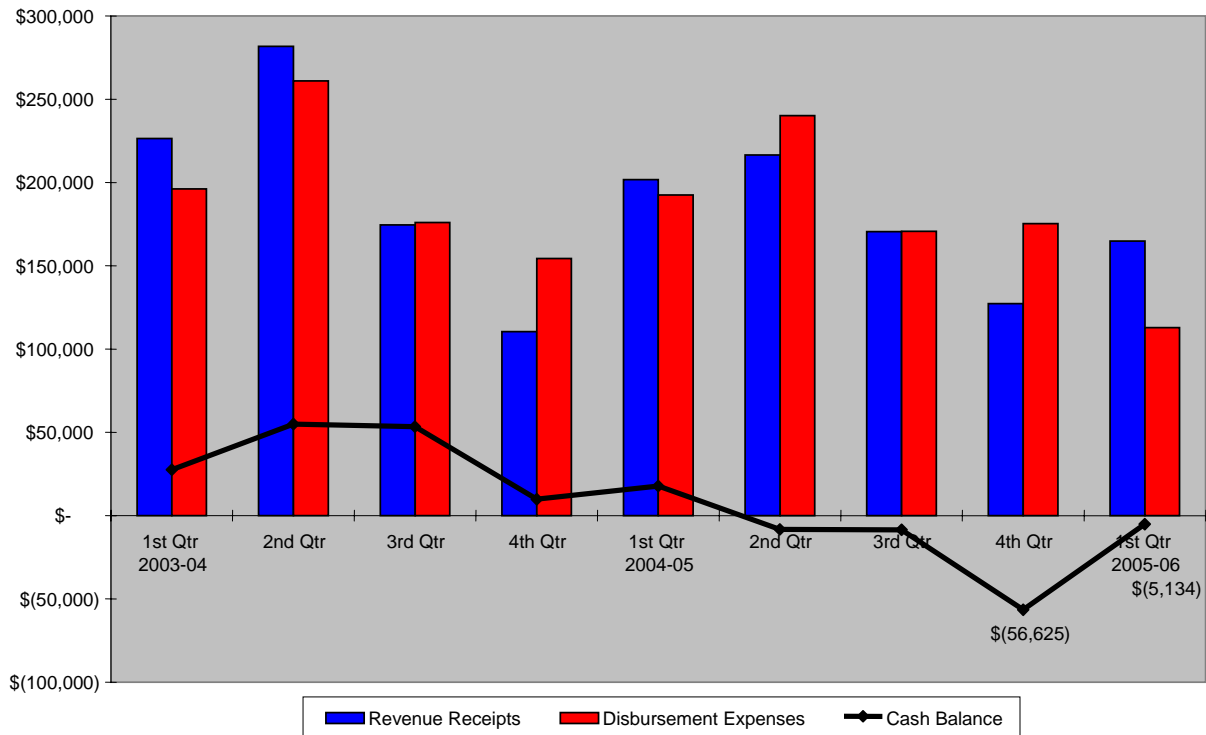
Beginning in the second quarter of 2004-05, Fil-Am SODC experienced negative cash balances. These negative cash balances have impeded Fil-Am SODC's ability to pay routine expenses, such as employee payroll. For example, Fil-Am SODC delayed the issuance of employee's paychecks in May, June, and July 2005 and created an irregular pay schedule. Specifically, in July 2005 employees waited 25 days to receive paychecks instead of 14 days. Furthermore, Fil-Am SODC stated that it reduced full-time employees to half time, and starting in September 2005, Fil-Am SODC closed the Community Center on Mondays.

In addition to the low cash balance that hinders its ability to pay routine expenses and forced Fil-Am SODC to reduce its programming at the Community Center, Fil-Am SODC has the following estimated liabilities:

- **\$37,650** in an outstanding credit line balance,
- **\$32,814** in payroll taxes payable,
- **\$69,131** in estimated IRS contingencies,
- **\$219,414** in potential repayment of City grant funds.

The following chart shows Fil-Am SODC's quarterly receipts and disbursements as recorded in its check register, and the impact on the organization's cash balance.

Exhibit 3: Fil-Am SODC's Quarterly Receipts, Disbursements, and Cash Balances from 2003-04 Through the First Quarter of 2005-06



The spikes in Fil-Am SODC's receipts, shown in the above chart, reflect times when Fil-Am SODC received larger grant payments, or tapped into its credit line for operating cash. For example, in 2003-04 Fil-Am SODC borrowed \$36,095 in the first quarter and \$52,413 in the second quarter from the credit line. While these borrowings increased Fil-Am SODC's receipts, it also increased Fil-Am SODC's liabilities in the form of future payments for principal and interest.

As the City Auditor noted in his audit report, the increases in Fil-Am SODC's disbursements shown in the above chart, reflect imprudent management decisions such as issuing over \$70,000 in employee bonuses during the first and second quarters of 2004-05, and the need to make a large credit line debt payment in the second quarter of 2003-04.

2005-06 Projected Cash Flow

Based on the City Auditor's analysis of Fil-Am SODC's confirmed funding sources and past expense data, it appears that Fil-Am SODC will not be able to meet its basic 2005-06 expenses because of insufficient revenues.

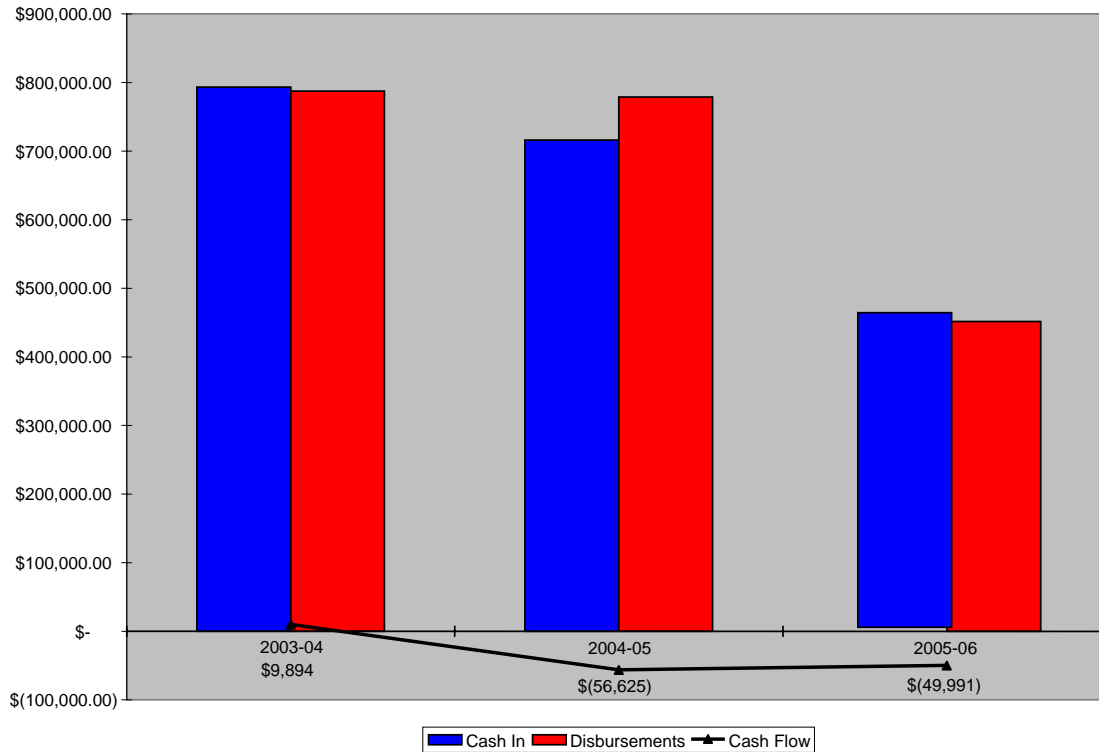
According to Fil-Am SODC's 2004-05 check register data, Fil-Am SODC's quarterly expense disbursements averaged almost \$195,000.² In 2005-06, Fil-Am SODC reduced its first quarter disbursements to around \$113,000 primarily through reductions in services and hours of operation. If the first quarter is indicative of the remaining three quarters of 2005-06, then Fil-Am SODC's quarterly cash disbursements will average around \$113,000. Fil-Am SODC's confirmed funding sources are from the City of San Jose, Santa Clara County, and \$5,000 from Wells Fargo Bank.

Based on these confirmed funding sources and Fil-Am SODC's fundraising during the first quarter of 2005-06, the City Auditor projects that Fil-Am SODC's cash receipts will be around \$101,000 during the second quarter, and around \$96,000 for the third and fourth quarters of 2005-06. By June 30, 2006 the City Auditor projects that the difference between cash receipts and disbursements will add another \$45,000 to Fil-Am SODC's already negative cash balance of over \$5,000 from the first quarter of 2005-06.

In total, the City Auditor projects that Fil-Am SODC's cash flow will show a deficit of over \$49,000. The following chart shows this cash flow deficit, along with Fil-Am SODC's 2003-04 and 2004-05 cash flow.

² At this level of spending, Fil-Am SODC did not meet its 2004-05 HNVF program performance goals, nor did it efficiently utilize the space at the Community Center, as the City Auditor previously noted in his audit report. For example, during calendar year 2004, Fil-Am SODC held no classes or events at the Community Center during 64% of the available weekday hours.

Exhibit 4: Fil-Am SODC Cash Flow for 2003-04 and 2004-05 and City Auditor Projection for 2005-06

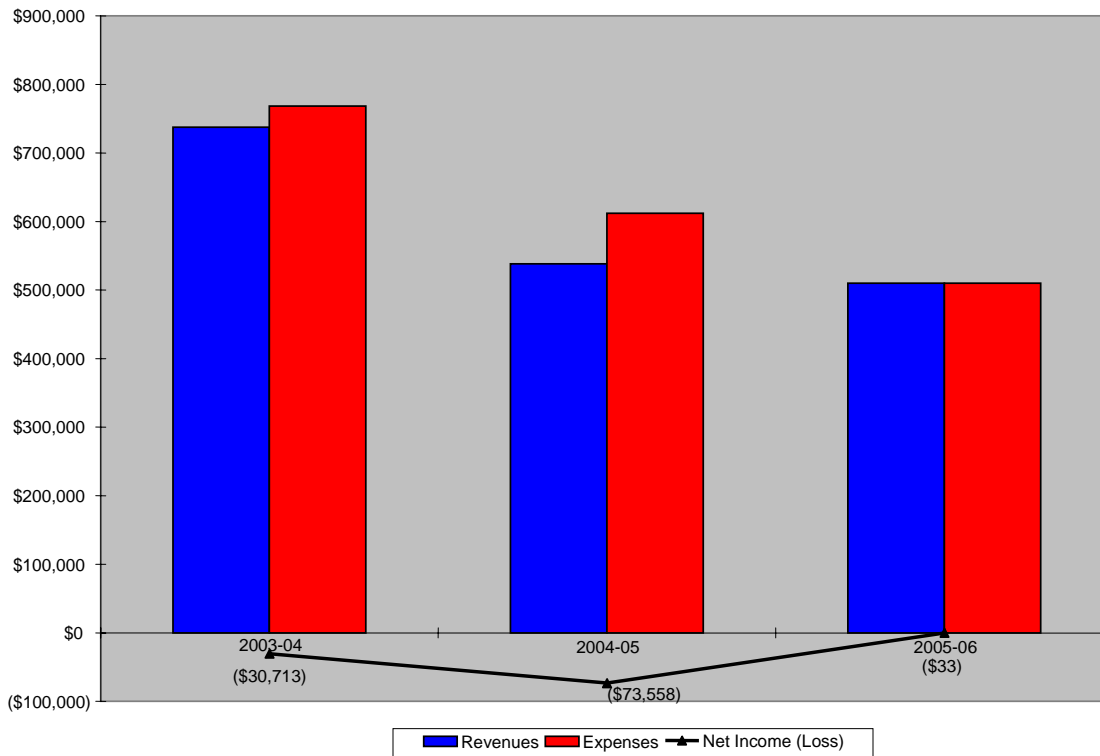


Fil-Am SODC's Board of Directors recently adopted its 2005-06 operating budget. The adopted operating budget is based on an accrual basis, and therefore does not reflect the cash flow of the organization. For example, accrued revenues include reimbursements the organization expects to receive during the following quarter. Fil-Am SODC's budgeted revenues and expenses for 2005-06 are \$509,967 and \$510,000 respectively. Fundraising is a major component of Fil-Am SODC's adopted operating budget. Fil-Am SODC's proposed budget for 2005-06 assumes a 50% increase in fundraising over 2004-05 to balance its operating budget for 2005-06.

We should note that the revenues also include \$58,000 from the City's General Fund for use towards employee salaries. However, the City is still in the process of determining the best use of these General Funds. PRNS is recommending that these funds be used to invest in the Community Center itself and in building the capacity of the organization to be successful. To that end, PRNS recommends that the General Fund dollars be used for costs such as board training, outreach to the surrounding community to improve programming, and paying for the Community Center's utilities.

The following chart shows Fil-Am SODC's accrued revenues, expenses, and net income for 2003-04 and 2004-05, and Fil-Am SODC's proposed budget for 2005-06.

Exhibit 5: Fil-Am SODC’s Accrued Revenues, Expenses, and Net Income for 2003-04 and 2004-05 and Fil-Am SODC’s Proposed Budget for 2005-06



Fil-Am SODC has stated that it has pursued an additional grant; however, Fil-Am SODC has not been able to provide confirmation for this funding. For example, in a September 14, 2005 letter to PRNS, Fil-Am SODC’s CEO stated that a “Merrill Lynch Foundation grant application is pending for a total of \$900,000 divided in increments of \$300,000 per year.” Fil-Am SODC provided the City Auditor with a letter that confirmed the organization did apply for grant funding from Merrill Lynch’s *Investing Pays Off California Grants Program*, which provides funding for youth programs. According to this documentation, Merrill Lynch expected to make a decision on Fil-Am SODC’s application by September 2005. However, as of October 7, 2005, Fil-Am SODC’s CEO stated that he had not received an award decision. According to Merrill Lynch’s program data, the program will fund a maximum of \$300,000 and not \$900,000. Further, even if Fil-Am SODC received the Merrill Lynch grant, it would have to incur additional expenses to provide the programming required under the grant.

Allocation of Community Center Overhead Costs

With the exception of Fil-Am SODC’s utilities, the City pays for the overhead operating costs of the Community Center. The following chart summarizes the allocation of overhead costs for the Community Center under the current building use agreement with Fil-Am SODC:

Exhibit 6: Allocation of Community Center Overhead Costs

Cost	Responsible Party
Water	City
Alarm	City
Garbage Collection	City
Janitorial	City
Landscape Maintenance	City
Gas & Electricity	50% City/50% Fil-Am SODC

The building use agreement is structured so that Fil-Am SODC gradually assumes responsibility for PG&E utilities. In FY 2004-05, PG&E costs were allocated on a 75% City/25% Fil-Am SODC split. Accordingly, the City billed Fil-Am SODC \$6,054.51 for 25% of the \$24,216 total cost.

In reviewing the payment history, it is important to note that Fil-Am SODC's payments have been slow and have utilized City HNVF grant funds to cover its share of the PG&E costs. In an effort to comply with the original intent of the cost-sharing agreement, future agreements with Fil-Am SODC will be revised to require that an outside funding source be used to cover these costs.

In FY 2005-06, the City is responsible for paying 50% and Fil-Am SODC for 50% of the PG&E utilities.

Comparison of Community Center Operations

PRNS' review of other comparable centers revealed that the Northside Community Center is opened fewer hours, has fewer participants, and offers less programming than other comparable centers. Although Fil-Am SODC has collaborated with other organizations to obtain financial support, PRNS has not seen sufficient collaboration with other organizations for the purpose of offering continuous programming at the center.

Specifically, PRNS compared the operations of four City-owned community centers: Berryessa, Southside, Washington Youth, and Northside (See Attachment A). Berryessa and Southside are examples of community centers owned and operated by PRNS.

Information for Washington Youth Center has been included because, similar to Northside, it is an example of a City-owned facility operated by an outside non-profit agency (Catholic Charities).

As Attachment A illustrates, the average monthly attendance at Northside is significantly lower than the comparable centers. Berryessa Community Center has an average monthly attendance of over 12,000 participants, while the estimated attendance for Northside is only 500

participants. This difference in the number of participants is due in large part to Berryessa's collaborations with multiple service providers.

Attachment B provides a listing of partnerships that have been established with outside partners to optimize programming and utilization of the community centers. PRNS strongly recommends that Fil-Am SODC aggressively pursue potential partners to help increase its performance.

Attachment C provides an overview of the time utilization of space at Berryessa, Southside and programming at Northside. It is important to note that Northside did not provide information on space utilization, but did provide a calendar of events, which PRNS incorporated into its analysis. Based on this information, it appears that the Northside Community Center continues to be significantly under-utilized.

City staff met with Fil-Am SODC representatives and it was agreed that Fil-Am SODC would be providing additional information of the utilization of space at the Northside facility.

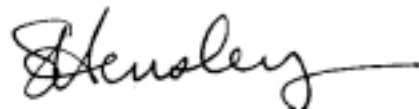
CONCLUSION

Based on the review of information provided to-date, the financial health of Fil-Am SODC appears perilous. Fil-Am SODC's options to alleviate its cash flow problems are limited to increasing its community or private fundraising. Even Fil-Am SODC's own adopted operating budget for 2005-06 shows that it will need to increase its community or private fundraising by nearly 60 percent³ just to balance its 2005-06 budget and the revenue from this year's fundraising efforts will not go toward paying off Fil-Am SODC's significant liabilities. This level of fundraising appears to be extremely ambitious.

Moreover, to the extent that the organization focuses on fundraising, its ability to expand day-to-day programming will also be impacted. Without major investment of resources in the immediate future, it is unlikely that the organization will have the financial or programming resources to effectively provide a level of service comparable to that provided at other City-run facilities.



GERALD A. SILVA
City Auditor



SARA L. HENSLEY
Director of Parks, Recreation
and Neighborhood Services

³ When compared to the average Fil-Am SODC's community and private fundraising in 2002-03, 2003-04 and 2004-05

Making Government Work Better Committee

Subject: Update on Northside Community Center Operations

10-17-05

Page 10

Attachment A – Community Center Operational Comparison

Attachment B – Comparison of CBO Users

Attachment C – Utilization Comparison

Attachment A: Community Center Operational Comparison

	Annual Operating Budget	Square Footage	Percentage of Days MPR is Reserved vs Available*	Business Hours**	Center Hours***	Staff Level	Programs offered	Average Monthly Attendance****
Berryessa (City)	\$ 553,640	13,700	85%	M-Th 8:30am-7pm F 8:30am-5pm Sa 9am-1pm	M-Su 8am -9pm	9.63****	see notes	12,669
Southside (City)	\$ 534,458	21,721	50%	MWF 8:30am-5pm TuTh 8:30am-9pm	M-Su 8am -9pm	10.02****	see notes	9,924
Washington Youth (CBO)	\$742,132*****	17,458	15%	M-F 9am-7pm Sa 10am-1pm	M-F 9am-7pm Sa 10am-1pm	7.5	see notes	7,929
Northside	\$ 509,967	16,000	NA	T-Th 9 am - 6 pm; F 9am-5 pm;Sun 9 am-5pm	T-Th 9 am - 6 pm; F 9am-5 pm;Sun 9 am-5pm	6.5	see notes	500

*MPR= Multi-purpose room. This figure is based on the number of days rented vs. the number of available days. The vast majority of our rentals come from private parties that utilize the site's MPR on the weekends. Typically these are Package Rentals (up to 6 hours).

**Business hours are when the center is regularly open with staff covering front desk operations and answering the phones.

*** Center hours include time that programs may occur which include business hours, as well as evening and weekend leisure classes, special events, and rentals.

****City FTEs have additional responsibilities for offsite programs beyond just the site listed.

*****For the City sites, the figures are based on 2004-05 liR data for attendance which is a duplicated number. Attendance numbers for Northside based on information provided by Director at 10/7/05 meeting.

*****Catholic Charities receives approximately \$742,132 from the City(GF base budget \$454,000, BEST \$207,000, CDBG \$62,132, Gas and electric utilities \$19,000, HNVF \$0) however, this funding may be used for some offsite programming. Center operations, center youth programming, case management, support programs, truancy abatement and some of the programs available.

Attachment B: Comparison of CBO Users

CBO Users at Berryessa and Southside Community Centers

Berryessa/Milpitas Republican Assembly
Berryessa Citizen Advisory Council
Pink Divas
Northbrook Neighborhood Association
Berryessa Community Center Advisory Council
Independence Neighborhood Advisory Council
San Jose Silicon Valley Lions
Alcoholics Anonymous
Girl Scouts
African-American Quilt Group
SALA
HICAP
Brown Bag
Council on Aging
East Side Adult Education
Frontier Travel
VTA
Peninsula Stroke Association
Santa Clara County Nutrition
Boys and Girls Club

Leisure Class Vendors:

Dance Arts Academy
Dance Kids Academy
Noteworthy
Kids Love Soccer
Mad Science
SJ Museum of Arts
Silicon Valley Tennis
Skyhawks
Theatre Fun
Robin Pickle Yoga
SJ Arena Management
CLAP

Attachment C: Utilization Comparison

Berryessa Facility Utilization

- 53% Senior Programs
- Fee Classes (M-F) 56% (Sat – ½) 100%
- Rentals (S/Sun only) 95%
- Camps (M-F/Summer only) 100%

Southside Facility Utilization

- Leisure Classes 47%
- Rentals 5%
- Special Events 2%
- Drop-in 10%
- CBO Partnership 15%
- Senior Nutrition 20%
- Unused 1%

Northside Facility Utilization

- Sr. Nutrition 4 days a week for 1 hour a day
- Social dance once a week for 3 hours
- Light exercise 4 days a week for 30 minutes a day
- Mostly rentals