The City Community Center- SAMPLE REPORT

Fiscal Year 2003 Financial Report

Prepared by BTQ Financial

Highlights

The Board of Directors and Executive Director of the City Community Center (CCC) are currently involved in a number of significant activities directed at stabilizing the financial position of the organization.

- The firm of BTQ Financial has been retained to manage the fiscal department operations and to provide the Chief Financial Officer and business planning services;
- The fiscal year 2002(January 1^{st} - December 31^{st}) audit is being completed;
- The fiscal year 2003 budget, which projects 10% surplus and incorporates considerable changes in operations, has been approved by the Board and is in effect; and
- A business plan to improve the financial position over the next 12 to 24 months is planned to be completed by the end of the second quarter.

The unaudited results for 2002 show a surplus of $89,000. The prior year ended with an $80,000 deficit. In 2002, the CCC generated $3,190,000 in revenues, $155,000 more than the prior year, and incurred expenses of $3,100,000, materially the same as the prior year. The surplus improved the organization's net assets on the balance sheet, but it is still has a net asset deficiency of just over $175,000. Accounts payable to vendors were reduced by one-third from 2001, but are still very high at $570,000 and continue to place a significant strain on the organization's ability to operate.

Summary Statement of Operations 2002 and 2001

	FY 02	FY 01	Variance (dollar)	Variance Percent
Revenues	3,189,263	3,033,809	155,455	5%
Expenses	2,996,978	3,033,609	36,631	1%
Depreciation	103,353	80,124	23,229	29%
Surplus/(Deficit)	88,932	(79,925)	168,857	211%

The Board approved a 2003 annual budget which projects a $355,000 surplus and incorporates a number of notable organizational changes. Projected revenues of $3,268,000 and expenses of $2,913,000 reflect a slight increase of 2% in revenues and a 6% reduction in expenses. The major shift in the structure of the projected 2003 budget reflects the Board's decision to discontinue or transfer operations of the Day School (DS) after the 2002-2003 school year and lease out the space occupied by the school. In 2002 the DS ran a deficit of nearly $190,000.

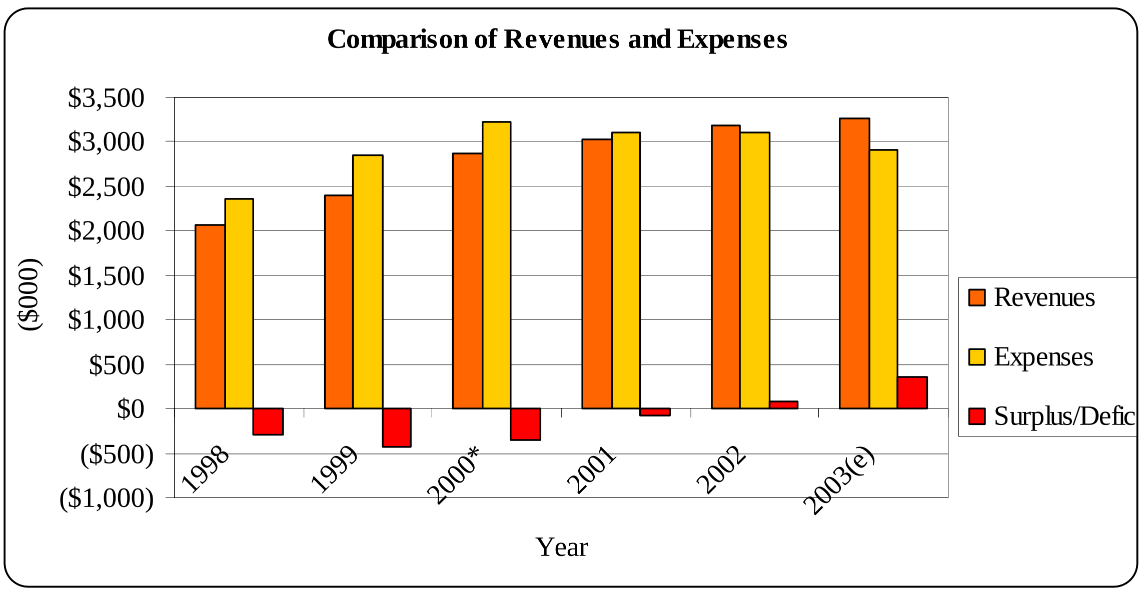
By realizing the projected 2003 surplus, the CCC will be able to eliminate the net asset deficiency and be in a favorable position to secure external financing. The goal is to secure $750,000 of unrestricted funding; preferably a combination of the organization's operating surplus and loans. With this funding the organization can improve its liquidity, gain access to some much needed working capital, and pay off its high level of outstanding vendor bills. In addition, the CCC has completed an initial capital needs assessments which has identified over $1,500,000 in necessary facility repairs and improvements. The CCC continues to evaluate its capital needs and funding strategies, but it is clear at this point that the CCC will seek to restructure the loan on the residence and secure additional government capital grants.

A cash flow projection through September 2003 is attached which shows a deficit cash position in August. Management is attempting to address this issue by both maximizing revenue in the residence and summer camp programs as well as seeking financing.

Recent Year Trends

Following a few very bad financial years in 1998, 1999 and 2000, the agency was only able to stabilize its financial position in 2000 through a one time contribution, which resulted in a gain of $480,000. The revenue allowed the agency to break even in 2000.

Moving through 2001 and into 2002, it was evident that the financial situation would continue to deteriorate through ongoing deficits unless some major changes were made. A number of operational changes in 2002, particularly in the areas of rents, fees, and staffing reductions, shifted the bottom line and produced a small surplus of 3%. Moving into the future, a number of strategies will be deployed to achieve on-going modest 10% annual surpluses which will allow the CCC to erase the debt incurred in the prior years and support additional debt service. As mentioned above, the organization will seek financing that will allow it to reduce its vendor payables and repay these obligations over several years as well as finance its capital needs.

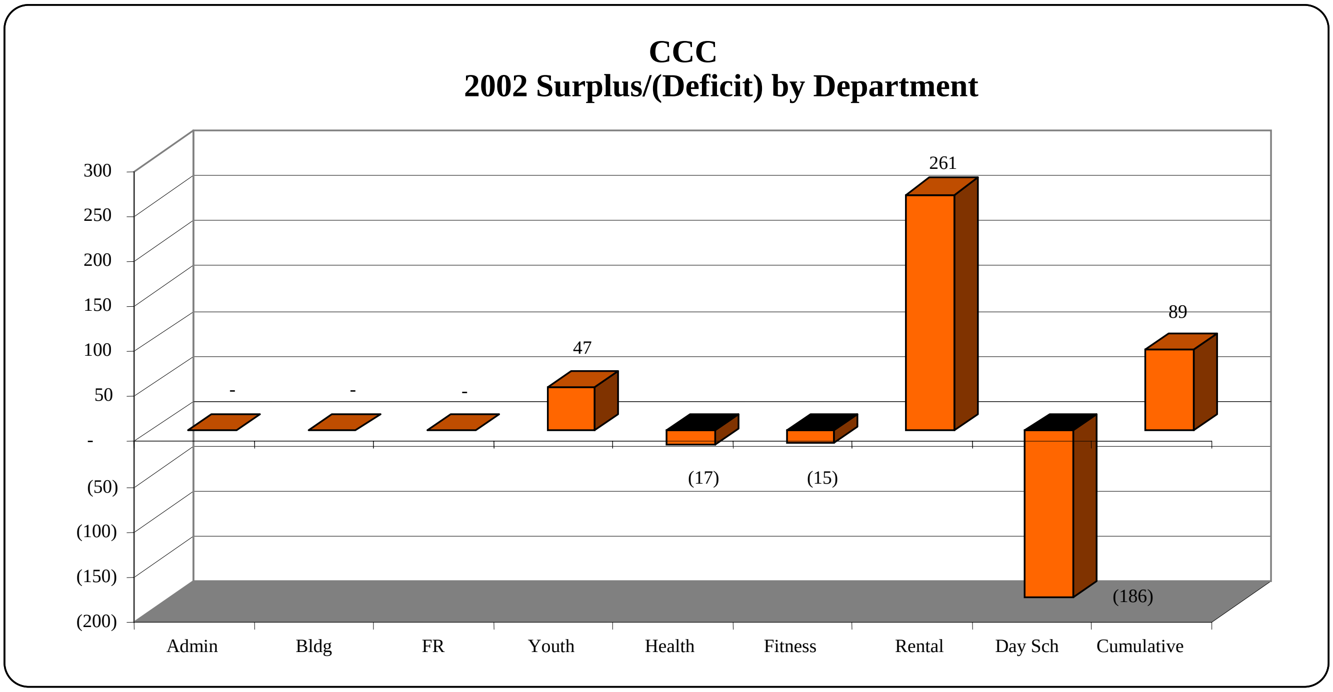


* 2000 results are adjusted to remove $480,000 recorded in revenue for one-time emergency contribution.

2002 Financial Results by Department

In order to move the agency out of a deficit position, management, with assistance from BTQ, undertook an in-depth assessment of the departments. They looked at the impact of the various departmental units on the organization's viability using both mission and financial criteria. The assessment has provided the basis for developing and implementing both a capital funding strategy as well as revenue maximization plans, much of which is reflected in the 2003 budget. The most significant change is to discontinue the Day School program after the current school year.

The following chart illustrates the financial performance in 2002 of the various CCC departments after the allocation of Administrative, Fund Raising, and Building revenues and expenses. The agency was supported by a $261,000 surplus from the Rental income and a $47,000 surplus generated by the Youth programs, namely the summer camp program. These departments offset losses of $186,000 in the Day School.



(Note: Fund raising revenue is allocated first to Administration. Any uncovered administrative expenses after the fund raising allocation are allocated to programs on a basis of their annual expenses as a proportion of total annual program expenses. Building expenses are allocated on a per square foot basis.)

Review of significant issues impacting the 2002 Financials

Initial revenue enhancement activities and close attention to expenses resulted in a surplus of $89,000, or close to 3%, for 2002. Although there were some significant decreases in certain areas, revenue increased over the prior year, 2001, by $155,000, or 5%.

The increase in revenue for 2002 over 2001 included:

- The residence's vacancy rate decreased from 13% to 7%, thereby generating an additional $79,000, or 10%, in residential rents;
- Health facility fees increased $160,000, or 13%;
- Commercial rents increased $11,000, or 4%; and
- Membership fees increased $14,000, or 6%.

These increases were offset by the following:

- Grants decreased $92,000, or 40%, primarily due to the loss of the Community Partnership grant;
- Contributions decreased by $13,000, or 46%; and
- Special events decreased $19,000, or 24%.

Expenses in 2002 were tightly managed and, overall, were maintained within 1% of those incurred in 2001.

- Although, personnel expenses in 2002 were $208,000, or 11% over 2001 levels, much of this is variance is due to prior period accounting adjustments. After accounting for the impact of these adjustments, the 2002 salary expense would actually be $52,500 less than the 2001 expense.

- OTPS expenses were $220,000, or 17%, below 2001. Close to $74,000, or one-third, of the OTPS variance is related to the discontinued Community Partnership program. This also had the offsetting $92,000 in revenue variance.

- While the circumstance that most operating expenses at the CCC have been held at previous levels or reduced in 2001 is positive from a financial perspective, the organization is operating in a "bare bones" fashion. Staff salaries have not been increased for years and staff is required to absorb 50% of their health insurance premiums. The organization struggles to accomplish routine building maintenance and often must delay repairs due to financial constraints.

An accounting adjustment was recorded at the end of 2002 reducing the agency's accounts payables by $36,000. In order to pay vendors and maintain liquidity, the organization took an extraordinary step in 2002 and borrowed close to $75,000 from its investment/endowment account. These funds are required to be repaid.

In addition, the endowment fund experienced investment losses of $18,000 in 2002. The endowment fund stood at $27,500 at the end of 2002.

2003 Budget Projections

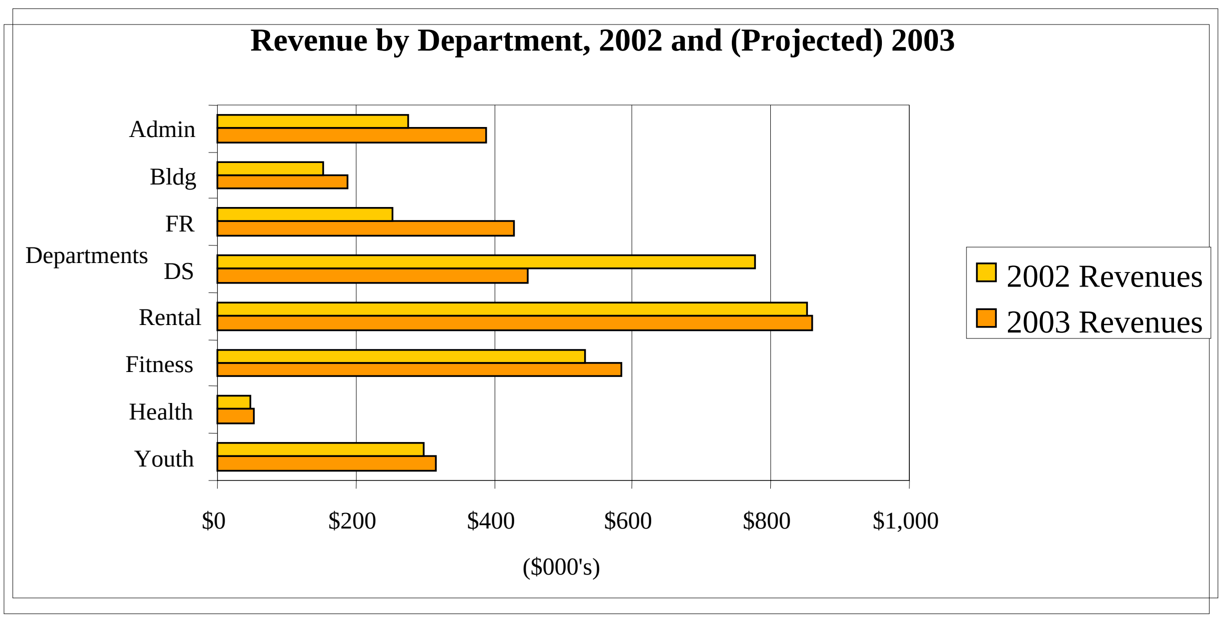
The CCC's Board has adopted a 2003 annual operating budget for the CCC that projects a $266,000 surplus. The budget includes a number of departmental surpluses: $259,000 from the Residence, $56,000 in Youth programs, and $23,000 in the Fitness Center. The Health programs are projected to operate at near breakeven with a $4,500 deficit and the Day School (DS) is projected to operate at a $92,000 deficit. The DS was budgeted through June with the plan that its operations will be transferred to a different operator or shut down at that time.

The budget includes growth in revenue of $79,000 even after accounting for the $338,000 loss in revenue due to the discontinuance of the DS. The following areas are projected to see significant growth in revenue:

- Commercial office space is budgeted to increase $108,000, of which $75,000 is attributable to rent from the vacated DS space;
- Membership fees and Fitness revenue are anticipated to increase $75,000, or 13%;
- Event space rental income is budgeted to increase $36,000, or 18%; and
- Fund Raising income, which includes corporate and foundation grants, events, legacies, is budgeted to increase $179,000, or 58%. Of this increase, $64,000 has already been received this year.

Expenses are projected to decrease by $188,000 to $2,913,000 in 2003 from $3,268,000 in 2002.

The following chart reflects the significant shifts in revenues by department between 2002 and 2003 and reflects the revenue maximization strategy that is incorporated into the 2003 budget.



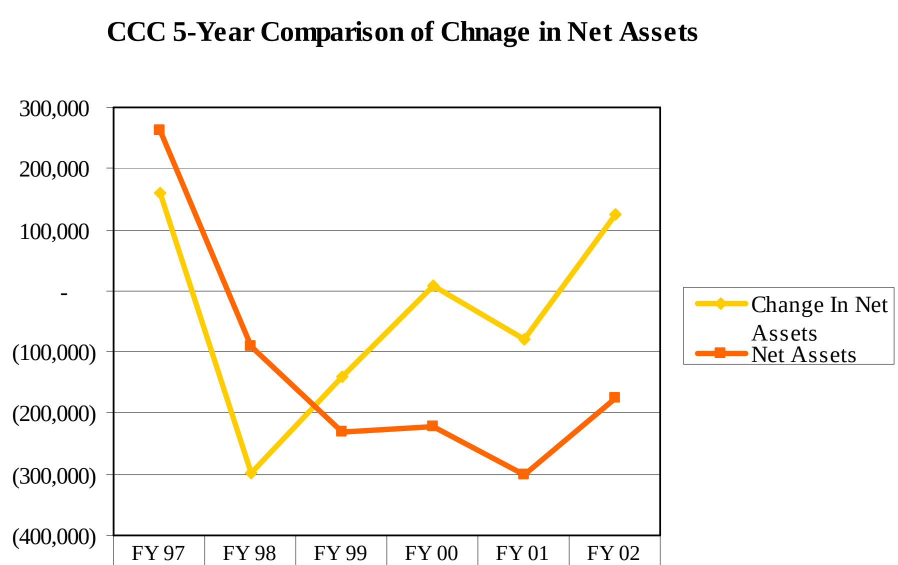
Given the expected evolution of the organization's business plans, the Board anticipates reviewing and modifying the budget on up to a quarterly basis.

Balance Sheet Discussion

The unaudited 2002 financials reflect the organization’s balance sheet position improving with a 45% positive change in the net assets, although it is still in a deficiency position. The current ratio is still below 1.0, which is problematic for an organization seeking financing.

Accounts payable were reduced by 26% through a combination of paying down vendors and making specific accounting adjustments. At the end of 2002, accounts payable were extended to 170 days, which while a significant improvement over the 211 days at the end of 2001, still represents a tremendous challenge. The optimal strategy would be to obtain longer term financing to pay off the past due vendors and amortize the payments over a longer period.

The graph below illustrates both the organization’s financial struggles over the past several years and the improvements made in 2002. In 1998 the organization fell into a negative net asset position, which bottomed out at a $302,000 deficiency at the end of 2001. The CCC’s position has improved to a Net Asset deficiency of $177,000 in 2002.



	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
Change In Net Assets	160,500	(298,680)	(140,823)	8,690	(79,925)	124,912
Net Assets	262,685	(89,684)	(230,507)	(221,817)	(301,741)	(176,830)

Management Indicators	FY 2002	FY 2001	Variance (%)
Total Net Assets	204,000	279,320	-27%
(Total Assets-Total Liabilities, i.e., net worth of Agency)			
Total Accounts Receivable	142,125	193,355	-26%
Rental Income	52,172	68,933	-24%
Commercial Rents	61,137	32,026	91%
Grants	28,816	92,397	-69%
Total Accounts Payable	573,791	773,951	-26%
Vendor Payables & Accrued Expenses	494,895	743,291	-33%
Payroll Accural	78,896	30,660	157%
Rent Roll in December	72,230	66,625	8%