

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Social Science Services, Inc. ("SSS") 18612 Santa Ana Avenue Bloomington, CA 92316</p> <p>Projects Sites: 18613 Santa Ana Avenue, Bloomington, California, San Bernardino County</p> <p>Facilities Type: Transitional Sober Living Facility</p> <p>Prior HELP II Borrower: No</p>	<p>Amount Requested: \$722,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: December 6, 2007</p> <p>Resolution Number: HII-211</p>																
<p>Background: SSS was incorporated in 1973 for the purpose of improving the lives of those suffering from drugs and /or alcohol abuse by providing evidence-based, high quality therapeutic clinical treatment services, while educating and engaging the community through open communication and outreach activities.</p>																	
<p>Uses of Loan Proceeds: Loan proceeds will be used for the acquisition of a (3) three bedroom and (1) one bath home residing on a 4.4-acre parcel of land located directly across from the current facility. The acquisition will allow SSS future expansion of current programs services. SSS intends to utilize the newly remodeled house as a Transitional Living Facility for recent graduates from its drug and alcohol treatment program.</p>																	
<p><u>Financing Structure</u></p> <ul style="list-style-type: none"> • 15-year loan. • 180 equal monthly payments of approximately \$4,986 (yearly payments of approximately \$59,832). • First Lien on gross revenues. • First lien position on the property located 18613 Santa Ana Avenue, Bloomington, California, 92316. • Loan to value ratio not to exceed 95%. • Satisfactory appraisal on the aforementioned property. 																	
<p>Financial Overview: SSS continues to exhibit positive net income during the review period. SSS's balance sheet is sound with \$2.2 million in total net assets. The proforma DSC ratio for the proposed HELP II loan will be 1.24X.</p>																	
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Sources of Funds</u></th> <th></th> <th style="text-align: left;"><u>Uses of Funds</u></th> <th></th> </tr> </thead> <tbody> <tr> <td>HELP II Loan</td> <td style="text-align: right;">\$722,000</td> <td>Purchase Real Property</td> <td style="text-align: right;">\$760,000</td> </tr> <tr> <td>Borrower Funds</td> <td style="text-align: right;"><u>53,000</u></td> <td>Loan/Title Fees</td> <td style="text-align: right;"><u>15,000</u></td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;"><u>\$775,000</u></td> <td>Total Uses</td> <td style="text-align: right;"><u>\$775,000</u></td> </tr> </tbody> </table>		<u>Sources of Funds</u>		<u>Uses of Funds</u>		HELP II Loan	\$722,000	Purchase Real Property	\$760,000	Borrower Funds	<u>53,000</u>	Loan/Title Fees	<u>15,000</u>	Total Sources	<u>\$775,000</u>	Total Uses	<u>\$775,000</u>
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<p>Legal Review: Per legal counsel, the borrower disclosed a pending lawsuit, but this lawsuit does not rise to the level of a financial or legal concern for purposes of the Authority's consideration.</p>																	
<p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II loan for Social Science Services, Inc. in an amount not to exceed \$722,000 for a term not to exceed 15 years. This loan is contingent upon financing terms acceptable to the Authority.</p>																	

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

December 6, 2007

Social Science Services, Inc. ("SSS")

Resolution Number: HII-211

I. PURPOSE OF FINANCING

Acquire a newly remodeled home on a 4.4 acre parcel of land **\$ 760,000**

The proposed loan will be secured by real property located at 18613 Santa Ana Avenue, Bloomington, California 92316. This parcel is ideally located across the street from SSS's drug and alcohol program located at 18612 Santa Ana Avenue. This parcel is already zoned for multiple residences and for healthcare construction, thus zoning approval is not necessary. Pre-zoned lands for healthcare usage are becoming rather scarce in the facility's area. This strategic purchase provides SSS with the opportunity to purchase the parcel at \$4.00 per square foot, while management believes that raw land in the area is selling in the range of \$7 to \$11 per square foot and would require rezoning.

The property contains a newly remodeled (3) three bedroom (1) one-bathroom home. As future funding allows, SSS plans to add more housing units and/or treatment facilities. SSS expects this home to provide services to six additional clients and provide SSS with additional net monthly income of \$6,300 or \$75,000 per year. SSS expects the new home to operate without hiring additional staff, as existing staffing can be used to provide services to these clients.

SSS estimates the current market value of the property to be \$775,000. CHFFA will require a full property appraisal prior to closing.

Financing Costs **15,000**

Authority Closing Fee \$9,200

Title & Escrow 5,800

Total Uses of Funds **\$ 775,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

Social Science Services, Inc.

Statement of Activities

(Unrestricted)

	For the Year Ended June 30,		
	2007	2006	2005
Public support & revenues:			
Public support:			
Government & other grants:			
Substance rehabilitation services	\$ 601,781	\$ 2,390,850	\$ 2,814,935
Federal pass-through grants	2,263,129	-	-
Contributions	56,514	37,113	43,153
Total public support	<u>2,921,424</u>	<u>2,427,963</u>	<u>2,858,088</u>
Revenues:			
Private pay	282,944	677,038	31,341
Rental revenue	41,219	202,956	223,090
Interest revenue	54,440	10,252	573
Net assets released from restrictions:			
Satisfaction of program requirements	148,826	106,298	131,514
Gain on disposal of real estate	401,248	682,962	84,268
Miscellaneous	45,009	24,239	2,997
	<u>973,686</u>	<u>1,703,745</u>	<u>473,783</u>
Total public support and revenues	<u>3,895,110</u>	<u>4,131,708</u>	<u>3,331,871</u>
Expenses			
Salaries	1,950,316	1,660,353	1,530,509
Payroll taxes	368,057	185,593	141,661
Occupancy	234,591	145,591	153,720
Food	222,646	239,365	230,171
Depreciation	117,682	114,373	109,710
Clients activities & services	104,887	95,712	65,310
Interest	103,113	149,602	142,958
Supplies	102,231	109,111	95,547
Employee benefits	77,475	189,537	122,156
Travel & seminars	39,258	34,491	42,463
Insurance	57,313	64,963	62,699
Maintenance	51,996	22,673	66,697
Administration	39,228	80,792	27,228
Vehicle	33,801	25,060	21,788
Telephone	31,917	27,879	33,750
Contract labor	22,911	28,506	20,201
Medical, exams & drugs	18,545	35,030	12,730
Professional fees	16,314	25,955	15,770
Dues & fees	14,303	18,006	15,310
Others	18,156	26,224	37,894
Total expenses	<u>3,624,740</u>	<u>3,278,816</u>	<u>2,948,272</u>
Changes in unrestricted net assets	270,370	852,892	383,599
Unrestricted net assets, beginning of the period	1,876,635	1,023,743	640,144
Unrestricted net assets, end of period	<u>\$ 2,147,005</u>	<u>\$ 1,876,635</u>	<u>\$ 1,023,743</u>

Social Science Services, Inc.
Financial Position

	As of June 30,		
	2007	2006	2005
Assets:			
Current assets:			
Cash	\$ 1,024,796	\$ 1,276,783	\$ 598,426
Account receivables	647,758	308,193	305,372
Restricted deposits with bond trustee	138,638	138,638	127,239
Prepaid expenses	14,270	22,552	4,054
Total current assets:	<u>1,825,462</u>	<u>1,746,166</u>	<u>1,035,091</u>
Land, building and equipment	2,677,269	2,628,190	2,838,980
Less accumulated depreciation	(833,119)	(743,517)	(688,408)
	<u>1,844,150</u>	<u>1,884,673</u>	<u>2,150,572</u>
Other assets:			
Restricted deposits with bond trustee	253,555	258,547	171,874
Note receivable	52,256	-	-
Deposits	6,083	54,475	1,475
Bond issues costs	57,376	57,376	57,376
Less accumulated amortization - bond issue costs	(20,455)	(17,577)	(14,699)
	<u>348,815</u>	<u>352,821</u>	<u>216,026</u>
Total Assets	<u>\$ 4,018,427</u>	<u>\$ 3,983,660</u>	<u>\$ 3,401,689</u>
Liabilities and Net Assets:			
Current liabilities:			
Accounts payable	\$ -	\$ 47,915	\$ 9,268
Accrued expenses	215,118	74,813	79,920
Current portion of notes & bond payable	183,372	83,888	89,530
Total current liabilities	<u>398,490</u>	<u>206,616</u>	<u>178,718</u>
Long-term liabilities:			
Notes payable, less current portion	-	365,806	589,040
Bonds payable, less current portion	1,417,083	1,495,000	1,570,000
Total long-term liabilities	<u>1,417,083</u>	<u>1,860,806</u>	<u>2,159,040</u>
Net assets:			
Unrestricted	2,147,005	1,876,635	1,023,743
Temporarily restricted	55,849	39,603	40,188
Total net assets	<u>2,202,854</u>	<u>1,916,238</u>	<u>1,063,931</u>
Total liabilities and net assets	<u>\$ 4,018,427</u>	<u>\$ 3,983,660</u>	<u>\$ 3,401,689</u>

Financial Ratios:

	Proforma (a)			
	FYE June, 2007			
Debt service coverage (x)	1.24	1.64	4.67	1.93
Debt/Unrestricted Net Assets (x)	1.04	0.75	1.04	2.20
Margin (%)		6.94	20.64	11.51
Current Ratio (x)		4.58	8.45	5.79

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

Financial Discussion

SSS continues to exhibit positive net income during the review period.

FY 2007 Income Statement

SSS posted net income of \$270,000, including a one-time non-operating gain on the disposal of real estate of \$401,000, resulting in net operating income of (\$131,000). However, taking into account one-time expenses and accounting adjustments totaling approximately \$216,000 (refer to expense discussion below), net operating income was \$85,000.

Revenues:

SSS continues to exhibit positive revenue growth from government grants over the three-year review period. Revenues are diverse, and include State and Federal government grants and public contributions, constituting 89% of income; the remaining 11% of income stems mainly from private pay, rental income and interest revenue. Private pay decreased by approximately \$395,000 due to contracting additional bed days to the County. Federal and State grants increased by nearly \$500,000, due to signing a contract for the Dual Diagnosis Program. In addition, a decrease of \$161,737 or 80% in rental revenue was due to abandonment of the Sober Living Facility and operations (Pumalo facility).

Expenses:

Expenses totaled \$3,625,000, increasing nearly \$346,000 or 11%. This increase is attributed primarily to the following factors: first, the one-time adjustment for retroactive employees vacation allowance to adhere to GAAP principles in the amount of \$126,000; second, the Sober Living Facility was sold during May 2006 and leased back by SSS until May 2007. SSS incurred extremely high building maintenance and repair costs of approximately \$90,000, which are reflected in Occupancy Costs on the income statement; third, higher staffing costs due to hiring three new case managers for the Sober Living Facility.

SSS's balance sheet is sound with \$2.2 million in total net assets.

FY 2007 Balance Sheet

Total assets continue to increase over the three-year review period, totaling slightly more than \$4 million. SSS exhibits good liquidity with more than \$1 million in cash for the past two fiscal years due to the recent sale of property. Accounts receivable increased dramatically in FY 2007 (due to a payment by the San Bernardino County of the outstanding claims after the end of the fiscal year,) but this adjustment will only be reflected in FY 2008. Notes receivable increased by \$52,256 due to a prior escrow deposit in FY 2006, which was converted into a note receivable in FY 2007.

In general, the balance sheet remains strong. In FY 2007, total net assets were \$2.2 million and increase of \$287,000 or nearly 15% from the prior fiscal year. The debt service coverage ratio is adequate at 1.64X. The proforma debt service ratio coverage remains solid at 1.24X, indicating that SSS should be able to make loan repayment on the proposed HELP II loan.

III. UTILIZATION STATISTICS

**Clients Admitted / (Bed Days*)
Fiscal Year Ended June 30**

	2005	2006	2007
Totals	1,406 / (42,354)	1,292 / (41,151)	1,384 / (41,004)

* As a residential facility, SSS uses bed days for county contracts and billing. A bed day is delivered when a client is admitted and assigned to a bed.

IV. OUTSTANDING DEBT

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding as of 6/30/2007*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
US Bank (30-year Bond), 1990	\$ 2,150,000	\$ 1,497,083	\$ 1,497,083
Citizens Business Bank, 2007	104,308	103,316	103,316
Proposed:			
CHFFA HELP II, 2007			722,000
Total		<u>\$ 1,600,399</u>	<u>\$ 2,322,399</u>

* Includes current portion of long-term debt.

V. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Savings Pass Through: (Borrower) has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): SSS has executed this certification indicating that Medi-Cal and Medicare patients are accepted. It should be noted, however, that because the vast majority of SSS's services are not reimbursable by Medi-Cal or Medicare, SSS would provide services to the Medi-Cal and Medicare patients to the extent these services are covered by Medi-Cal and Medicare. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review: Per legal counsel, the borrower disclosed a pending lawsuit, but this lawsuit does not rise to the level of a financial or legal concern for purposes of the Authority's consideration.

VI. STAFF RECOMMENDATION

Staff recommends the Authority approve a resolution for a HELP II loan for Social Science Services, Inc. in an amount not to exceed \$722,000 for a term not to exceed 15 years. This loan is contingent upon financing terms acceptable to the Authority.