

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

Applicant:	Progress House, Inc. (PH) 2914 Cold Springs Road Placerville, CA 95667	Amount Requested:	\$560,300
		Requested Loan Term:	15 years
		Date Requested:	December 6, 2007
		Resolution Number:	HII-209
Project Site:	838 Beach Court Road, Coloma, CA 95613 (El Dorado County)		
Background:	PH is a licensed, nonprofit chemical dependency treatment and rehabilitation organization that was established in 1973. The mission of PH is to provide quality comprehensive services for chemically dependent persons, families, and communities through education, therapy, and rehabilitation.		
Uses of Loan Proceeds:	The proceeds will be used to pay in full three (3) loans (two of which are lines of credit (LOC)) and to provide funds to renovate one of its residential facilities.		
Current HELP II Borrower:	Yes (Total Current and Proposed HELP II Amount: \$724,593)		
Payments Status:	Current (Loan balance is \$164,593 as of November 2, 2007.)		
Financial Overview:	PH appears to demonstrate a pattern of financial stability, modest profitability and significant growth in fiscal years 2005 through 2007, due primarily to opening new facilities in Nevada City and Woodland. PH maintains a solid balance sheet with good liquidity and will unlikely have difficulty repaying the HELP II loan. With the new loan, cash flow improves by \$600 per month and at the same time will pay both interest and principal contrary to the existing LOCs which are interest only payments. The proposed debt service coverage ratio is 1.22.		
<u>Financing structure and terms:</u>	<ul style="list-style-type: none"> • 15-year fully amortized loan in the amount of \$560,300. • 180 equal monthly payments of approximately \$3,869 (annual payments of approximately \$46,432.) • Gross revenue pledge. • Second lien on property located at 838 Beach Court Road, Coloma CA 95613 (Currently, PH has a lien on the property. That mortgage matures on May 31, 2008. Once the loan is paid in full, CHFFA's Deed of Trust will move into the first position.) • Proposed combined loan to value is 72% based on an estimated value of \$800K. 		
<u>Sources of Funds</u>		<u>Uses of Funds</u>	
HELP II Loan	\$560,300	Renovation	\$108,413
Borrower Funds	5,578	Refinancing	448,461
		Closing Costs	9,004
Total Sources	<u>\$565,878</u>	Total Uses	<u>\$565,878</u>
Legal Review:	No information was disclosed to question the financial viability or legal integrity of the Applicant.		
Staff Recommendation:	Staff recommends the Authority approve a resolution for a HELP II loan for Progress House, Inc. in an amount not to exceed \$560,300 for a term not to exceed 15 years, and financing terms acceptable to the Authority.		

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

December 6, 2007
Progress House, Inc. (PH)
Resolution Number: HII-209

I. PURPOSE OF FINANCING

Refinance and renovate **\$ 551,296**

PH intends to pay off a mortgage which was used to buy the facility in 1981. The approximate balance is \$39,844 at 6%. PH also intends to pay off two LOCs. The approximate balance for one is \$348,617 at 9.5% and the other balance is at \$60,000 with an interest rate of 11.73%.

The renovations to the Coloma property will include, but not be limited to, installing central heating and air, dry rot repair, electrical upgrade, remodeling the handicap bathroom, and paving the driveway.

Authority Fee/Closing Costs **9,004**

Total Uses of Funds **\$ 565,878**

II. FINANCIAL STATEMENTS AND ANALYSIS

Progress House, Inc. Statement of Activities

	<u>For the year ended June 30</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>REVENUE</u>			
Grants and awards	\$ 2,274,122	\$ 1,886,789	\$ 1,650,049
Program Income	576,505	677,236	727,216
Rent Income	80,180	85,007	52,919
Fundraising (net)	5,499	17,167	19,194
Donations In-Kind Support	365,306	298,249	230,323
Contributions	11,099	4,392	7,061
Other revenue	10,751	(56,167)	5,889
Total support and revenue	<u>3,323,462</u>	<u>2,912,673</u>	<u>2,692,651</u>
<u>EXPENSES</u>			
Salaries and related expenses	1,654,852	1,211,787	1,138,047
In-kind services	365,306	276,007	229,692
Accounting	30,833	17,482	30,960
Food and supplies	167,998	164,278	178,462
Communications	62,807	37,989	32,026
Occupancy	116,804	297,931	256,146
Equipment rental/repairs	128,475	45,448	43,154
Transportation	46,612	42,866	27,910
Training	2,674	8,397	3,775
Interest	78,465	28,978	15,341
Insurance	43,874	37,822	35,103
Professional services	20,082	69,178	65,561
Dues and subscriptions	4,417	443	302
Taxes and licenses	11,632	9,640	5,293
Depreciation and amortization	80,822	49,762	35,391
Utilities	168,043	-	-
Office expense	45,116	-	-
Meeting and material expense	39,132	-	-
Miscellaneous	187,296	4,698	17,375
Mgt. Allocation	-	434,736	389,594
Total expenses	<u>3,255,240</u>	<u>2,737,442</u>	<u>2,504,132</u>
Income(Loss) from operations	68,222	175,231	188,519
Other income	<u>500</u>	<u>-</u>	<u>-</u>
Revenues over/(under) expenditures	68,722	175,231	188,519
Net assets, beginning of year	<u>640,999</u>	<u>465,768</u>	<u>277,249</u>
Prior period adjustment	(1,226)		
Net assets, beginning of year (restated)	639,773		
Net assets end of year	<u>\$ 708,495</u>	<u>\$ 816,230</u>	<u>\$ 654,287</u>

Progress House, Inc.
Statement of Financial Position

	As of June 30		
	2007*	2006	2005
<u>Assets</u>			
Cash and cash equivalent	\$ 37,166	\$ 154,314	\$ 172,862
Accounts receivable	564,914	337,111	301,660
Prepaid expenses	45,114	23,270	39,058
Other Assets	9,534	-	-
Total Current Assets	656,728	514,695	513,580
Property and equipment - net	1,398,006	1,304,817	1,026,946
Deposits	4,750	4,749	2,551
Total Assets	2,059,484	1,824,261	1,543,077
<u>Liabilities & Net Assets</u>			
Accounts payable	\$ 138,523	\$ 46,243	\$ 51,830
Accrued expenses	107,307	74,206	87,373
Current portion of long-term debt	117,739	103,293	47,509
Line of Credit	193,618	115,118	118,626
Total Current Liabilities	557,187	338,860	305,338
Long-term Liabilities	793,802	844,402	771,971
Total Liabilities	1,350,989	1,183,262	1,077,309
Unrestricted Net Assets	708,495	640,999	465,768
Total Net Assets	708,495	640,999	465,768
Total Liabilities & Net Assets	\$ 2,059,484	\$ 1,824,261	\$ 1,543,077

Financial Ratios:

	Proforma (a)			
Debt Service Coverage (x)	1.22	1.70	1.93	3.34
Debt/Unrestricted Net Assets (x)	2.07	1.18	1.48	2.01
Margin (%)		2.05	6.02	7.00
Current Ratio (x)		1.18	1.48	0.94

* 2007 audit was performed by a different accounting firm.

Financial Discussion – Income Statement

PH has demonstrated a pattern of financial stability, modest profitability and significant growth in fiscal years 2005 through 2007, due primarily to opening new facilities in Nevada City and Woodland.

FY 2007 total revenues increased by 14% as compared to FY 2006 and increased by 23% as compared to FY 2005. This increase is primarily due to having new contracts with the counties of Nevada and Yolo. Although total expenses increased by 30% over the past two years due to the expansion of programs, PH has negotiated increased prices in its contracts beginning July 1, 2007. Also, the Drug Medi-Cal rates have increased. These rate increases will likely result in increased revenues for FY 2008.

Financial Discussion – Balance Sheet

PH maintains a solid balance sheet with good liquidity and should have no difficulty repaying the HELP II loan.

FY 2007 unrestricted net assets increased by 11% as compared to FY 2006 and increased by 52% as compared to FY 2005. The FY 2007 current ratio is 1.18. This is expected to improve when the LOCs are paid in full.

In FY 2006 and 2007, PH increased its liabilities significantly by purchasing two properties and three vehicles. Though the accounts receivable (AR) increased by about \$225K in FY 2007 due to significant reimbursement delays from two counties, PH expects reimbursement to occur within short order.

If PH did not have these extraordinary AR issues in FY 2007, PH believes that it would not have had a decrease in its cash balance, but instead cash would have increased.

III. OUTSTANDING DEBT

	Original Amount	Amount Outstanding* As of June 30, 2007	Estimated Amount Outstanding after Proposed Financing
Existing Notes:			
CHFFA HELP II	\$375,250	\$175,411	\$175,411
River City Bank LOC**	150,000	133,618*	0
Bank of America LOC**	60,000	60,000	0
Maureen Nobel (seller financed)	180,000	41,591	0
River City Bank	100,000	22,308	22,308
River City Bank	228,000	197,393	197,393
Rural Community Assistance Corporation	398,455	396,037	396,037
River City Bank (5 car loans – aggregate)	107,183	78,793	78,793
Capital Leases		13,119	13,119
Proposed			
CHFFA HELP II, 2007		N/A	560,300
TOTAL DEBT		\$1,118,270	\$1,443,361

*The LOC was increased to \$350,000 in September 2007

** Both LOCs will be paid in full and will be closed as a condition of the closing.

IV. DUE DILIGENCE:

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

- Savings Pass Through: Progress House has provided a description of its savings pass through in **Exhibit A.**
- Community Service Requirement: Progress House has certified that the services of the Facility will be made available to all persons residing or employed in the area served in **Exhibit B.**
- Religious Due Diligence
- Legal Review

V. STAFF RECOMMENDATION

Staff recommends the Authority approve a resolution for a HELP II loan for Progress House, Inc. in an amount not to exceed \$560,300 for a term not to exceed 15 years, and financing terms acceptable to the Authority.