



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

**I. PURPOSE OF FINANCING**

NCSH is proposing to use the proceeds from the proposed 15-year term HELP II loan to refinance and consolidate seven smaller loans (as set forth in more detail below), which will result in an annual interest savings of \$31,616 (\$474,237 over the life of the loan). The proposed HELP II loan will be secured by the properties located at 812 East Second Avenue and 130 South Fig Street, both in Escondido, cumulatively valued at \$850,000, leading to a satisfactory loan to value ratio of 88%. In addition, Cal-Mortgage has agreed to subordinate its bond lien on the property located at 812 East Second Avenue into the 2<sup>nd</sup> lien position. CHFFA will require full appraisal reports on the above properties prior to closing.

***Pacific Western Bank, #1* ..... \$ 350,713**

This loan bears a 9.25% interest rate with a monthly payment of \$3,104 (\$37,248 annual payment). Refinancing this loan will result in an interest savings of \$213,759 over the life of the loan. The loan is currently secured by real property (Serenity Village) located at 619-645 East Second Avenue, Escondido, CA. This loan originally refinanced a California Bank & Trust loan that was used to purchase land for the Serenity Village project.

***Pacific Western Bank, #2* ..... 146,164**

This loan bears a 9.25% interest rate with a monthly payment of \$1,305 (\$15,660 annual payment). Refinancing this loan will result in an interest savings of \$89,087 over the life of the loan. The loan is currently secured by real property located at 812 East Second Avenue, Escondido, CA. This loan was originally used for the construction of the Serenity Village Property.

***Pacific Western Bank, Line of Credit, #3* ..... 88,379**

This loan bears a 9.25% interest rate with a monthly payment of \$467 (\$5,604 annual payment). Refinancing this loan will result in an interest savings of \$53,867 over the life of the loan. The loan is currently secured by real property located at 812 East Second Avenue, Escondido, CA. This loan was originally used for the construction of the Serenity Village Property.

***Francine Anzalone-Byrd (private loan)* ..... 58,000**

This loan bears an 8.99% interest rate with a monthly payment of \$394 (\$4,728 annual payment). Refinancing this loan will result in an interest savings of \$33,730 over the life of the loan. This loan was originally used as a bridge loan to cover additional construction expenses of Serenity Village.

|  |                         |
|--|-------------------------|
| <b>Connie Dahl (private loan)</b> .....  | <b>50,000</b>           |
| <p>This is a private party interest-only loan, bearing an 8.50% interest rate with a monthly payment of \$354 (\$4,248 annual payment). The loan is secured by inventory and cash receivables. Refinancing this loan will result in an interest savings of \$51,598 over the life of the loan. This loan was originally used as a bridge loan to acquire NCSH's property, located at 1341 N. Escondido Boulevard, Escondido, CA 92026.</p> |                         |
| <b>California Bank &amp; Trust, Line of Credit</b> .....   | <b>35,642</b>           |
| <p>This loan bears a 7.50% interest rate with a monthly payment of \$1,502 (\$18,204 annual payment). The loan is secured by inventory and cash receivables. Refinancing this loan will result in an interest savings of \$15,168 over the life of the loan. This loan was originally used for the construction of Serenity Village.</p>   |                         |
| <b>Norman Wieme (private loan)</b> .....   | <b>21,102</b>           |
| <p>This is an on-demand, interest-only, unsecured loan, bearing a 7% interest rate with a monthly payment of \$139 (\$1,668 annual payment). Refinancing this loan will result in an interest savings of \$17,028 over the life of the loan. This loan was originally used for NCSH's construction project at 1341 N. Escondido Boulevard, Escondido, CA 92026.</p>  |                         |
| <b>Financing Costs – Authority Loan Fee/Title/Escrow Fees</b> .....  | <b><u>15,000</u></b>    |
| <b>Total Uses of Funds</b> .....   | <b><u>\$765,000</u></b> |

**[Intentionally left blank]**

## II. FINANCIAL STATEMENTS AND ANALYSIS

### North County Serenity House, Inc.

#### Statement of Activities

Unrestricted

|  | For the Year Ended December 31, |                    |                    |
|--|---------------------------------|--------------------|--------------------|
|  | 2007                            | 2006               | 2005               |
| <b>Revenue and support:</b>              |                                 |                    |                    |
| Grants and contracts                     | \$3,917,932                     | \$4,553,807        | \$4,256,804        |
| Fees                                     | 352,179                         | 189,564            | 163,416            |
| Contributions                            | 546,608                         | 89,511             | 114,585            |
| Special events                           | 53,263                          | 65,289             | 80,314             |
| Interest                                 | 33,338                          | 21,565             | 12,613             |
| Other                                    | 4,072                           | 14,792             | 11,521             |
| Other income--sale of property           | 0                               | 261,782            | 0                  |
| Total revenue and support                | <u>\$4,907,392</u>              | <u>\$5,196,310</u> | <u>\$4,639,253</u> |
| <b>Expenses:</b>                         |                                 |                    |                    |
| Salaries and wages                       | \$2,230,448                     | \$2,654,190        | \$2,332,170        |
| Payroll taxes and fringe benefits        | 662,531                         | 831,621            | 585,943            |
| Utilities                                | 198,569                         | 198,037            | 176,189            |
| Legal and professional                   | 225,030                         | 237,652            | 167,104            |
| Rent                                     | 76,506                          | 61,740             | 60,138             |
| Depreciation and amortization            | 154,037                         | 301,898            | 185,768            |
| Fundraising expenses                     | 25,664                          | 26,315             | 28,789             |
| Interest expense                         | 359,319                         | 343,489            | 364,657            |
| Repairs and maintenance                  | 43,501                          | 71,944             | 50,000             |
| Food, health and comfort                 | 118,521                         | 166,498            | 165,094            |
| Insurance                                | 64,768                          | 57,958             | 89,161             |
| Education and training                   | 6,210                           | 30,200             | 33,165             |
| Office Supplies                          | 70,703                          | 150,472            | 146,586            |
| Program expenses                         | 36,548                          | 29,826             | 24,434             |
| Automobile and travel                    | 22,677                          | 32,768             | 46,489             |
| Equipment rental                         | 54,035                          | 49,308             | 45,901             |
| Equipment purchase                       | 2,281                           | 35,016             | 24,016             |
| Licenses, taxes and fees                 | 36,437                          | 17,760             | 38,487             |
| Total expenses                           | <u>4,387,785</u>                | <u>5,296,692</u>   | <u>4,564,091</u>   |
| Prior period adjustments                 | <u>0</u>                        | <u>79,802</u>      | <u>55,684</u>      |
| <b>Change in unrestricted net assets</b> | <b>519,607</b>                  | <b>(180,184)</b>   | <b>19,478</b>      |
| Net assets, beginning of year            | <u>867,603</u>                  | <u>1,047,787</u>   | <u>1,028,309</u>   |
| Net assets, end of year                  | <u>\$1,387,210</u>              | <u>\$867,603</u>   | <u>\$1,047,787</u> |

**North County Serenity House, Inc.**

**Financial Position**

|  | As of December 31, |                    |                    |
|--|--------------------|--------------------|--------------------|
|  | <u>2007</u>        | <u>2006</u>        | <u>2005</u>        |
| <b>Assets:</b>                                   |                    |                    |                    |
| Current assets                                   |                    |                    |                    |
| Cash and cash equivalents                        | \$295,406          | \$272,740          | \$355,507          |
| Investments                                      | 1,683              | 1,672              | 2,234              |
| Grants and contracts receivable                  | 263,386            | 248,506            | 347,604            |
| Prepaid expenses                                 | 12,112             | 11,779             | 19,282             |
| Restricted Cash                                  | 373,607            | 375,517            | 695,666            |
| Total Current Assets                             | <u>946,194</u>     | <u>910,214</u>     | <u>1,420,292</u>   |
| Other assets:                                    |                    |                    |                    |
| Restricted cash                                  | 422,506            | 422,507            | 659,160            |
| Property and equipment, net                      | 7,532,253          | 6,186,439          | 6,205,125          |
| Financing Costs                                  | 462,015            | 484,335            | 506,656            |
| Goodwill   | 0                  | 0                  | 147,022            |
|  | <u>8,416,774</u>   | <u>7,093,281</u>   | <u>7,517,963</u>   |
| Total assets                                     | <u>\$9,362,968</u> | <u>\$8,003,495</u> | <u>\$8,938,255</u> |
| <b>Liabilities and net assets:</b>               |                    |                    |                    |
| Current liabilities:                             |                    |                    |                    |
| Accounts payable                                 | \$144,778          | \$183,410          | \$161,264          |
| Interest payable                                 | 133,317            | 139,772            | 174,028            |
| Accrued liabilities                              | 112,410            | 138,314            | 151,869            |
| Lines of credit                                  | 390,848            | 325,082            | 269,208            |
| Current maturities of notes payable and LOC      | 155,212            | 154,767            | 207,066            |
| Current maturities of bonds payable              | 155,000            | 150,000            | 140,000            |
| Total current liabilities                        | <u>1,091,565</u>   | <u>1,091,344</u>   | <u>1,103,434</u>   |
| Notes payable and LOC, net of current maturities | 1,285,045          | 483,519            | 884,256            |
| Bonds payable, net of current maturities         | 4,999,150          | 5,150,964          | 5,302,778          |
| Forgivable notes payable                         | 600,000            | 410,065            | 600,000            |
| Total liabilities                                | <u>7,975,760</u>   | <u>7,135,892</u>   | <u>7,890,468</u>   |
| Unrestricted net assets                          | <u>1,387,208</u>   | <u>867,603</u>     | <u>1,047,787</u>   |
| Total liabilities and unrestricted net assets    | <u>\$9,362,968</u> | <u>\$8,003,495</u> | <u>\$8,938,255</u> |

**Financial Ratios:**

**Proforma (a)  
FYE June, 2007**

|                                  |      |      |        |       |
|----------------------------------|------|------|--------|-------|
| Debt service coverage (x)        | 2.05 | 1.44 | 0.32   | 0.87  |
| Debt/Unrestricted Net Assets (x) | 3.42 | 3.07 | 3.16   | 6.38  |
| Margin (%)                       |      | 1.62 | (1.93) | 10.59 |
| Current Ratio (x)                |      | 0.87 | 0.83   | 1.29  |

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

## **Financial Discussion – Income Statement**

**In 2007, NCSH posted an approximate \$520,000 increase in unrestricted net assets, which appears to signal financial recovery from the previous two fiscal years.**

As part of a multi-year expansion plan beginning in 2001, NCSH embarked on the “Serenity Village Project” to purchase three houses on a parcel of land with the intention of demolishing these houses and replacing them with six houses to use as transitional housing for recovering females with drug and alcohol dependencies. During 2003, construction prices unexpectedly soared, leading to a significant budgetary gap in the finances needed to complete the project. NCSH’s management team reacted by borrowing additional funds, which ultimately significantly burdened NCSH’s finances and called into question whether the project remained viable and cost-efficient.

In response to the above issues, in 2006 the NCSH board installed a new management team to rescue the Serenity Village Project and to streamline the organization’s finances. New management began remedying the situation on several fronts. They adjusted the blue print of the Serenity Village Project, fitting eight (8) houses on the same piece of land, thus making the project more cost-efficient and profitable. New management also initiated an aggressive fundraising campaign that raised \$546,000 (a 500% increase from the previous fiscal year and the highest in NCSH’s 41 years of existence.) The new management team also implemented extreme measures to cut expenses, resulting in a significant 17% decline from \$5.3 million in FY 2006 to \$4.4 million in FY 2007. These measures included laying off non-essential staff, reducing employees’ salaries by 5%, and the Executive Director voluntarily accepting a 20% salary reduction. Notably, during this time, no employees resigned and salaries were reinstated to normal levels in 2008.

During FY 2007, vast improvements in operations were observed as a result of the above measures. Although revenues were slightly less than the prior year, expenses were cut significantly and the successful implementation of the above-mentioned aggressive fundraising campaign resulted in a \$519,607 increase in unrestricted net assets. Current NCSH management projects FY 2008 to generate gross revenue in excess of \$5.2 million, the highest in the history of organization. Sensing the change in NCSH, and in recognition for its services, the city of Escondido named NCSH the “Community Organization of the Year.”

### **Particular Facts to Note During FY 2007**

- Grants and contracts decreased by almost 14% due to closing some unprofitable programs, yet that also resulted in major savings in expenses.
- Fee revenue increased by 86% due to improved collections as a result of better staff training.

- The auditors imposed a goodwill impairment charge of \$147,022 for the acquisition of a childcare center business, as it was capitalized at cost. The goodwill was associated with the client base of children upon purchase. This was fully amortized at the end of June 30, 2006 since the client base of children had no future benefit.

### **Financial Discussion – Balance Sheet**

**NCSH's balance sheet reflects adequate liquidity and debt service coverage tending to show NCSH should be able to comfortably repay the proposed HELP II loan.**

NCSH's total assets increased by \$1.4 million in FY 2007 to nearly \$9.4 million, mostly due to the completion of Serenity Village Project. In tandem, the liabilities also increased by \$839,868 to near \$8 million, of which \$1.5 million is entirely forgivable and requires no monthly payment. In addition, a \$525,000 loan from County of San Diego requires no payment for 55 years, as long as certain requirements are met by NCSH, which management indicates that it intends to meet.

NCSH is highly leveraged, with a debt to unrestricted net assets ratio of 3.07x. Based on the FY 2007 financial statement, NCSH had debt service coverage ratio of 1.44x, indicating its capability to repay its debts. The proforma debt service ratio improves to 2.04x due to the lower rate on the proposed HELP II loan, further improving the organization's operations..

### **Particular Facts to Note During FY 2007**

- Net assets increased sharply to nearly \$1.4 million from \$867,603 in the previous year.

**[Intentionally left blank]**

### III. UTILIZATION STATISTICS

**Clients Admitted / (Patient Visits)  
Fiscal Year Ended June 30**

|               | <b>2005</b>    | <b>2006</b>    | <b>2007</b>    | <b>Six month ended<br/>December 31,<br/>2007</b> |
|---------------|----------------|----------------|----------------|--|
| <b>Totals</b> | 645 / (86,195) | 720 / (89,845) | 843 / (93,495) | 434 / (49,193)                                   |

### IV. ORGANIZATION

#### Background

NCSH was incorporated in 1966 to create the first non-profit organization in the area devoted exclusively to the rehabilitation of female alcoholics. All clients initially were served through a small on-site residential program. In the 1980s, drug abuse was added to program services as the population in need of these services grew. In 1990, a comprehensive non-residential program, Serenity Too was launched to serve women. Since 1996, NCSH added several facilities and programs, including: three licensed recovery homes, a residential treatment facility for homeless women in the earliest phases of recovery, a 140-bed residential treatment facility, two Child Development Centers, and 48 affordable transitional housing beds.

NCSH offers a continuum of care from early recovery to long-term residential substance abuse treatment to transitional housing (with supportive services) upon completion of treatment programs. All facilities are located in the city of Escondido in San Diego County.

#### Licenses

NCSH is licensed by the State Department of Alcohol and Drugs Programs as an adult residential alcohol and/or drug abuse/recovery or treatment facility.

**[Intentionally left blank]**



## V. OUTSTANDING DEBT

| <u>Date Issue:</u>  | <u>Original Amount</u> | <u>Amount<br/>Outstanding as of<br/>6/30/2007***</u> | <u>Estimated Amount<br/>Outstanding After<br/>Proposed Financing</u> |
|---|------------------------|--|--|
| <b>Existing:</b>  |                        |  |  |
| County of San Diego<br>(55-year construction line of credit / No payment)                       | \$ 262,499             | \$ 262,499   | \$ 525,000   |
| Pacific Western Bank Serenity Village   | 257,324                | 257,324  | - *  |
| Department of Housing and Community Development<br>(No payment / Forgiven after 10 years, 2017) | 527,345                | 527,345  | 527,345  |
| Ford Motor Credit Co. (Van #1)  | 30,382                 | 2,080  | -  |
| Ford Motor Credit Co. (Van #2)  | 30,388                 | 1,076  | -  |
| California Bank and Trust**   | 50,000                 | 44,604   | -  |
| Connie Dahl**<br>(On demand / Unsecured / Interest-Only)  | 50,000                 | 50,000   | -  |
| Norman Wieme**<br>(On demand / Unsecured / Interest-Only)                                       | 38,438                 | 38,438   | -  |
| Francine Analone-Byrd**<br>(On demand / Unsecured / Interest-Only)                              | 60,000                 | 58,000   | -  |
| Pacific Western Bank LOC**  | 100,000                | 88,379   | -  |
| Pacific Western Bank #2 **  | 365,000                | 353,083  | -  |
| Pacific Western Bank #3**   | 150,000                | 148,277  | -  |
| <b>Proposed:</b>  |                        |  |  |
| CHFFA HELP II, 2008   |                        | <u>750,000</u>                                       |  |
| Total   |                        | <u>\$ 1,831,105</u>                                  | <u>\$ 1,802,345</u>  |

\*Notes paying off this loan by line of credit of the County of San Diego in January 2008.

\*\*Marks the loans to be refinanced by the proposed HELP II Loan.

\*\*\* Includes current portion of long-term debt.

## VI. 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): NCSH has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

## **VII. STAFF RECOMMENDATION**

Staff recommends approval of a HELP II loan for North County Serenity House, Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years. This loan is contingent upon financing terms acceptable to the Authority.

**[Intentionally left blank]**