CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant: Social Science Services, Inc. (dba "Cedar House Rehabilitation Center") (the "Corporation")
18612 Santa Ana Avenue
Bloomington, CA 92316

Maximum Amount Requested: $1,270,000
Date Requested: April 28, 2011
Requested Loan Term: 10 years
Resolution Number: 361

Project Site: Same as above.
Facility Types: Residential Substance Abuse Treatment
Current HELP II Borrower: Outstanding balance is $602,329 and payments are current.

Background: The Corporation was established 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.

Use of Proceeds: Bond proceeds will be used to current refund tax-exempt CSCDA certificates of participation originally used to acquire real estate, anticipated to result in an approximate $88,600 in savings over the life of the bonds.

Type of Issue: Negotiated public offering with fixed rate bonds (Minimum $5,000 denominations)
Credit Enhancement: Cal-Mortgage Insurance
Additional Security: A fully funded debt service reserve fund
Expected Credit Rating: A- (S&P) based on Cal-Mortgage Insurance
Underwriters: Wulff, Hansen & Co.
Bond Counsel: Quint & Thimmig LLP
Financing Team: *Please see Exhibit 1 to identify possible conflicts of interest*

Financial Overview: The Corporation's income statement appears to show solid profits over the review period. The Corporation's financial strength appears adequate with a proforma debt service coverage ratio of 1.76x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
Par amount of CHFFA bonds	$ 1,270,000	Current refund CSCDA bonds	$ 1,241,600
Prior Reserve Fund	168,500	Debt service reserve fund	161,600
Trustee held funds	75,200	Cost of issuance	59,500
Cal-Mortgage insurance fund	9,700	Cal-Mortgage bond insurance	44,800
		Underwriter's discount	15,900
Total Estimated Sources	$ 1,523,400	**Total Estimated Uses**	$ 1,523,400

Legal Review: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Seismic, and CEQA documentation. All documentation satisfies the Authority's requirements.

Staff Recommendation: Staff recommends the Authority approve Resolution Number 361 in an amount not to exceed $1,270,000 (which Resolution is expressly conditioned on receipt of an investment grade rating by a nationally recognized rating agency and contingent upon approval of Cal-Mortgage insurance). Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, the Authority's financial advisor, concur with the Authority's staff recommendation.

(YD)

I. PURPOSE OF FINANCING:

Bond proceeds will be used to current refund[1] an existing California Statewide Communities Development Authority (CSCDA) Certificate of Participation obligation. As a result of this financing, the Corporation will realize an estimated $88,600 in savings over the life of the bonds due to lower interest rates.

Current Refund the CSCDA Certificate of Participation, 1990.......... $1,241,600

The proceeds will be used to current refund tax-exempt CSCDA certificates of participation obligation, bearing interest rates ranging from 7.05% to 7.62%, which were used to acquire the main facility located at 18612 Santa Ana Ave, Bloomington, CA 92316. The facility is a 29,000 square feet building located on 4.4 acres of land. Several rooms are utilized for the Outpatient and Drinking Driver Program. The facility has two large multi-purpose rooms and several smaller group rooms where educational groups, 12-step meetings and other events take place. It offers long-term residential treatment, outpatient, drinking driver program and detoxification. The facility offers primary program, dual diagnosis treatment, and the Substance Abuse Services Coordination Agency (SASCA) program. It also offers free HIV and hepatitis testing and counseling.

Debt Service Reserve Fund**...**	***161,600***
Cost of Issuance **...**	***59,500***
Cal-Mortgage Bond Insurance**...**	***44,800***
Underwriter discount **...**	***15,900***
Total Uses of Funds..	**$1,523,400**

[1] Current refunding contemplates that the prior refunded bonds are redeemed within 90 days following the new bond issue. A borrower can current refund bonds more than once under federal tax law.

II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

Cal-Mortgage Insurance. The Authority's approval of the issuance of the Bonds will be subject to the requirement that the Bonds are insured by the Office of Statewide Health Planning and Development ("Cal-Mortgage"). As the insurer for the Bonds, Cal-Mortgage will take the responsibility for negotiating the covenants with the Borrowers that it decides are necessary for this transaction. These covenants will be incorporated into the Regulatory Agreement which the Authority will be a party to, however, Cal-Mortgage is granted the power to amend, modify or terminate the terms of the Regulatory Agreement (including the covenants) without the Authority's consent.

Because of the role of Cal-Mortgage as the insurer of the Bonds, the covenants described below (other than the unconditional promise to pay) may be subject to change and further negotiation after the Authority's Board takes action on the Resolution relating to the Bonds.

Unconditional Promise to Pay. The Borrower agrees to pay the Trustee all amounts required for principal, interest or reserve deposits and other payments and expenses designated in such Borrower's Loan Agreement. The primary source of payment for each Borrower's obligations under its Loan Agreement will be the monthly base rent payable by certain service providers for such Borrower's facilities as a portion of the total monthly rent payable by such service providers under long-term residency lease agreements with such Borrower.

Mortgage or Deed of Trust. The Borrower's obligations under its Loan Agreement will be secured by a Deed of Trust on its facilities that are being refinanced with the proceeds of the Bonds. The Authority should note that the lien of the Deed of Trust can be released with the consent of Cal-Mortgage but without the consent of the Authority.

Pledge of Gross Revenues. The Borrower pledges to deposit all revenues, income, receipts and money received into a Gross Revenues Fund over which the Trustee has a control deposit account agreement.

Negative Pledge Against Prior Liens. The Borrower agrees not to create or assume any Lien upon Borrower's Property other than the Permitted Encumbrances.

Limited Permitted Encumbrances. The Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Loan Agreement.

Debt Service Reserve. The Bonds shall be secured by a Bond Reserve Fund that will be funded at the time of issuance of the Bonds in an amount equal to maximum annual debt service on the Bonds or such lesser amount as shall be required to comply with applicable federal tax rules. The Bond Reserve Fund is available to make principal and interest payments if any of the Borrowers fail to deposit timely loan payments.

Debt Service Coverage Requirement. The Loan Agreement and the Regulatory Agreement will contain a debt service coverage requirement based on not less than 1.25 times annual debt service for The Corporation. A debt service coverage requirement is a ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments. This ratio can be based either on annual debt service for the next 12-months or maximum annual debt over the life of the bonds.

Additional Debt Limitation. The Borrower agrees not to incur additional Indebtedness unless authorized by such Borrower's Loan Agreement.

Disposition of Cash and Property Limitations. The Borrower agrees not to sell, lease or dispose of any property, plant or equipment or liquid assets unless authorized by such Borrower's Loan Agreement.

Comply with SEC Rule 15c2-12. The Borrower will take such action as is necessary to comply with SEC Rule 15c2-12. The rule prohibits underwriters from underwriting municipal bond deals unless the issuer or borrower contractually agrees to disclose designated financial and operating information to the marketplace during the life of the bonds and to report designated "material events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.

Cash Requirements. The Borrower promises to annually measure the balance of their cash and cash equivalent assets and maintain them at a 30 days cash on hand level.

Current Ratio Requirement. The Borrower promises to annually measure the current ratio and maintain such at 1.50x.

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

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III. FINANCIAL STATEMENTS AND ANALYSIS:

Social Science Services, Inc.

Statement of Activities

(Unrestricted)

	For the Year Ended June 30,		
	2010	2009	2008
Public support & revenues:			
Public support:			
Government & other grants:			
Substance rehabilitation services	$ 1,001,077	$ 1,110,765	$ 1,079,858
Federal pass-through grants	2,260,305	2,559,969	2,478,903
Contributions	22,888	20,285	51,369
Total public support	3,284,270	3,691,019	3,610,130
Revenues:			
Private pay	113,606	72,130	43,759
Rental revenue	4,652	8,053	138
Interest revenue	6,032	14,909	57,373
Net assets released from restrictions	197,551	182,832	172,900
Miscellaneous	133,494	11,194	17,187
	455,335	289,118	291,357
Total public support and revenues	3,739,605	3,980,137	3,901,487
Expenses:			
Salaries	1,816,462	1,876,853	2,010,689
Payroll taxes	339,156	357,913	414,671
Food	260,101	256,981	269,531
Maintenance	240,642	214,492	53,624
Employees benefits	142,294	141,010	117,177
Interest	97,457	95,697	95,189
Depreciation	96,899	104,514	114,410
Supplies	93,492	93,361	73,667
Contract labor	80,062	45,944	23,446
Administration	79,585	21,230	40,920
Insurance	51,925	55,112	40,661
Telephone	37,666	34,490	27,903
Client activities & services	37,080	33,853	70,901
Medical, exams & drugs	34,908	27,208	25,781
Vehicles expenses	32,261	45,765	26,541
Rent	32,054	33,771	181,768
Other	72,564	131,593	154,154
Total expenses	3,544,608	3,569,787	3,741,033
Change in unrestricted net assets	**194,997**	**410,350**	**160,454**
Adjustment from prior year		(20,000)	
Unrestricted net assets, beginning of the period	2,697,809	2,307,459	2,147,005
Unrestricted net assets, end of period	$ 2,892,806	$ 2,697,809	$ 2,307,459

Payor Source

Grants/Contracts	87%
Program Revenues	9%
Donations	1%
Other	3%
Total	100%

Social Science Services, Inc.
Financial Position

	As of June 30, 2010	2009	2008
Assets:			
Current assets:			
Cash	$ 1,678,520	$ 1,412,992	$ 1,248,850
Account receivables	311,710	449,363	426,572
Restricted Bonds - Current	309,994	116,708	116,708
Deposits	1,000	-	-
Prepaid expenses	2,204	-	210
Total current assets	2,303,428	1,979,063	1,792,340
Land, building and equipment - Net	2,591,207	2,640,176	2,632,220
Other assets:			
Restricted deposits with bond trustee	-	195,450	292,124
Note receivable	37,406	41,646	45,864
Bond issues costs	57,376	57,376	57,376
Less accumulated amortization - bond issue costs	(29,090)	(26,212)	(23,334)
	65,692	268,260	372,030
Total Assets	$ 4,960,327	$ 4,887,499	$ 4,796,590
Liabilities and Net Assets:			
Current liabilities:			
Accounts payable	$ 12,446	$ -	$ 18,952
Accrued expenses	152,213	183,437	174,306
Current portion of notes & bond payable	123,172	139,832	227,430
Total current liabilities	287,831	323,269	420,688
Long-term liabilities:			
Notes payable, less current portion	595,091	613,608	659,369
Bonds payable, less current portion	1,075,000	1,165,000	1,337,083
Total long-term liabilities	1,670,091	1,778,608	1,996,452
Total liabilities	1,957,922	2,101,877	2,417,140
Net assets:			
Unrestricted	2,892,806	2,697,809	2,307,459
Temporarily restricted	109,599	87,813	71,991
Total net assets	3,002,405	2,785,622	2,379,450
Total liabilities and net assets	$ 4,960,327	$ 4,887,499	$ 4,796,590

Financial Ratios:

	Proforma (a) FYE June, 2010	2010	2009	2008
Debt service coverage (x)	1.76	1.64	1.89	1.15
Debt/Unrestricted Net Assets (x)	0.69	0.62	0.71	0.96
Margin (%)		5.21	10.31	4.11
Current Ratio (x)		8.00	6.12	4.26

(a) Recalculates 2010 audited results to include the impact of this proposed financing.

<u>Financial Discussion – Statement of Activities (Income Statement)</u>

The Corporation's income statement appears to show solid profits over the review period.

<u>Particular Facts to Note:</u>

- During the review period, revenues from support dropped by 9.03% primarily due to a decrease in federal grants. However, other revenues appear to have grown by 56.28 % over the review period, resulting in an overall net revenue decrease of 4.15%.

- To remedy the decline in revenues from support, the Corporation was able to cut its total expenses by 5.25% over the review period, mostly related to a decrease in salaries and payroll taxes.

- According to management, in July 2010, the Corporation began providing services to pregnant women and women with children pursuant to a new $1.45 million three-year grant with First 5 of San Bernardino. This grant constitutes a new source of funds, which the Corporation did not receive in past years. Management is not aware of any changes to this grant in the foreseeable future.

- According to management, the Corporation receives 93% of revenues from governmental agencies, a significant portion of which are derived from contracts with San Bernardino County and Riverside County. Management is not aware of any changes to these contracts in the foreseeable future. The Corporation also receives revenue from grants and donations. <u>Medi-Cal and Medicare are minor sources of revenue, less than 1% of total revenues.</u>

- To mitigate the Corporation's reliance on revenues from governmental agencies, management is seeking certification from the Commission on Accreditation of Rehabilitation Facilities (CARF) to be able to do business with insurance companies and to strengthen their cash flow. According to management, their efforts in steering the Corporation in this direction has already yielded tangible results, as its reliance on revenues from governmental agencies has dropped from 97% in FY 2010 to 93% in FY 2011.

<u>Financial Discussion – Statement of Financial Position (Balance Sheet)</u>

The Corporation's financial strength appears strong with a proforma debt service coverage ratio of 1.76x.

- The Corporation's pro-forma debt-to-unrestricted net assets ratio is 0.69x, while its current ratio (measurement of liquidity), and appears to be very strong at 8.0x. The existing debt service coverage ratio is 1.64x, and with this financing the pro-forma debt service coverage ratio will improve to 1.76x, which indicates that the Corporation should be able to repay the proposed CHFFA Bonds.

- The Corporation's long-term debt seems to have decreased by 16.35% over the review period, whereas its unrestricted net assets appear to have grown by 25.37% over the same period.

IV. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through)**: The Corporation properly completed and submitted the "Pass-Through Savings Certification," in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement)**: The Corporation properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations**: The Corporation properly completed and submitted a description of its seismic requirements.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act)**: The Corporation properly submitted documentation to the Authority, where applicable, demonstrating that each proposed project has either complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is otherwise not a "project" under that division.
- **Religious Due Diligence**.
- **Legal Review**.

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EXHIBIT 1

FINANCING TEAM

Trustee and Escrow Agent:	U.S. Bank National Association
Trustee's Counsel:	Dorsey & Whitney LLP
Rating Agency:	Standard & Poor's Rating Services
Issuer's Financial Advisor:	Public Finance Management
Borrower's Counsel:	Jennings, Strouss & Salmon, P.L.C.
Bond Counsel:	Quint & Thimmig LLP
Underwriters:	Wulff, Hansen & Co.

EXHIBIT 2

UTILIZATION STATISTICS

UTILIZATION OF HEALTH CENTER SERVICES

		Year Ended June 30		
		2008	2009	2010
Residential Clients Served				
Private Pay		368	743	799
San Bernardino Detoxification		1,484	1,741	1,695
San Bernardino Recovery		10,847	8,377	6,359
San Bernardino Peri-natal		2,893	2,545	2,163
Riverside Detoxification		882	1,131	1,150
Riverside Recovery		2,345	1,906	1,914
Riverside Co-Occurring		2,441	3,871	4,344
DBH/TAP		10,880	10,604	10,947
STAR (Mental Health Drug Court)		5,185	4,849	5,639
SASCA		7,651	9,155	6,331
TAY		0	0	926
	Total:	44,976	44,926	42,267
Outpatient Clients Served				
Private Pay		120	180	215
Medi-Cal		96	120	192
County		600	720	900
	Total:	816	1,020	1,307
Drinking Driver Program (DDP)				
First Offense		180	186	188
Multiple Offense		57	55	62
Extended Offense		35	40	31
W/R		12	4	2
	Total:	284	285	283
Sober Living Clients Served				
SASCA		170	340	680
Private pay		24	36	48
	Total:	194	376	728

EXHIBIT 3

OUTSTANDING DEBT

Description	Original Amount	Amount Outstanding as of 6/30/2010*	Estimated Amount Outstanding After Proposed Financing
Existing:			
CSCDA COPS, 1990 (30-year Bond), 1990	$ 2,150,000	$ 1,160,000	$ -
CHFFA HELP II, 2007	722,000	633,262	633,262
Proposed:			
CHFFA Refunding Bonds, 2011			1,270,000
Total		$ 1,793,262	$ 1,903,262

* Includes current portion of long-term debt.

EXHIBIT 4

BACKGROUND, GOVERNANCE AND LICENSURE

Background

Social Science Services, Inc. doing business as Cedar House Rehabilitation Center (the "Corporation"), has been providing alcoholism and drug treatment services to the residents of San Bernardino and Riverside counties for the past 35 years. The Corporation offers several levels of care starting with inpatient sub-acute detoxifications, in-patient residential care, day treatment, intensive outpatient and adolescent outpatient treatment all in a safe, structured and therapeutic environment. The Corporation's program was designed and initiated in 1973 for men and women who are experiencing a progressively deteriorating life cycle associated with the abuse/addiction of alcohol and/or other legal/illicit drugs. Additionally, The Corporation has the capacity to provide services to pregnant women and women with children.

As of January 31, 2011, The Corporation employed a total of 61 full-time equivalent ("FTE") personnel, including administrative personnel, support staff and counselors. The Corporation's principal facility is located in Bloomington, California.

The Corporation is a California nonprofit public benefit corporation, which has been determined to be an exempt, charitable organization under Section 501(c)(3) of the Internal Revenue Code. The Corporation is also exempt from State of California income tax.

Governance

The Corporation is governed by a Board of Directors (the "Board"), which consists of thirteen voting members. The term of an elected director is for a period of three years. Directors may serve for no more than two successive terms.

The Board has overall responsibility for the management and operation of all affairs relating to The Corporation. The Board has various standing committees, including finance, executive, personnel and bylaws. There are two vacancies on the Board.

Licensure and Memberships

The Corporation is licensed by the California Department of Alcohol and Drug Programs. The Corporation received contract renewals and presently has service agreements with Riverside and San Bernardino Counties as well as the State of California. The State of California also certifies The Corporation's Outpatient programs to provide Medi-Cal services.