

Casa Esperanza Homeless Center

offering hope and help every day!

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August 19, 2013

Dinah Lockhart

Deputy Director, Housing & Community Development

County of Santa Barbara

105 E. Anapamu Street, 4th Floor

Santa Barbara, CA 93101

Dear Ms. Lockhart:

This is response to your letter of August 15, 2013 which expressed some concerns the County has with respect to the changes in service delivery by Casa Esperanza and requesting additional information about our plans going forward.

From your letter, you seek assurance that 816 Cacique Street will continue to be used as a homeless shelter for the foreseeable future. You have requested a financial plan which will demonstrate how we will address current and future financial obligations including specifics on addressing the substantial debt repayment due in the coming year. You also requested we include information on our strategy for establishing a sustainable operating model for shelter program operations over the next five years, or at least until 2018.

As we have discussed, Casa Esperanza has been looking very closely at how we can sustainably meet our mission to help as many homeless people as possible to attain self-sufficiency and move from homelessness to housing. It became clear to us that our current approach to meeting our mission is no longer viable. We have been operating at a loss for a number of years as we have been unable to raise sufficient government and donated support to fund the full scope of activities. These losses had been covered by borrowings, but this is not sustainable and significant changes in operations were necessary.

Facing this fact, The Board of Casa Esperanza determined that it needed to eliminate daytime drop-in services and cease the free lunch program to non-residents in order to focus on core shelter operations. Core shelter includes emergency winter and emergency healthcare beds and beds for homeless people capable of moving from homelessness to housing. Further, in response to our mission to help the most people move from homelessness to housing, to help each person become healthy and to take advantage of increased funding opportunities, we will now require that each resident refrain from the use of drugs and alcohol while living at the shelter.

Our revised budget is breakeven at \$1,611,000 and is based on the grants and contracts we have already been awarded and donations from individuals and foundations at an amount equal to what we raised last year (attached). This budget includes the payment of interest on the debt and building depreciation. Any additional funding that can be raised will be used to build operating reserves.

By moving to a sobriety-based program, we believe we will be eligible for funding from new sources because our success rate of moving clients to more permanent housing will improve and some funders would not consider funding a shelter that did not require sobriety. Examples of such funding include: Veteran's Administration Grants Per Diem, State of

California Emergency Shelter Grants, AB109 Parole/Probation, SAMHSA Cooperative collaborative grants, and others. This new programming also aligns Casa Esperanza for funding via new MediCal guidelines, where homeless individuals will now be eligible for MediCal. Opportunities will also now exist for drug and alcohol treatment services. None of these expanded grant opportunities are included in our operating budget, which is attached for your review.

To enforce fiscal discipline, the Board approved the formation of a Finance Committee including Board members with financial expertise and financial experts not on our Board. This committee directed management to reduce the scope of services provided, and required the budget be balanced based on conservative assumptions of revenue, described above. Progress against this plan will be monitored by this committee and further budget adjustments will be made if planned results do not materialize.

Since our inception Casa Esperanza outsourced our accounting, business and some of our fundraising support services. This proved to be helpful in our early years, but we will now be bringing these functions in-house.

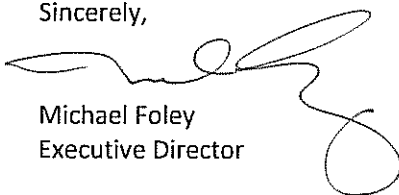
The current maturities of all debt obligations other than the mortgage and \$1 million in notes to the City and County (which will be forgiven in October 2014) have been extended beyond 2018. Attached is the letter from our accounting firm, Peri & Alvarado, describing the changes in maturities.

We are exploring a sales-leaseback transaction for our building, which if consummated, would allow us to repay substantially all of our debt, have a favorable impact on our P&L, and be cash-flow neutral. We are in discussions with a foundation and should know in October if this transaction is viable and if so, on what terms. We are optimistic that we can achieve significant debt reductions from a combination of debt forgiveness, sale-leaseback, and emergency grants from various community sources. We have already received pledges and cash donations in the amount of \$100,000 towards our goal of \$300,000 to rebuild our working capital by September 30th.

In summary: We have made our sole programming commitment and function to provide shelter services, and have eliminated unfunded activities. By narrowing our client base to those more likely to be able to move to more permanent housing, and enforcing the sobriety requirement, our demonstrable performance will improve over time, and we will be able to attract funding from a broader support base. Our revised budget is based on existing grants and historical annual support from individuals and foundations. We are implementing improved fiscal guidelines and structures to ensure future viability. We have implemented a budget in which interest is paid on our existing debt over the next five years, helping to ensure shelter operations for the period specified.

Thank you again for all your concerns and assistance.

Sincerely,



Michael Foley
Executive Director

CASA ESPERANZA HOMELESS CENTER

Budget 2013 - 2014

	<u>2013 - 2014 Budget</u>
Ordinary Income/Expense	
Income	
4000 · RESTRICTED REVENUE	
4010 · CONTRIBUTIONS	
4030 · CORPORATE-Restr'd	0.00
4045 · FAITH-Restr'd	0.00
4050 · FOUNDATIONS-Restr'd	
4055 · COTTAGE HEALTH SYSTEM	125,000.00
4060 · SANTA BARBARA FOUNDATION	0.00
4065 · ST. FRANCIS FOUNDATION	181,500.00
4085 · FOUNDATION INCOME - OTHER	105,000.00
Total 4050 · FOUNDATIONS-Restr'd	<u>411,500.00</u>
4110 · INDIVIDUAL-Restr'd	63,388.00
4130 · BOARD/STAFF-Restr'd	109,955.00
4137 · PROJECT HEALTHY NEIGHBOR	0.00
4190 · OTHER	833.00
Total 4010 · CONTRIBUTIONS	<u>585,676.00</u>
4200 · GRANTS	
4250 · GOVERNMENT-Restr'd	
4260 · CITY OF SB	
4264 · CITY OF SB	43,000.00
4265 · CITY OF SB - CDBG	51,000.00
4267 · CITY OF SB - HUMAN SERVICES	54,500.00
4269 · CITY OF SB - RDA HSING DEV	0.00
4270 · CITY OF SB - CDD (WINTER SHLTR)	75,575.00
Total 4260 · CITY OF SB	<u>224,075.00</u>
4280 · COUNTY OF SB	
4285 · CO OF SB - ADMH	126,000.00
4290 · CO OF SB - DSS-STREET OUTREACH	22,500.00
4296 · CO OF SB - HCD	22,500.00
4300 · CO OF SB - GENERAL/OTHER	148,000.00
4305 · CO OF SB - PUBLIC HEALTH	15,000.00
· SOCIAL SERVICES MEDI-CAL	20,000.00
· COUNTY ESG RAPID RE-HOUSING	38,000.00
Total 4280 · COUNTY OF SB	<u>392,000.00</u>
4325 · HUD GRANT	0.00
4327 · TRANSITION HOUSE(CO OF SB-HPRP)	0.00
Total 4250 · GOVERNMENT-Restr'd	<u>616,075.00</u>
Total 4200 · GRANTS	<u>616,075.00</u>
Total 4000 · RESTRICTED REVENUE	<u>1,201,751.00</u>

CASA ESPERANZA HOMELESS CENTER

Budget 2013 - 2014

	<u>2013 - 2014 Budget</u>
4350 · UNRESTRICTED REVENUE	
4355 · CONTRIBUTIONS	
4360 · ANNUAL APPEAL	
4365 · MAILING	
4373 · AA MAILING - SPRING	22,758.00
4375 · AA MAILING - SUMMER	10.00
4380 · AA MAILING - WINTER	98,149.00
Total 4365 · MAILING	<u>120,917.00</u>
Total 4360 · ANNUAL APPEAL	120,917.00
4440 · BOARD/STAFF	60,217.00
4475 · CORPORATE	7,703.00
4490 · FAITH	5,410.00
4500 · FOUNDATION	124,875.00
4520 · INDIVIDUAL	50,321.00
4527 · SPRING 2012 CHALLENGE GRANT	47,175.00
Total 4355 · CONTRIBUTIONS	<u>416,618.00</u>
4550 · INVESTMENT INCOME	
4565 · INTEREST INCOME - OTHER	0.00
Total 4550 · INVESTMENT INCOME	<u>0.00</u>
4585 · FLOOD INSURANCE REIMBURSEMENT	0.00
4590 · SELF GENERATING INCOME	
4600 · CADA-RENT	0.00
4610 · TRANSITIONAL SHELTER FEES	4,900.00
4615 · VENDING INCOME	0.00
4625 · GAIN/LOSS ON SALE OF SECURITIES	0.00
Total 4590 · SELF GENERATING INCOME	<u>4,900.00</u>
Total 4350 · UNRESTRICTED REVENUE	<u>421,518.00</u>
Total Income	<u>1,623,269.00</u>
Gross Profit	1,623,269.00
Expense	
5010 · ADVERTISING	0.00
5015 · ADMIN. FEE	0.00
5050 · AUTOMOBILE	8,456.00
5075 · BAD DEBT	375.00
5100 · BANK CHARGES	810.00
5110 · BUS TOKENS	2,000.00
5113 · CHRISTMAS EXPENSE	0.00
5115 · CLEANING EXPENSE	900.00
5120 · CLIENT EXPENSES	

CASA ESPERANZA HOMELESS CENTER

Budget 2013 - 2014

	2013 - 2014 Budget
5125 · CLIENT HOUSING ASSISTANCE	50,000.00
5128 · MEDICAL SERVICES	0.00
5135 · CLIENT MISC. EXPENSES	0.00
5137 · PROJECT HEALTHY NEIGHBOR	0.00
5141 · CLIENT SUPPLIES	4,500.00
5145 · CLIENT SERVICES	400.00
Total 5120 · CLIENT EXPENSES	54,900.00
5155 · COMPUTER EXPENSE	7,000.00
5175 · CREDIT CARD FEES	200.00
5180 · DEPREC. EXPENSE	144,760.00
5200 · EMPLOYEE BENEFITS	
5205 · INSURANCE	
5210 · DENTAL INSURANCE	0.00
5215 · HEALTH INSURANCE	29,901.00
5220 · LONG TERM DISABILITY INSURANCE	7,737.00
5222 · VISION/INFINITY	0.00
5225 · WORKERS' COMP.	61,464.00
Total 5205 · INSURANCE	99,102.00
5230 · PAYROLL TAXES	
5235 · FICA EXPENSE	
5240 · MEDI EXPENSE	61,569.00
5245 · SUI/ETT EXPENSE	
Total 5230 · PAYROLL TAXES	61,569.00
5255 · RETIREMNT (SIMPLE IRA) EXPENSE	0.00
Total 5200 · EMPLOYEE BENEFITS	160,671.00
5275 · EQUIPMENT RENTAL	7,500.00
5290 · EVENT EXPENSE	0.00
5300 · FOOD EXPENSE	25,000.00
5325 · INSURANCE EXPENSE	
5330 · DIRECTOR'S & OFFICERS INSURANCE	
5335 · FLOOD INSURANCE	
5340 · LIABILITY INSURANCE	35,500.00
5345 · MALPRACTICE INSURANCE	
Total 5325 · INSURANCE EXPENSE	35,500.00
5350 · INTEREST EXPENSE	190,000.00
5375 · LICENSES & PERMITS	3,842.00
5425 · MISC. EXPENSE	1,050.00
5450 · OFFICE EXPENSE	3,000.00
5500 · PAYROLL EXPENSE	645,107.00
5510 · PAYROLL PROCESSING FEES	3,500.00
5520 · PEST CONTROL	1,650.00
5525 · POSTAGE EXPENSE	3,000.00
5550 · PRINTING EXPENSE	23,000.00

CASA ESPERANZA HOMELESS CENTER**Budget
2013 - 2014**

	2013 - 2014 Budget
5570 · PROFESSIONAL FEES	
5575 · ACCOUNTING	86,000.00
5580 · AUDIT EXPENSE	14,000.00
5585 · CONSULTING	0.00
5590 · LEGAL FEES	5,000.00
Total 5570 · PROFESSIONAL FEES	105,000.00
5620 · RELOCATION EXPENSE	0.00
5640 · RENT EXPENSE	
5645 · OFFICE RENT	0.00
5650 · PO BOX RENTAL	255.00
5655 · STORAGE RENT	250.00
Total 5640 · RENT EXPENSE	505.00
5675 · REPAIRS & MAINTENANCE	50,000.00
5700 · SECURITY EXPENSE	780.00
5705 · SMALL EQUIPMENT	3,000.00
5710 · STAFF EXPENSES	0.00
5715 · STAFF EDUCATION	0.00
5725 · SUPPLIES	51,500.00
5750 · TAXES	263.00
5760 · TELEPHONE	18,000.00
5770 · UTILITIES	60,000.00
Total Expense	1,611,269.00
Net Ordinary Income	12,000.00

PERI & ALVARADO

CERTIFIED PUBLIC ACCOUNTANTS, INC.

August 29, 2013

Dinan Lockhart
Deputy Directory
Housing and Community Development Division
County of Santa Barbara
Santa Barbara, CA

David L. Peri, CPA
David R. Alvarado, CPA

Dear Ms. Lockhart:

Jeremy K. Ballew, CPA
James C. Hamilton, CPA

Casa Esperanza has asked our firm to provide you with the new dates of maturities on the notes payable reflected in Casa Esperanza's June 30, 2012 audited financial statements, prepared by another accounting firm.

360 S. Hope Ave.
Suite C300
Post Office Box 22557
Santa Barbara
California 93121
Tel: (805) 563-1049
Fax: (805) 563-1158

Below are the notes included in the audit report and an update as to the dates of maturities:

Note payable, with interest on the outstanding balance at 5.0%, beginning June 1, 2012, which comes due on May 31, 2014, has been extended until June 1, 2019.	\$ 1,622,000
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Note payable, with interest on the outstanding balance at 5.0%, beginning June 1, 2012, which comes due on May 31, 2014, has been extended until June 1, 2019.	\$ 70,000
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Note payable, with interest on the outstanding balance at 5.0%, beginning June 1, 2012, which comes due on May 31, 2014, has been extended until June 1, 2019.	\$ 70,000
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Note payable, with interest on the outstanding balance at 5.0%, beginning June 1, 2012, which comes due on May 31, 2014, has been extended until June 1, 2019.	\$ 78,733
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Note payable, with interest on the outstanding balance at 5.0%, beginning June 1, 2012, which comes due on May 31, 2014, has been extended until June 1, 2019.	\$ 38,439
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Note payable, requiring monthly payments of

\$2,940.55, including interest at 6.5% beginning September 7, 2010 for sixty months with the final payment due on August 7, 2015. This note will be paid off on August 7, 2015.

\$ 99,311

Mortgage note payable, requiring monthly payments of \$8,241.15 including interest at 7.00% beginning July, 2007 for one hundred and eighteen months. Then one irregular last monthly payment of \$910,484.09 on May 1, 2017. (secured by 816 Cacique property – 4th Trust Deed) – This note is a mortgage which will be refinanced in 2017.

\$ 1,047,013

If you have any further questions please do not hesitate to contact me.

Very truly yours,



David L. Peri, CPA
Peri & Alvarado
Certified Public Accountants, Inc.

DP/fr