

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY
REQUEST FOR AMENDED RESOLUTION**

Applicant:	Kings Rehabilitation Center, Inc. ("KRC") 490 East Hanford-Armona Road Hanford, CA 93230 Kings County	Amount Requested:	\$750,000
		Requested Loan Term:	15 years
Project Site:	492 East Hanford-Armona Road, Hanford, CA 93230 or (proposed street number as may be assigned by the City)	Date Requested:	January 28, 2010
Facility Type:	Adult Day Care Center	Amended Resolution No.:	HII-235
Prior HELP II Borrower:	No.		

Background: Established in 1965, KRC is a licensed nonprofit Adult Day Care Center. KRC's mission is to enhance the lives of adults with developmental, physical and emotional disabilities by providing employment opportunities, vocational training and recognizing their clients' importance and involvement in the community. KRC requests the board amend Resolution No.: HII-235 originally approved by the board at the February 26, 2009 Authority meeting.

Uses of Loan Proceeds: KRC intends to construct a new Day Training Activity Center on its main property to relieve overcrowding at its current facility, as well as to provide for additional capacity.

Financing Structure

- 15-year loan.
- 180 equal monthly payments of approximately \$5,179 (yearly payments of approximately \$62,148).
- Gross revenue pledge.
- First (1st) lien position on property located at 492 East Hanford-Armona Road, Hanford, CA 93230 or (proposed street number as may be assigned by the City).
- Loan to value ratio not to exceed 95%.

Financial Overview: Over the last three fiscal years, KRC's income statement appears to exhibit stable positive operating results. Additionally, KRC's balance sheet appears solid with approximately \$4 million in unrestricted net assets, good liquidity and minimal long-term debt. The proforma debt service coverage ratio for the proposed HELP II loan is a solid 9.81x.

Sources of Funds

Borrower Funds	\$900,000
HELP II Loan	<u>750,000</u>
Total Sources	<u>\$1,650,000</u>

Uses of Funds

Construct New Facility	\$1,603,000
Purchase Equipment*	35,000
Financing Costs	<u>12,000</u>
Total Uses	<u>\$1,650,000</u>

**Equipment will be financed by Kings Rehabilitation Center.*

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 Kings Rehabilitation Center, Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. Macias Consulting, Inc., the Authority's financial analyst, has reviewed all relevant financial documentation submitted by Kings Rehabilitation Center, Inc. to the Authority and has advised of its concurrence with the Authority's staff recommendation.

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

January 28, 2010

Kings Rehabilitation Center, Inc. ("KRC")

Amended Resolution Number: HII- 235

I. REQUEST FOR AMENDED RESOLUTION

Kings Rehabilitation Center, Inc. ("KRC") requests the board amend Resolution No.: HII-235 originally approved by the board at the February 26, 2009 Authority meeting. If approved by the board, this amended resolution will allow KRC to change the project scope as described more particularly below and to extend the resolution expiration by one year (new proposed expiration date: February 26, 2011).

Since the board's original approval at the February 26, 2009 meeting, KRC's management and the Board of Directors decided to place their proposed project on hold due to the uncertainty of the state budget. KRC has worked hard to increase contracts with privately-owned where KRC clients are paid for services the clients provide to the private companies. Currently, KRC's funding is derived 45% from privately-owned companies, 40% from fee for service, and 15% from the state.

The original project contemplated was the construction of an Adult Day Care Center for autistic individuals. Since placing this proposed project on hold, the KRC Board of Directors determined that a day program for the mildly disabled would be a more suitable project due to the Day Training Activity Center (DTAC) program's growth in clientele. KRC now seeks to move forward with construction of the new facility for the DTAC.

II. PURPOSE OF FINANCING

KRC seeks to invest approximately \$1.6 million in their DTAC program to relieve overcrowding and to accommodate new clients. The current building is outdated and several rooms are not accessible to people with certain disabilities.

Construct New Facility \$1,603,000

KRC intends to construct a new 10,000 square foot DTAC situated on approximately six acres (currently owned by KRC and unencumbered), located at 492 East Hanford-Armona Road in Hanford, CA (or proposed new street number as may be assigned by the City). According to KRC, the new facility will nearly double the space available for clients and will also allow KRC to accommodate individuals with mild to moderate disabilities. The number of clients served is projected to increase from 45 to 75. The proposed site is strategically located adjacent to KRC's existing facility. KRC plans to utilize the existing facility for an Adult Development Program or to expand vocational training programs. The

construction project is expected to commence in June 2010 and is anticipated to be completed in June 2011.

The proposed HELP II loan will be secured by a first (1st) lien position on property owned by KRC located at 492 East Hanford-Armona Road, Hanford, CA 93230 (or proposed street number as may be assigned by the City). A full “as improved” appraisal on this property will be required prior to closing.

<i>Equipment</i>			35,000
KRC plans to purchase furniture and equipment for the newly constructed DTAC. The equipment will be paid entirely by KRC.			
<i>Financing Costs</i>			<u>12,000</u>
Authority Fees.....	\$9,375		
Title and Escrow	<u>1,625</u>		
<i>Total Uses of Funds</i>			<u>\$1,650,000</u>

III. FINANCIAL STATEMENTS AND ANALYSIS

Kings Rehabilitation Center, Inc.

Statement of Activities

Unrestricted

	For the Year Ended June 30,		
	2009	2008	2007
Revenue and support:			
Public support	\$ 2,380	\$ 6,348	\$ 15,502
Program service fees	4,669,160	4,738,062	4,577,923
Rent income	69,985	67,117	67,347
Interest income	35,558	27,700	17,116
Other income	54,001	358,120	73,548
Total revenue and support	<u>4,831,084</u>	<u>5,197,347</u>	<u>4,751,436</u>
Expenses:			
Salary, wages, employee benefits	3,113,883	3,103,495	2,935,815
Depreciation	249,855	225,755	197,134
Supplies	246,609	243,973	250,980
Insurance	233,797	267,604	324,187
Repairs and maintenance	133,246	142,820	125,379
Professional fees	123,333	85,403	81,110
Transportation	120,851	140,749	118,681
Occupancy	57,721	55,903	59,177
Telephone	54,256	27,147	33,675
Employment costs	51,819	71,447	59,252
Other	31,671	20,349	18,368
Conference and training	11,467	16,877	14,021
Equipment rental	7,573	2,779	6,284
Dump fees	1,410	2,986	8,274
Total expenses	<u>4,437,491</u>	<u>4,407,287</u>	<u>4,232,337</u>
Change in unrestricted net assets	393,593	790,060	519,099
Unrestricted net assets, beginning of year	<u>3,676,557</u>	<u>2,886,497</u>	<u>2,367,398</u>
Unrestricted net assets, end of year	<u>\$ 4,070,150</u>	<u>\$ 3,676,557</u>	<u>\$ 2,886,497</u>

Kings Rehabilitation Center, Inc.

Financial Position

	As of June 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 840,685	\$ 791,009	\$ 962,836
Certificates of deposit	599,665	839,551	243,492
Accounts receivable	642,252	567,082	560,275
Inventories	4,549	5,222	5,069
Prepaid expenses	9,118	11,698	24,424
Total current assets	<u>2,096,269</u>	<u>2,214,562</u>	<u>1,796,096</u>
Property and equipment	2,246,227	1,679,172	1,537,355
Construction in progress	59,040	205,701	-
Total assets	<u>\$ 4,401,536</u>	<u>\$ 4,099,435</u>	<u>\$ 3,333,451</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable and accrued expenses	\$ 187,218	\$ 295,564	\$ 201,050
Current obligation under capital lease	9,151	10,422	10,422
Deferred revenue	7,167	8,617	133,053
Accrued vacation payable	116,622	93,410	77,141
Security deposits	1,270	1,270	1,270
Total current liabilities	<u>321,428</u>	<u>409,283</u>	<u>422,936</u>
Obligation under capital lease	9,958	13,595	24,018
Total liabilities	<u>331,386</u>	<u>422,878</u>	<u>446,954</u>
Unrestricted - net assets	4,070,150	3,676,557	2,886,497
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,401,536</u>	<u>\$ 4,099,435</u>	<u>\$ 3,333,451</u>

Financial Ratios:

**Proforma (a)
FYE June, 2009**

Debt service coverage (x)	9.81	169.09	377.79	367.73
Debt/Unrestricted Net Assets (x)	0.19	N/A	N/A	0.01
Margin (%)		8.15	15.20	10.93
Current Ratio (x)		6.52	5.41	4.25

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

Over the last three fiscal years, KRC's income statement appears to present stable positive operating results.

Over the past three fiscal years, KRC's income statement appears to reflect consistent revenue and KRC also appears to have kept operating expenses level. According to KRC management, KRC has operated successfully with a surplus during these years and continues to expand its operations.

Particular Facts to Note:

- KRC's revenue is strictly generated from program service fees, supported employee fees and contract revenue. KRC does not have a contract with Medi-Cal or Medicare.
- In FY 2008, KRC enjoyed their most successful year with an increase in unrestricted net assets of \$790,000, a 52% increase compared to FY 2007. According to KRC, newly acquired contracts were internally restructured to be more efficient by eliminating those deemed not cost effective, thus increasing profits.
- Other income in FY 2008 includes \$133,000 from an insurance claim that was reclassified from the balance sheet to the income statement. KRC also received a grant of \$160,000 from the California Department of Transportation to purchase six vehicles to transport clients.
- According to KRC's management, KRC is refocusing its efforts by establishing contracts with privately-owned companies. Management has also taken steps to enhance relationships with businesses in Kings County and to develop job opportunities for clients.

Financial Discussion – Statement of Financial Position (Balance Sheet)

KRC's balance sheet appears to be solid with good liquidity, minimal long-term debt and approximately \$4 million in unrestricted net assets,

In FY 2009, KRC's balance sheet appears solid with good liquidity of over \$840,000 in cash and cash equivalents and a current ratio of 6.52x. KRC's proforma long-term debt to unrestricted net assets is a very low 0.19x, indicating low leverage. KRC has very good operating cash flow and currently possesses a solid proforma debt service coverage ratio of 9.81x, which indicates KRC's likely ability to repay the proposed HELP II loan.

Particular Facts to Note:

- According to KRC, cash decreased to \$790,000 in FY 2008 from \$963,000 in FY 2007 as KRC used cash to construct a new administration building. In FY 2009, KRC redeemed nearly \$240,000 in Certificates of Deposit to pay off the loan on the new administrative building.
- Accounts payable increased in FY 2008 as a result of new construction costs and deferred payments to contractors. Deferred revenue posted in FY 2007 of \$133,000 resulted from payments sustained from fire damage to a thrift store owned and operated by KRC.

IV. UTILIZATION STATISTICS

**Clients Served
Fiscal Year Ended June 30**

	2009	2008	2007
Totals	168	169	174

V. ORGANIZATION

Background

Kings Rehabilitation Center, Inc. (“KRC”) is a non-profit organization incorporated in 1965. The center is located in Hanford, California and operates programs to assist persons with developmental, physical and/or emotional disabilities in coping with challenges in vocational skills, basic education, independent living, and social and recreational needs. KRC’s basic support is derived primarily from various fee for service contracts and charges for services performed by disabled individuals and state program fees.

KRC programs emphasize improvement and development through the following programs at two sites:

- Adult Development Program: provides adults with severe disabilities the opportunity to develop personal, social and behavioral skills.
- Day Training Activity Center: provides adults with mild to moderate disabilities the opportunity to develop personal, vocational, social and behavioral skills.
- Habilitation: provides evaluation, job skills development, extended employment, off-site employment, living and a supportive environment.
- Supported Employment: offers paid work opportunities, based on productivity, in a variety of working settings for individuals with developmental disabilities.

License

KRC is an Adult Day Care Center licensed by the State of California Department of Social Services.

VI. OUTSTANDING DEBT

Currently, KRC has no long-term debt. With this proposed HELP II loan financing, KRC will have \$750,000 in long-term debt.

VI. DUE DILIGENCE

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

- Savings Pass Through: KRC has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): KRC 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 the Authority approve a resolution for a HELP II loan for Kings Rehabilitation Center, Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. Macias Consulting, Inc., the Authority's financial analyst, has reviewed all relevant financial documentation submitted by Kings Rehabilitation Center, Inc. to the Authority and has advised of its concurrence with the Authority's staff recommendation.