

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Odd Fellow-Rebekah Children’s Home of California (“RCH”) 290 I.O.O.F. Avenue Gilroy, California 95020 Santa Clara County</p> <p>Project Site: 290 I.O.O.F. Avenue, Gilroy, California 95020 (Santa Clara County)</p> <p>Facility Type: Group Home</p> <p>Prior HELP II Borrower: No</p>	<p>Amount Requested: \$425,000</p> <p>Requested Loan Term: 5 years fixed</p> <p>Date Requested: June 24, 2010</p> <p>Resolution Number: HII-248</p>																
<p>Background: Established in 1897, RCH provides therapeutic residential treatment for abused children with severe emotional and behavioral problems and their families. RCH operates three facilities located in Santa Clara County with service partnerships in 13 surrounding counties. Revenues for this organization are supported by county contracts, contributions and grants.</p>																	
<p>Eligibility Issue: RCH also provides foster family placement services. The Authority’s statute specifically prohibits financing foster family agencies, homes and custodial and non-custodial adoption agencies, but staff counsel to the Authority indicates the Authority may provide financing for all the other eligible services RCH provides. The Authority’s loan amount is a proportionate share (67%) of the overall project based on the proportion of RCH’s revenues that derive from eligible services. RCH will fund the remaining share (33%) of the overall project cost.</p>																	
<p>Uses of Loan Proceeds: Loan proceeds will be used to purchase information technology to assist in streamlining patient intake, billing, case management and reporting which will increase capacity to expand services and enable RCH to utilize electronic medical records.</p>																	
<p>Financing Structure</p> <ul style="list-style-type: none"> • 60 equal monthly payments of approximately \$7,637 (yearly payments of approximately \$91,644). • UCC-1 lien on equipment. • Corporate gross revenue pledge. 																	
<p>Financial Overview: RCH’s income statement appears to exhibit improving operating results during the review period. In addition, RCH appears to have good liquidity and no long-term debt. The proforma debt service coverage ratio is a strong 11.48x, indicating RCH should be able to repay this proposed HELP II loan.</p>																	
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th colspan="2" style="text-align: left;"><u>Estimated Uses of Funds:</u></th> </tr> </thead> <tbody> <tr> <td style="width: 25%;">HELP II Loan</td> <td style="width: 25%;">(67%) \$425,000</td> <td style="width: 25%;">Purchase Equipment</td> <td style="width: 25%;">\$631,577</td> </tr> <tr> <td>Borrower Funds</td> <td>(33%) <u>211,890</u></td> <td>Financing Costs</td> <td><u>5,313</u></td> </tr> <tr> <td>Total Sources</td> <td><u>\$636,890</u></td> <td>Total Uses</td> <td><u>\$636,890</u></td> </tr> </tbody> </table>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		HELP II Loan	(67%) \$425,000	Purchase Equipment	\$631,577	Borrower Funds	(33%) <u>211,890</u>	Financing Costs	<u>5,313</u>	Total Sources	<u>\$636,890</u>	Total Uses	<u>\$636,890</u>
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<p>Due Diligence: Staff has received and reviewed the Eligibility, Legal Status Questionnaire, Religious Affiliation Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.</p>																	
<p>Parties of Interest: <i>(Included for the purpose of discerning conflicts of interest)</i> Netsmart Technologies, Inc.</p>																	
<p>Staff Recommendation: Staff recommends approval of Resolution Number HII-248 for Odd Fellow-Rebekah Children’s Home of California in an amount not to exceed \$425,000 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP., the Authority’s financial analyst, concurs with the Authority’s staff recommendation.</p>																	

I. PURPOSE OF FINANCING: RCH proposes to utilize HELP II funds, as well as internal funds to purchase an Electronic Health Record System with the goal of automating and streamlining workflow.

<i>Purchase Equipment</i>		\$ 631,577
<p>RCH’s reports that the Electronic Health Record system, entitled “Avatar Suite,” will enhance and upgrade RCH’s existing network and eliminate errors caused by their existing outdated computer systems. The proposed Avatar Suite system will allow RCH to share data across different health care settings through connection to a network enterprise-wide information system. This shared network will include a wide range of data in a comprehensive summary that consists of demographics, medical history, medications, allergies, immunizations, laboratory results, radiology images and billing information.</p>		
<i>Financing Costs</i>		<u>5,313</u>
Authority Fees.....	\$5,313	
<i>Total Uses of Funds</i>		<u>\$ 636,890</u>

II. FINANCIAL STATEMENTS AND ANALYSIS

Odd Fellow-Rebekah Children's Services Statement of Activities

	For the Year Ended June 30,		
	2009	2008	2007
Revenue and Support:			
Public Support:			
Government contracts and grants *	\$ 13,083,705	\$ 11,880,096	\$ 11,236,592
Contributions	838,572	86,334	191,690
United way support	52,849	53,740	15,767
Special events	157,301	125,139	107,156
In-kind donations	92,570	74,997	11,495
Total public support	14,224,997	12,220,306	11,562,700
Revenue:			
Program fees	85,562	957,115	868,072
Interest and dividends	87,956	291,324	328,456
Gain/loss on investments	(445,762)	(240,947)	245,357
Other income	285,238	11,289	33,234
Total Revenue	12,994	1,018,781	1,475,119
Net Assets released from:			
Satisfaction of restrictions	270,835	161,172	15,307
Total Public Support and Revenue	14,508,826	13,400,259	13,053,126
Operating Expenses:			
Salaries	8,264,590	7,852,353	7,466,191
Employee benefits	1,486,069	1,888,833	1,599,815
Payroll taxes	1,069,298	662,542	629,871
Outside services	387,038	443,676	430,840
Depreciation	370,051	308,547	308,986
Repairs and maintenance	299,222	303,479	288,865
Travel & transportation	295,969	310,667	279,832
Utilities	206,978	205,732	201,004
Clothing, incidentals, and allowances	187,448	217,849	199,756
Other expenses	178,084	299,348	202,721
Food	173,251	193,127	163,186
Insurance	139,118	151,976	129,937
Building lease	136,548	98,587	94,058
Foster care payments	123,305	145,650	130,753
Expendable equipment	113,200	46,689	52,384
Supplies	100,234	122,167	113,785
Contributions - in kind	92,570	74,997	11,495
Special events - expense	91,044	54,442	37,122
Dues and subscriptions	56,673	45,009	50,960
Fees & permits	56,357	55,486	44,763
Total operating expenses	13,827,047	13,481,156	12,436,324
CHANGES IN NET ASSETS	681,779	(80,897)	616,802
Unrestricted:			
Net assets, beginning of year	12,186,183	12,267,079	11,274,516

* Net Patient Service Revenue (FYE June 30, 2009)

Payor Source	Percent
Govt. contracts and grants	90%
Public support	8%
Programs fees	1%
Other Income	1%
	100%

Odd Fellow-Rebekah Children's Services
Financial Position

	As of June 30,		
	2009	2008	2007
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,491,726	\$ 1,968,515	\$ 2,196,820
Accounts receivable	1,453,914	1,913,489	1,535,750
Contributions receivable	-	90,349	64,794
Other receivable	92,739	82,948	-
Prepaid expenses	221,482	369,900	364,907
Investments	3,652,126	3,362,959	3,507,218
Total current assets	8,911,987	7,788,160	7,669,489
Plant, property and equipment, Net	5,447,635	5,478,766	5,547,451
Total assets	14,359,622	13,266,926	13,216,940
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 192,069	\$ 177,349	\$ 112,656
Accrued liabilities	877,257	808,136	764,380
Accrued unemployment liability	88,416	93,453	68,483
Deferred revenue	333,918	1,805	4,338
Total current liabilities	1,491,660	1,080,743	949,857
Net assets:			
Unrestricted - undesignated	5,816,428	6,953,035	7,997,252
Unrestricted - designated	7,051,534	5,233,148	4,269,831
Total Unrestricted	12,867,962	12,186,183	12,267,083
TOTAL LIABILITIES AND NET ASSETS	\$ 14,359,622	\$ 13,266,926	\$ 13,216,940

	Proforma (a)	FYE June 30, 2009		
		2009	2008	2007
Financial Ratios:				
Debt service coverage (x)	11.48*	N/A	N/A	N/A
Debt/Unrestricted Net Assets (x)	0.03	N/A	N/A	N/A
Margin (%)		4.70	(0.60)	4.73
Current Ratio (x)		5.97	7.21	8.07

*Subtraction of the FY 2009 \$750,000 donation from the proforma debt service coverage calculation reduces this ratio to 3.29x

Financial Discussion – Statement of Activities (Income Statement)

RCH's income statement appears to show operating improvement over the review period.

In Fiscal Year 2009 (FY 09), RCH's change in nets assets improved to a positive \$681,779, primarily the result of a one-time donation received late in the fiscal year in the amount of \$750,000. In FY 2009, RCH reported revenues of \$14.5 million compared to \$13 million in FY 07 an increase of 11%. RCH's revenue mix has remained relatively stable with government contracts and grant income making up approximately 90% of total revenues in each year of the review periods.

Particular Facts to Note:

- From FY 07 to FY 09, RCH salary expenses increased by 10% primarily due to additional staff being hired to fill previously vacant and newly created positions.
- From FY 07 to FY 09, program fees decreased by 90% as a result of reclassifying approximately \$800,000 in funds received for the operation of RCH's Non-Public School to Government Contracts and Grants in FY 08 and continuing this classification in FY 09.
- In FY 09, RCH was a remaining beneficiary of a private donor and received a one-time donation of \$750,000. This unrestricted donation increased RCH's contributions by 871% and has been placed in their long term savings and investment accounts for future growth.
- Losses from investments in the equity market in FY 08 and FY 09 have been partially recovered in FY 10, due to RCH's diversified portfolio, according to RCH's management.
- RCH revenues have kept in-line with expenses over the review period.

Fiscal Year 2010 (FY 10):

RCH's funding sources appear to have stabilized and their client census has been climbing slightly, resulting in improved revenue streams at the end of FY 10, according to RCH management. RCH expects this to continue into FY 11. RCH is anticipating the Governor's Budget to propose large cuts in Mental Health Funding, thus RCH is actively monitoring the State budget activities through the statewide Mental Health Providers organization. The information RCH has gleaned thus far suggests the legislature will not approve the proposed large cuts in Mental Health funding. RCH leadership is focusing on increasing their non-governmental funding so they will not be so dependent on the uncertainty of governmental funding year to year.

RCH management forecasts that total government contract and grants will decrease by 9%, due to state and county cutbacks. Fortunately, RCH has significant financial resources of \$12.8 million in unrestricted net assets and \$3.4 million in cash; thus, RCH appears to be in a solid financial position to weather potential cutbacks.

Financial Discussion – Statement of Financial Position (Balance Sheet)

RCH's balance sheet appears very solid with an impressive \$12.86 million in unrestricted net assets. RCH has a strong proforma debt service coverage ratio of 11.48x indicating RCH should be able to meet its debt obligations.

Particular Facts to Note:

- RCH's cash reserves have increased 59% from FY 07 to FY 09. As of FY 09, RCH had approximately \$3.4 million in cash, which represents a solid 94 days cash on hand.
- Assets increased in FY 09 due to the timing of cash payments from Santa Clara County and to a large one-time \$750,000 donation received at year end.
- Liabilities increased during the review period as a result of RCH's election to defer revenue related to the FY 07 and FY 08 Santa Clara County Cost Report. According to RCH, Santa Clara County is behind on their reconciliation of the cost report and RCH elected to defer some revenue.
- RCH appears to have managed its current liabilities well, with a strong current ratio of 5.97x in FY 09 which indicates RCH appears to have sufficient liquidity to meet its short-term obligations.
- During the review period, RCH had a debt to unrestricted net assets ratio of "Not Applicable as RCH had no long-term debt and with the proposed financing, the ratio will be a very low .03x.

EXHIBIT 1

UTILIZATION STATISTICS

**Clients Served
Fiscal Year Ended June 30,**

	2009	2008	2007
Totals	397	274	254

RCH currently has 30 beds with clients averaging a 9.2 month stay in their facility.

EXHIBIT 2

OUTSTANDING DEBT

As of FY 09, RCH has no existing long-term debt. With the proposed HELP II loan, RCH will have an estimated \$425,000 in outstanding debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background and Licensing

Founded in 1897, RCH non-profit agency initially established as an orphanage in Gilroy, California. Currently, RCH offers a full continuum of family-centered care, education and training to promote healing, healthy development and future success for abused children who have severe emotional and behavioral problems. The agency is governed by a volunteer Board of Directors and employs a staff of 172 individuals to administer and provide services through its mental health and community living programs. RCH currently contracts with governments, primarily through Mental Health and Foster Care with Santa Clara County. These contracts allow RCH to provide therapeutic treatment for abused children and their families.

Licensing:

RCH is licensed by the California Department of Social Services to operate and maintain a group home, which is located at 290 I.O.O.F. Avenue, Gilroy, California 95020.