

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

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:	940 South 10 th Avenue, CA 93230 or proposed street number as may be assigned by the City	Date Requested:	February 24, 2011
Facility Type:	Adult Day Care Center	Amended Resolution No.:	HII-235
Prior HELP II Borrower:	No.		

Exceptions: KRC requests the board amend Resolution No.235 (previously approved at the January 2010 meeting) to extend the expiration date for one year, currently set to expire February 26, 2011. The terms and project details remain the same. The explanation for the delay is detailed on page 2.

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.

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

Financing Structure:

- 15-year fixed rate loan. 180 equal monthly payments of approximately \$5,179 (yearly payments of approximately \$62,148).
- Corporate gross revenue pledge.
- First (1st) lien position on property located at 940 South 10th Avenue, 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 continued positive operating results. Additionally, KRC's balance sheet appears solid with approximately \$4.2 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 7.38x.

Estimated Sources of Funds

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

Estimated Uses of Funds

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

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

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

Parties of Interest: *(Included for the purpose of discerning conflicts of interest)*
First American Title Company

Staff Recommendation: Staff recommends approval of amended Resolution Number HII-235 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, Gini & O'Connell, LLP, the Authority's financial analyst, concurs with the Authority's staff recommendations.

I. RATIONALE FOR EXTENSION OF RESOLUTION:

KRC’s existing resolution expires on February 26, 2011. KRC was unable to initiate the project previously approved by the board as the City of Hanford (“City”) subsequently issued modified irrigation regulations which then required KRC’s architect to submit updated plans (accommodating the new regulations) for City approval. After reviewing the plans, the City requested alterations in the engineering portion of the plans concerning fire hydrants. Ultimately, approval of KRC’s new plan was greatly prolonged until such time as completion of the project within the timeline originally contemplated by the Authority’s resolution became untenable. The construction project is now expected to begin June 2011.

II. PURPOSE OF FINANCING

KRC seeks to invest approximately \$1.6 million in its 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 (land is currently owned by KRC and unencumbered), located at 940 South 10th Avenue 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 on a daily basis. 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 2011 and is anticipated to be completed in June 2012.

The proposed HELP II loan will be secured by a first (1st) lien position on property owned by KRC located at 940 South 10th Avenue, 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.

Equipment **35,000**

KRC plans to purchase furniture and equipment for the newly constructed DTAC. The equipment will be paid entirely by KRC.

Financing Costs **12,000**

Authority Fees..... \$9,375
Title and Escrow 2,625

Total Uses of Funds **\$1,650,000**

III. FINANCIAL STATEMENTS AND ANALYSIS

Kings Rehabilitation Center, Inc.

Statement of Activities

Unrestricted

	For the Year Ended June 30,		
	2010	2009	2008
Revenue and support:			
Public support	\$ 1,866	\$ 2,380	\$ 6,348
Program service fees	3,923,012	4,669,160	4,738,062
Rent income	68,793	69,985	67,117
Interest income	8,920	35,558	27,700
Other income	71,071	54,001	358,120
Total revenue and support	4,073,662	4,831,084	5,197,347
Expenses:			
Salary, wages, employee benefits	2,633,309	3,113,883	3,103,495
Depreciation	241,960	249,855	225,755
Supplies	256,913	246,609	243,973
Insurance	186,754	233,797	267,604
Repairs and maintenance	135,413	133,246	142,820
Professional fees	117,769	123,333	85,403
Transportation	101,624	120,851	140,749
Occupancy	59,796	57,721	55,903
Telephone	25,874	54,256	27,147
Employment costs	61,297	51,819	71,447
Other	18,768	31,671	20,349
Conference and training	5,774	11,467	16,877
Equipment rental	6,455	7,573	2,779
Dump fees	-	1,410	2,986
Total expenses	3,851,706	4,437,491	4,407,287
Change in unrestricted net assets	221,956	393,593	790,060
*Unrestricted net assets, beginning of year	3,995,513	3,601,920	2,886,497
*Unrestricted net assets, end of year	\$ 4,217,469	\$ 3,995,513	\$ 3,676,557

*FY 2008 Unrestricted net assets, end of year does not match 2009 beginning of year. Off by est \$74,000, due to prior period adjustments.

Kings Rehabilitation Center, Inc.

Financial Position

	<u>2010</u>	<u>As of June 30, 2009</u>	<u>2008</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$1,126,267	\$ 840,685	\$ 791,009
Certificates of deposit	606,004	599,665	839,551
Accounts receivable	738,301	642,252	567,082
Inventories	4,324	4,549	5,222
Prepaid expenses	11,587	9,118	11,698
Total current assets	<u>\$2,486,483</u>	<u>2,096,269</u>	<u>2,214,562</u>
Property and equipment	2,004,267	2,246,227	1,679,172
Construction in progress	87,289	59,040	205,701
Total assets	<u>\$4,578,039</u>	<u>\$ 4,401,536</u>	<u>\$ 4,099,435</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable and accrued expenses	\$178,210	\$ 187,218	\$ 295,564
Accrued program liability	24,879	24,879	0
Current obligation under capital lease	9,958	9,151	10,422
Deferred revenue	8,167	7,167	8,617
Accrued vacation payable	96,621	116,622	93,410
Security deposits	1,270	1,270	1,270
Total current liabilities	<u>\$319,105</u>	<u>346,307</u>	<u>409,283</u>
Accrued Program Liability	41,465	49,758	0
Obligation under capital lease	0	9,958	13,595
Total liabilities	<u>\$360,570</u>	<u>\$406,023</u>	<u>\$422,878</u>
Unrestricted - net assets	\$4,217,469	\$3,995,513	3,676,557
TOTAL LIABILITIES AND NET ASSETS	<u>\$4,578,039</u>	<u>\$ 4,401,536</u>	<u>\$ 4,099,435</u>

Financial Ratios:

**Proforma (a)
FYE June, 2010**

Debt service coverage (x)	7.38	534.85	169.09	377.79
Debt/Unrestricted Net Assets (x)	0.18	N/A	N/A	N/A
Margin (%)		5.45	8.15	15.20
Current Ratio (x)		7.79	6.05	5.41

(a) Recalculates FY 2010 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 positive operating results with solid margins. 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 mostly from program service fees. KRC does not have a contract with Medi-Cal or Medicare.
- 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.
- Spending cuts were made in FY 2010 and is exhibited in the income statement, with significant cuts in salaries, wages and employee benefits to help offset declining program service fees.

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,

For FY 2010, KRC's balance sheet appears solid with good liquidity of over \$1.1 million in cash and cash equivalents and a strong current ratio of 7.79x. KRC's proforma debt to unrestricted net assets is a very low 0.18x, indicating low leverage. KRC has very good operating cash flow and currently possesses a solid proforma debt service coverage ratio of 7.38x, which indicates KRC's likely ability to repay the proposed HELP II loan.

Particular Facts to Note:

- Over the review period the cash and cash equivalents increased from \$791,000 in FY 2008 to \$1.1 million in FY 2010.

EXHIBIT 1

UTILIZATION STATISTICS

**Clients Served
Fiscal Year Ended June 30**

	2010	2009	2008
Totals	167	168	169

EXHIBIT 2

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.

EXHIBIT 3

BACKGROUND AND LICENSURE

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.

Licensure, Certification and Accreditation

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