

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Eastfield Ming Quong, Inc. (“EMQ”) 251 Llewellyn Ave. Campbell, California 95008 Santa Clara County	Amount Requested: \$844,753 Requested Loan Term: 15 years Date Requested: July 26, 2007 Resolution Number: HII-198
Project Site: 232 E. Gish Road, San Jose, CA 95112 Facility Type: Group Home	
Background: EMQ is a leading provider of children’s mental health, (by and through a program called “Wraparound”), and social services in California. EMQ annually provides help to more than 6,000 children and family members help to regain mental and social wellbeing. EMQ is nationally recognized for innovation in family-centered, strengths-based programs for children and adolescents struggling with issues such as severe depression, suicidal thinking, drug or alcohol abuse, and severe attention deficit/hyperactivity.	
Use of Loan Proceeds: HELP II Loan proceeds will be used to refund the 1994 STARTS Series B bonds, the implementation of which has historically imposed on the borrower an ongoing shortfall in the debt service reserve fund. This financing also has the beneficial effect of reducing the debt service payments providing an annual debt service savings of approximately \$26,000.	
Type of Issue: HELP II Loan Prior HELP II Borrower: No Payments Current: N/A	
Financial Overview: EMQ’s has shown strong operation margins over the review period due to continued growth and varied revenue base. EMQ’s balance sheet shows strong liquidity, minimal debt and significant growth of net assets.	
<u>Estimated Sources of Funds:</u>	<u>Estimated Uses of Funds:</u>
HELP II loan \$844,753	Refund 1994 STARTS bonds \$832,839
Total Sources <u>\$844,753</u>	Financing Costs <u>11,914</u>
	Total Uses <u>\$844,753</u>
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 Eastfield Ming Quong, Inc., in an amount not to exceed \$844,753 for a term of 15 years and financing terms acceptable to the Authority.	

STAFF SUMMARY
Eastfield Ming Quong, Inc.
("EMQ")

July 26, 2007

Resolution Number: HII-198

I. PURPOSE OF FINANCING: HELP II Loan proceeds will be used to refund the 1994 STARTS Series B bonds, the implementation of which has historically imposed on the borrower an ongoing shortfall in the debt service reserve fund. This financing also has the beneficial effect of reducing the debt service payments providing an annual debt service savings of approximately \$26,000

Refund Authority 1994 STARTS Series B Bonds.....**\$832,839**

EMQ seeks to refund the 1994 STARTS Series B Bonds that were previously used to refinance a high interest balloon financing on this facility. Management estimates the current value at \$2.7 million dollars, leading to a combined loan to value ratio of 31%.

Financing Costs **11,914**

Authority Closing Fee.....9,913

Title/escrow/Other fees.....2,000

Total.....**\$844,753**

Financing structure and terms:

- 15-year fully amortized loan in the amount of \$844,753
- 180 equal monthly payments of approximately \$5,834 (total annual payments \$70,016).
- Total interest payments of approximately \$205,314.
- A first lien position on 232 E. Gish Road, San Jose, CA 95112
- A first lien position on corporate gross revenues.

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II. FINANCIAL STATEMENTS AND ANALYSIS:

Eastfield Ming Quong, Inc. Statement of Activities (Unrestricted)

	For the Year Ended June 30		
	2006	2005	2004
Revenue:			
Contributions	\$ 833,409	\$ 539,139	\$ 649,641
Contributions in-kind	-	3,891	38,809
Special events, net	-	16,241	14,781
Public sales, net	646,683	590,878	570,193
United Way	-	13,878	-
Government grants & fees	45,879,051	43,779,528	45,162,238
Interest income	571,316	638,939	460,833
Investment income	479,341	628,164	688,950
(Loss) gain on disposal of assets	(5,969)	(2,712)	(126,004)
Rental income	54,338	45,624	84,237
Other income	258,149	600	17,466
Fees for services	80,706	92,767	286,897
Assets released from restrictions	584,859	352,523	(111,940)
Total Revenues	<u>49,381,883</u>	<u>46,699,460</u>	<u>47,736,101</u>
Expenses:			
Salaries & employee benefits	28,376,532	29,945,040	30,802,788
Interest	-	271,412	406,420
Professional fees	812,749	1,634,711	1,682,189
Foster parent fees	1,794,918	1,853,669	1,957,950
Insurance	149,330	480,338	430,829
Maintenance	1,006,785	575,193	738,702
Telephone & utilities	924,892	742,553	772,713
Supplies and postage	484,463	535,728	703,186
Travel and auto	1,266,516	1,140,669	1,164,476
Clothing and flexible funds	811,818	728,916	775,833
Staff development	135,298	218,181	232,287
Recruiting and advertising	87,822	250,696	333,727
Lease and rental	1,052,354	1,223,262	1,222,513
Other	485,837	385,337	373,863
Depreciation & Amortization	1,265,172	1,252,085	1,235,477
Management & General	8,025,522	3,432,641	2,666,411
Fundraising	1,298,095	878,065	823,037
Total expenses	<u>47,978,103</u>	<u>45,548,496</u>	<u>46,322,401</u>
Change in net assets before extraordinary items	1,403,780	1,150,964	1,413,700
Prior year modifications	5,940,329	153,496	3,689,230
Change in unrestricted assets	7,344,109	1,304,460	5,102,930
Net Assets Beginning of Year	29,323,658	28,019,198	22,916,268
Net Assets, End of Year	<u>\$ 36,667,767</u>	<u>\$ 29,323,658</u>	<u>\$ 28,019,198</u>

Eastfield Ming Quong, Inc
Statement of Financial Position

	For the Year Ended June 30		
	2006	2005	2004
ASSETS:			
Cash	\$ 10,582,550	\$ 7,685,243	\$ 10,165,833
Investments	20,263,472	16,826,432	17,277,277
Accounts receivables, net	263,429	129,642	93,555
Grants receivables	7,418,677	7,989,023	3,717,623
Inventory	-	-	61,365
United Way Funding	83,009	103,761	103,761
Pledges and bequests, receivables	337,159	1,372,794	-
Prepaid expenses	1,078,022	1,180,242	756,444
Total Current Assets	40,026,318	35,287,137	32,175,858
Fixed Assets, net	16,465,751	12,680,787	12,774,612
Deposits	327,660	109,020	109,020
Deposits relating to bonds	667,128	626,382	668,095
Cash value of insurance	73,453	70,592	67,747
Pledges and bequests, receivables, long-term	94,808	-	-
Split interest agreements	3,430,954	-	-
Beneficial interests in pertetual trust	1,491,149	-	-
Investment in time share	7,400	7,400	7,400
Intangible assets, net	163,564	174,870	186,177
TOTAL ASSETS	\$ 62,748,185	\$ 48,956,188	\$ 45,988,909
LIABILITES			
Accounts payable	1,863,778	772,443	803,727
Accrued salaries & vacation	2,843,885	2,915,321	2,253,947
Accrued interest	23,812	27,342	41,967
Grants payable	3,002,343	2,448,033	2,477,517
Other accrued liabilities	1,452,118	970,467	904,093
Deferred revenue	-	-	500,000
Line of credit	-	500,000	-
Annuity payable, current portion	8,108	-	-
Capital lease, current portion	7,372	-	-
Bonds payable, current portion	280,000	270,000	255,000
Total Current Liabilities	9,481,416	7,903,606	7,236,251
Annuity payable, net	40,847	-	-
Capital lease, net	2,753	-	-
Bonds payable, net	5,663,210	5,939,178	6,205,146
Total long term liabilities	5,706,810	5,939,178	6,205,146
TOTAL LIABILITES	15,188,226	13,842,784	13,441,397
NET ASSETS			
Unrestricted	20,549,495	13,875,125	13,534,447
Unrestricted, board designated	16,118,272	15,448,533	14,484,751
Temporarily restricted	9,373,900	5,762,603	4,501,171
Permanently restricted	1,518,292	27,143	27,143
Total net assets	47,559,959	35,113,404	32,547,512
TOTAL LIABILITES & NET ASSETS	\$ 62,748,185	\$ 48,956,188	\$ 45,988,909

Financial Ratios:

	Proforma (1)			
	FYE 2006	2006	2005	2004
Debt Service Coverage (x)	10.57	10.27	5.2	10.17
Debt/Unrestricted Net Assets (x)	0.24	0.28	0.45	0.48
Margin (%)		13.28	2.78	9.92
Current Ratio (x)		4.22	4.46	4.45

(1) Recalculates June 2006 audited results to include the impact of this financing.

Financial Discussion:

EMQ's has shown strong operation margins over the review period due to continued growth and varied revenue base.

EMQ has posted positive operating income over the review period resulting in strong operating margins ranging from 9.92% in 2004 to 13.28% in 2006. EMQ also has a varied revenue base, which has experienced steady growth over the past three years. Government grants and fees is the largest source of revenue, which comes from Federal and County programs.

EMQ's balance sheet shows strong liquidity, minimal debt and significant growth of net assets.

EMQ has maintained excellent liquidity with over \$10.5 million in cash along with a good current ratio 4.22x. The debt to unrestricted net assets ratio is 0.28x, indicating a relatively low level of long-term debt. The proforma debt service coverage improves to 10.57x from 10.27x with this financing, seeming to indicate that EMQ should be able to manage the refunding of this debt into the HELP II loan program.

III. UTILIZATION STATISTICS:

	Clients Served Fiscal Year End June 30		
	2006	2005	2004
Totals	2636	2220	1973

IV. ORGANIZATION:

Background:

EMQ is a leading provider of children’s mental health, (by and through a program called “Wraparound”), and social services in California. EMQ annually provides help to more than 6,000 children and family members to help regain mental and social wellbeing. EMQ is nationally recognized for innovation in family-centered, strengths-based programs for children and adolescents struggling with issues such as severe depression, suicidal thinking, drug or alcohol abuse, and severe attention deficit/hyperactivity.

Headquartered in Campbell, California, EMQ offers an integrated network of services including “Wraparound” (a community-based program) and 24/7 treatment, support and educational services. EMQ’s Foster Family Agency provides temporary foster homes in 20 counties.

Licenses: EMQ is licensed by the Department of Social Services as a Foster Family Agency.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/06*	Estimated Amount Outstanding After Proposed Financing
Existing:			
CSCDA – COP Series 1997	\$7,025,000	\$5,118,210	\$5,118,210
CHFFA STARTS 1994B	1,040,000	825,000	0
Proposed:			
CHFFA HELP II Loan, 2007		N/A	844,753
TOTAL DEBT		\$5,943,210	\$5,962,963

*Amount Outstanding as of 6/30/07 includes the current portion of long-term debt.

VI. DUE DILIGENCE:

- Section 15438.5 of the Act (Savings Pass Through): EMQ has provided a description of its savings pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): EMQ 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 Eastfield Ming Quong, Inc., in an amount not to exceed \$844,753 for a term of 15 years and financing terms acceptable to the Authority.