

**CHFFA BOND FINANCING PROGRAM  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Vocational Visions (“VV”) 26041 Pala Street Mission Viejo, CA 92691 Orange County</p>	<p><b>Amount Requested:</b> \$2,465,000 <b>Date Requested:</b> May 27, 2010 <b>Requested Loan Term:</b> 25 years <b>Resolution Number:</b> 356</p>																																
<p><b>Projects Sites:</b> 26041 Pala and 23612 Alambre, Mission Viejo, California</p>																																	
<p><b>Facility Types:</b> Community Care Facility, Adult Day Care Nonprofit Accredited Community Work Activity Program</p>																																	
<p><b>Prior Borrower:</b> No</p>																																	
<p><b>Guideline Exception:</b> Staff recommends, at Borrower’s request, these bonds carry the rating assigned to the State of California with minimum denominations of \$5,000.</p>																																	
<p><b>Background:</b> Incorporated in 1975, VV is a California nonprofit providing programs to serve the vocational, economic, and social potential of persons with developmental disabilities and to promote the life potential of full community inclusion.</p>																																	
<p><b>Use of Proceeds:</b> Bond proceeds will be used to refinance an existing bank loan with Citicapital Commercial Corporation in the approximate amount of \$1.8 million for two of VV’s operating facilities. In addition, approximately \$100,000 will be used to fund capital improvements.</p>																																	
<p><b>Type of Issue:</b> Negotiated public offering with fixed rate bonds</p>																																	
<p><b>Credit Enhancement:</b> Cal-Mortgage Insurance</p>																																	
<p><b>Expected Credit Rating:</b> A- (S&amp;P) based on Cal-Mortgage Insurance</p>																																	
<p><b>Financing Team:</b> <i>Please see Exhibit 4 to identify Conflicts of Interest</i></p>																																	
<p><b>Financial Overview:</b> VV’s income statement appears to show operating improvement over the review period. VV’s balance sheet appears solid with \$2.56 million in unrestricted net assets. VV has an adequate proforma debt service coverage ratio of 1.44x. (Please see page five for more detail).</p>																																	
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<p><b>Due Diligence:</b> 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.</p>																																	
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve Resolution Number 356 in an amount not to exceed \$2,465,000 for Vocational Visions subject to a bond rating as assigned to the State of California by a nationally recognized rating agency and a final Cal-Mortgage commitment. Macias Gini &amp; O’Connell, LLP., the Authority’s financial analyst, concurs with the Authority’s staff recommendations.</p>																																	

**I. PURPOSE OF FINANCING:** VV plans to refinance an existing bank loan and fund capital improvements. With this refinancing, the bond debt payments will be approximately \$40,000 less per year than the current debt payments, allowing VV to increase its cash flow and redirect savings toward improvements in services and projects.

***Refinance loan with Citicapital Commercial Corporation Bank..... \$1,800,000***

VV intends to refinance an existing loan of approximately \$1.8 million with Citicapital Commercial Corporation. VV owns two facilities located about one block from each other on Pala Street (17,300 sq. ft) and Alambre Street (13,000 sq. ft.) in Mission Viejo, California. The original loan was obtained in 2001 and was used for the purchase of the Alambre facility and to refinance the Pala facility. This loan has a current interest rate of 6.4% with annual payments of \$226,000 and matures in October 2011. The two facilities are used to house administration as well as to provide services to the residents of Mission Viejo. The facilities are licensed as Adult Day Care.

***Capital Project Improvements ..... \$100,000***

VV has approximately \$100,000 in capital project improvements which include a new roof for both facilities.

***Debt Service Reserve Fund..... 181,000***

***Cal-Mortgage Bond Insurance..... 133,905***

***Contingency..... 2,795***

***Financing Costs ..... 247,300***

Cost of Issuance ..... \$220,390  
 Underwriters Discount ..... 26,910

**Total Uses of Funds..... \$2,465,000**

### III. FINANCIAL STATEMENTS AND ANALYSIS:

**Vocational Visions**  
**Statement of Activities**  
(Unrestricted)

	For the Year Ended June 30,		
	2009	2008	2007
<b>Revenue and Support:</b>			
Rehabilitation and fee income	\$ 4,451,859	\$ 4,272,187	\$ 4,154,101
Productions sales	64,280	109,351	125,951
Customer fees - offsite	492,945	543,222	413,364
Donations	733,326	667,615	667,606
United Way	115,359	126,820	136,011
Miscellaneous income	-	33,482	65,589
Other revenue	196,641	231,307	183,551
Net assets released from restrictions	104,469	27,214	4,739
Total revenue and support	<u>6,158,879</u>	<u>6,011,198</u>	<u>5,750,912</u>
<b>Operating Expenses:</b>			
Salaries - staff	3,168,602	3,014,953	2,867,844
Salaries - in-kind	631,002	635,580	538,745
Insurance	612,884	587,728	603,057
Salaries - clients	415,220	477,782	396,462
Payroll taxes	271,328	271,906	254,862
Depreciation	147,290	145,408	130,699
Other expenses	144,606	163,579	156,590
Repairs and maintenance	136,935	150,903	127,926
Interest	122,922	129,279	134,634
Supplies	98,195	100,457	82,919
Utilities	59,733	60,714	60,419
Mileage reimbursement	52,654	49,629	46,441
Auto expense	43,025	51,266	46,597
Contract labor	41,090	57,320	49,042
Telephone	28,219	35,768	38,674
Office administration	21,528	25,302	27,478
Total operating expenses	<u>5,995,233</u>	<u>5,957,574</u>	<u>5,562,389</u>
<b>Increase in unrestricted net assets</b>	<b><u>163,646</u></b>	<b><u>53,624</u></b>	<b><u>188,523</u></b>

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

<u>Payor Source</u>	<u>Percent</u>
Department on Developmental Services	94.9%
Department of Rehabilitation	5.1%
Total	<u>100.0%</u>

**Vocational Visions**  
**Financial Position**

	As of June 30,		
	2009	2008	2007
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 546,955	\$ 352,247	\$ 291,606
Accounts receivable	781,288	740,764	706,022
Inventory	11,060	12,000	-
Prepaid expenses	74,476	80,551	62,570
Total current assets	1,413,779	1,185,562	1,060,198
Land, building, and equipment, net of accumulated depreciation	3,088,023	3,163,778	3,278,612
Other Assets:			
Loan fees, net of amortization	13,500	19,500	25,500
Deposits	13,117	24,540	25,943
Cash held for long-term use	-	85,469	84,744
Investments	338,796	326,298	309,560
Total assets	\$ 4,867,215	\$ 4,805,147	\$ 4,784,557
<b>LIABILITIES AND NET ASSETS:</b>			
Current liabilities:			
Accounts payable	\$ 35,281	\$ 41,421	\$ 45,677
Accrued liabilities	185,023	194,300	210,642
Note payable, current portion	104,720	98,283	91,756
Total current liabilities	325,024	334,004	348,075
Long-term debt, net of current maturities			
Note payable, net of current portion	1,774,276	1,878,996	1,977,766
Total liabilities	2,099,300	2,213,000	2,325,841
Net assets:			
Unrestricted	2,561,853	2,398,207	2,344,583
Temporarily restricted	199,742	187,620	107,813
Permanently restricted	6,320	6,320	6,320
Total net assets	2,767,915	2,592,147	2,458,716
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,867,215</b>	<b>\$ 4,805,147</b>	<b>\$ 4,784,557</b>

Financial Ratios:	<u>Proforma</u> <u>FYE June 30, 2009</u>	2009	2008	2007
Debt service coverage (x)	1.44	1.96	1.49	2.06
Debt/Unrestricted Net Assets (x)	1.28	0.92	1.14	1.60
Margin (%)		2.66	0.89	3.28
Current Ratio (x)		4.35	3.55	3.05

## **Financial Discussion – Statement of Activities (Income Statement)**

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

VV's total revenues grew by 7% over the review period. In fiscal year 2009 (FY 09), VV reported revenues of \$6.1 million compared to \$5.7 million in FY 07. VV's revenue mix has remained relatively stable with rehabilitation and fee income making up over 72% of total revenues in each year of the review periods. Donation revenues have also represented a relatively constant proportion of the revenue budget, generating roughly 11% of revenues during the review period.

### *Particular Facts to Note:*

- From FY 07 to FY 09, VV's salary expenses increased by 10% which VV reports is primarily due to the growth in the Day Training Activity Center programs. VV hired 4 additional full time employees in FY 09 to accommodate increase in services.
- In FY 09, VV reports that it experienced improved operations, posting an increase of approximately \$163,000 in unrestricted net assets, primarily due to significantly higher patient revenues and visits.
- VV's revenues have increased by 7% while expenses have also increased by 7% over the review period, which appears to have given VV a stable net income.

## **Financial Discussion – Statement of Financial Position (Balance Sheet)**

**VV's balance sheet appears solid with \$2.56 million in unrestricted net assets. VV has an adequate proforma debt service coverage ratio of 1.44x.**

### *Particular Facts to Note:*

- VV's cash reserves have increased 85% from FY 07 to FY 09. As of FY 09, VV had approximately \$547,000 in cash, which represents 34 days cash on hand.
- VV appears to have managed its current liabilities well with a current ratio of 4.35x. The current ratio indicates that VV appears to have sufficient liquidity to meet its short-term obligations.
- As of FY 08, VV had a debt to unrestricted net assets ratio of .92x, and with the proposed financing the debt to unrestricted net assets ratio will be a more leveraged 1.28x.
- Current debt service coverage ratio appears to be solid at 1.96x. The proforma debt service coverage ratio remains adequate at 1.44x, with the proposed financing, indicating VV should likely be able to meet its debt obligations.

## EXHIBIT 1

### UTILIZATION STATISTICS

The following table shows utilization statistics of VV for the fiscal years ended June 30, 2009, 2008 and 2007:

	Fiscal Year Ended June 30,		
	2009	2008	2007
<b>ATTENDANCE DAYS</b>			
Work Activity Program	19,860	19,980	21,232
Day Training Activity Center	11,240	9,130	8,681
Emeritus	9,920	10,700	9,939
Adult Development Program	9,730	9,760	9,755
Health Related Services	7,890	7,830	8,137
<b>Total Attendance Days</b>	<b>58,640</b>	<b>57,130</b>	<b>57,744</b>

## **EXHIBIT 2**

### **OUTSTANDING DEBT**

As of fiscal year ending June 30, 2009, VV has approximately \$1.8 million in outstanding long-term debt, all of which is from the Citicapital loan. With this bond financing, VV's outstanding debt is expected to be \$2,465,000.

## **EXHIBIT 3**

### **BACKGROUND, GOVERNANCE AND LICENSURE**

#### **Background**

Vocational Visions (VV) provides a range of Adult Day Care training and employment programs for the Developmentally Disabled. VV was founded in 1974 and is located in Mission Viejo, California. VV is accredited by the Commission on Accreditation of Rehabilitation and is the only facility-based program in southern Orange County. VV has been affiliated with Saddleback Valley Unified School District (SVUSD) since its inception and counts SVUSD teachers and instructors amongst its 150 employees. VV currently has more than 450 clients and seven distinct programs including a Day Training Activity Center, Supported Employment, Adult Development, Work Activity, Emeritus, Health Related Services, and Clubhouse.

#### **Governance**

VV is governed by an 18-member Board of Directors, which meets bi-monthly. The Board is responsible for organizational overview, sets general policy, and provides financial oversight to VV. Standing committees include Finance, Personnel, and Fund development. Board members come from a wide variety of professions, including law, real estate, building, and community advocates. Terms are for two years and are limited to three consecutive terms.

#### **Licensure, Certification and Accreditation**

VV is licensed by the California Department of Social Services to operate and maintain an Adult Day Program as a Community Care Facility which is located 23612 Alambre Street, Mission Viejo, California 92691. VV also operates a Work-Activity Program accredited by the Commission on Accreditation of Rehabilitation located at 26041 Pala Street, Mission Viejo, California 92691.

## **EXHIBIT 4**

### **Financing Team**

Corporation Counsel: Jennings, Strauss & Salmon, P.L.C  
Financial Advisor: Shattuck Hammond Partners  
Bond Counsel: Quint & Thimmig LLP  
Underwriter: Wulff, Hansen & Co.  
Title Insurer: National Title Services  
Trustee: U.S. Bank National Association  
Trustee's Counsel: Dorsey & Whitney LLP