

**CHFFA HELP II PROGRAM  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Kids &amp; Families Together (“KFT”) 4001 Mission Oaks Blvd., Suite P Camarillo, CA 93012 Ventura County</p>	<p><b>Amount Requested – Refinance:</b> \$440,000 <b>Loan Term – Refinance:</b> 15-year fixed <b>Amount Requested – Renovations:</b> \$75,000 <b>Loan Term – Renovations:</b> 20-year fixed <b>Authority Meeting Date:</b> May 28, 2015 <b>Resolution Number:</b> HII-293</p>
<p><b>Project Site:</b> 856 East Thompson Blvd., Ventura, CA 93001 (Ventura County) <b>Facility Type:</b> Community Mental Health <b>Eligibility:</b> A community mental health center pursuant to Government Code section 15432(d)(16) <b>Prior HELP II Borrower:</b> No</p>	

**Background:** Opened in 2000, KFT is a not-for-profit support, education, and counseling resource center that provides services for the preservation of families as well as the physical, emotional, and mental health of children.

**Uses of Loan Proceeds:** The HELP II Loan proceeds will be used to refinance a loan issued by Clearinghouse Community Development Financial Institution (CCDFI) as well as for upgrades and deferred maintenance of its facility located at 856 East Thompson Blvd., Ventura, CA. The City of San Buenaventura holds a contingent loan<sup>1</sup> of \$260,000 on the property that will be subordinate to the HELP II loan. The loan matures March 1, 2025.

**Financing Structure:**

- 15-year, three percent (3%) fixed rate for CCDFI refinance.
- 180 equal monthly payments of approximately \$3,039 (yearly payments of approximately \$36,463).
- 20-year, two percent (2%) fixed rate for renovations.
- 240 equal monthly payments of approximately \$379 (yearly payments of approximately \$4,553).
- Corporate gross revenue pledge.
- First (1st) lien position on the property located at 856 East Thompson Blvd., Ventura, CA 93001.
- Subordination Agreement with City of San Buenaventura.
- Verification of Borrower’s funds to close escrow.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 45%).

**Financial Overview:** KFT’s balance sheet appears to exhibit the ability to repay its debt with a pro-forma debt service coverage ratio of 2.46x. KFT’s income statement appears to exhibit mixed operating results during the review period.

**Estimated Sources of Funds:**

HELP II Loan - Refinance	\$ 440,000
HELP II Loan - Renovations	75,000
Borrower funds	8,440
<b>Total Estimated Sources</b>	<b>\$ 523,440</b>

**Estimated Uses of Funds:**

Refinance existing loan	\$ 440,000
Renovations	75,000
Financing costs	8,440
<b>Total Estimated Uses</b>	<b>\$ 523,440</b>

**Due Diligence:** Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.

**Parties of Interest:** Chicago Title Company.

**Staff Recommendation:** Staff recommends approval of Resolution Number HII-293 for Kids & Families Together in an amount not to exceed \$440,000 for a term not to exceed 15 years for refinancing, and an amount not to exceed \$75,000 for a term of 20 years for renovations, contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, concurs with staff recommendations.

<sup>1</sup> No interest or principal payments are required on the contingent loan as long as KFT remains in compliance with the terms of the loan and complies with US Department of Housing and Urban Development rules and regulations.

**I. PURPOSE OF FINANCING:**

As part of its expansion of services plans for FY 2016, KFT seeks to reduce its overall long-term costs by refinancing its outstanding loan with CCDFI. Refinancing its only remaining long-term loan will better position KFT to utilize contracts and funding sources to provide more services. The refinancing will also allow KFT to avoid a balloon payment of \$345,000 due July 1, 2026. KFT also seeks to perform maintenance and upgrades to its facility at 856 East Thompson Blvd. in Ventura, CA, which have been deferred for the past few years. The plans for upgrading include repurposing existing space into administrative offices which will allow KFT to avoid renting additional office space.

***Refinance existing loan*..... \$440,000**

In August 2004, KFT entered into a purchase and sale agreement to acquire property at 856 East Thompson Blvd. in Ventura, CA. The acquisition included a contingent loan from the City of San Buenaventura of \$260,000, which matures March 1, 2025. No interest or principal payments will be required as long as KFT is not in default with any of the terms of the agreement with the City of San Buenaventura through the maturity date. In July 2011, KFT refinanced the loan with CCDFI, which currently has a 6.65% fixed interest rate and matures July 1, 2026. With the HELP II loan, the contingent loan will remain in place and be subordinate to the Authority's loan.

The HELP II loan will be secured by a first (1<sup>st</sup>) lien position on the property located at 856 East Thompson Blvd., Ventura, CA. An appraisal acceptable to the Authority will need to be completed prior to closing to reflect a loan-to-value ratio of less than 95%. KFT estimates the property value at \$1.1 million, reflecting a loan-to-value of 45%.

***Renovations*..... 75,000**

KFT will upgrade the existing structure located at 856 East Thompson Blvd. in Ventura, CA to improve access and usage. Upgrades will include repairing or replacing rear access stairs, interior and exterior painting of the building, recarpeting the interior, and repairing the front porch. A structure at the rear of the property will be remodeled and repurposed to program administrative offices.

***Financing Costs* ..... 8,440**

Authority Fees..... \$6,440

Title and Escrow Fees..... 2,000

**Total Uses of Funds..... \$523,440**

## II. KFT - FINANCIAL STATEMENTS AND ANALYSIS

### Kids & Families Together Statement of Activities (Unrestricted)

	For the year ended June 30,		
	2014	2013	2012
<b>UNRESTRICTED NET ASSETS</b>			
*Public support and revenue			
Contracts and program grants	\$ 1,418,269	\$ 1,160,771	\$ 1,131,266
Foundation grants	24,000	85,000	120,660
Contributions	204,917	126,321	76,743
Total public support and revenue	1,647,186	1,372,092	1,328,669
Other fees for service	15,288	25,349	37,134
Rental income	36,754	39,976	26,808
Other income	2,305	558	12,852
Net assets released from restrictions	-	13,743	11,257
Total revenues, fees and other income	1,701,533	1,451,718	1,416,720
Expenses			
Salaries	1,003,169	826,808	722,622
Payroll taxes	86,229	68,152	62,648
Employee benefits	51,094	39,605	36,702
Bank service charges	2,278	1,526	1,164
Conference and meeting	8,789	8,323	10,176
Depreciation and amortization	29,372	28,898	24,918
Equipment	18,894	10,400	6,272
Insurance	10,309	6,959	6,419
Interest	7,991	6	5,550
Office expenses	27,577	20,416	16,651
Printing and publications	8,115	3,084	8,748
Professional fees	13,500	30,311	75,869
Program services - contractors	180,186	233,478	217,898
Occupancy	139,432	119,024	112,179
Information technology	47,756	33,384	11,532
Travel	36,934	50,680	41,246
Specific assistance	15,987	23,015	5,700
+Other	1,927	5,714	3,818
Total expenses	1,689,539	1,509,783	1,370,112
Change in unrestricted net assets	11,994	(58,065)	46,608
<b>TEMPORARILY RESTRICTED NET ASSETS</b>			
Contributions	-	-	25,000
Releases from restrictions	-	(13,743)	(11,257)
Change in temporarily restricted net assets	-	(13,743)	13,743
Increase/(Decrease) in net assets	11,994	(71,808)	60,351
<b>Net assets at beginning of year</b>	<b>(38,752)</b>	<b>33,056</b>	<b>(27,295)</b>
<b>Net assets at end of year</b>	<b>\$ (26,758)</b>	<b>\$ (38,752)</b>	<b>\$ 33,056</b>

\*Other = Advertising, Dues and subscriptions, Fees, and Miscellaneous

#### \*Public Support and Revenue for FYE June 30, 2014

<u>Payor Source</u>	<u>Percent</u>
Government Contracts	86
Other	14
Total	100

**Kids & Families Together  
Statement of Financial Position**

<b>Assets</b>	<b>As of June 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Current assets:</b>			
Cash	\$ 5,837	\$ 15,142	\$ 28,473
Investments	4,400	3,559	-
Accounts receivable	221,889	155,019	192,355
Other receivables	2,100	5,228	1,032
Prepaid expenses	6,001	14,204	3,060
Total current assets	240,227	193,152	224,920
<b>Other assets:</b>			
Security deposits	7,096	4,395	-
Property and equipment	914,547	921,475	932,861
Loan fees	12,795	13,375	13,955
Total assets	\$ 1,174,665	\$ 1,132,397	\$ 1,171,736
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 48,833	\$ 37,553	\$ 37,670
Accrued payroll and other liabilities	45,749	34,345	297
Current portion of notes payable	9,388	18,769	8,200
Short-term note payable	25,000	-	4,000
Total current liabilities	128,970	90,667	50,167
<b>Long term liabilities:</b>			
Mortgages	712,453	720,482	728,513
Contingent mortgages	360,000	360,000	360,000
Total long term liabilities	1,072,453	1,080,482	1,088,513
Total liabilities	1,201,423	1,171,149	1,138,680
<b>Net assets:</b>			
Unrestricted	(26,758)	(38,752)	19,313
Temporarily restricted net assets	-	-	13,743
Total net assets	(26,758)	(38,752)	33,056
Total liabilities & net assets	\$ 1,174,665	\$ 1,132,397	\$ 1,171,736

**Financial Ratios:**

	<b>Proforma (a)</b>			
	<b><u>FYE June 30, 2014</u></b>			
Debt Service Coverage (x)	<b>2.46</b>	<b>1.29</b>	<b>0.23</b>	<b>1.10</b>
Debt/Unrestricted Net Assets (x)	<b>(28.96)</b>	<b>(40.43)</b>	<b>(28.37)</b>	<b>56.79</b>
Margin (%)		<b>0.70</b>	<b>(4.00)</b>	<b>3.29</b>
Current Ratio (x)		<b>1.86</b>	<b>2.13</b>	<b>4.48</b>

(a) Recalculates FY2014 audited results to include the impact of this proposed financing

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

**KFT's income statement appears to exhibit mixed operating results during the review period.**

KFT experienced a loss of approximately \$58,000 in FY 2013 as total revenues increased 2.5% and total expenses grew 10.2% over the previous year. KFT rebounded in FY 2014 with an operating gain of approximately \$12,000 as total revenue increased 17.2% while total expenses grew 11.9%, nearly the same rate as FY 2013. According to management, the loss in FY 2013 was due to 1) an underfunded program and 2) expected grant funding that had been received regularly in previous years did not materialize. According to management, the underfunded program, known as Alice's House, was sold in January 2015, which lowered KFT's annual debt payments and its overall outstanding long-term debt. Although KFT had regularly received a particular grant fund, according to management, grant funding may not always materialize as grant funds are very competitive and not every contributor gives to the same organization each year. KFT is currently implementing a Fund Development Plan and is hiring a Fund Development Director in order to further increase its fund raising efforts. Additional non-recurring costs in FY 2013 included relocating administration offices, which better positioned KFT for increased exposure and opportunities for growth.

### **Particular Facts to Note:**

- Foundation grants have decreased about 80% in total, from approximately \$121,000 in FY 2012 to approximately \$24,000 in FY 2014. Contributions, conversely, greatly increased from approximately \$77,000 in FY 2012 to approximately \$205,000 in FY 2014, which is a growth rate of 167%. According to management, the decrease in grants and increase in contributions are due to how KFT categorizes its income as none of the grants are restricted to a specific function or service. Taking grants and contributions as a whole, KFT has maintained about the same level throughout the review period.
- A significant portion of KFT's revenues come from government contracts. According to management, KFT's contract with Ventura County Behavioral Health, currently its largest, has been secured through FY 2016, providing sufficient time to make any necessary personnel adjustments should any existing contracts be terminated.
- Salaries, KFT's largest expense, has steadily increased from approximately \$723,000 in FY 2012 to approximately \$1 million in FY 2014, an increase of 38.8%. According to management, salaries have grown in direct relationship to program growth in FY 2013. As a result of the growth in its contract with the Ventura Community College District, one of KFT's larger contracts, as well as with the Ventura County Behavioral Health Program, KFT has gone from a staff of 25 in FY 2013 to 45 in FY 2014 and is currently at 55 in FY 2015. In addition, KFT shifted much of its contractors to employees, which also contributed to the increase in salaries.
- KFT decreased its expense for program services contractors from approximately \$233,000 in FY 2013 to approximately \$180,000 in FY 2014, a 22.8% decrease. According to management, the bulk of KFT's sub-contractor labor has been transferred to staff due to increased supervision of personnel needed to accommodate program growth.

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

**KFT's balance sheet appears to exhibit the ability to repay its debt with a pro-forma debt service coverage ratio of 2.46x. However, KFT appears to display a weak debt-to-unrestricted net assets ratio due to negative unrestricted net assets.**

In FY 2014, KFT appeared to display the ability to repay its debt with a debt service coverage ratio of 1.29x. According to management, KFT has further strengthened its ability pay its long-term debt with the sale of the underperforming Alice's House, which removed a loan of approximately \$277,000 along with a contingent mortgage of \$100,000 from its balance sheet. With the refinancing loan along with a small portion of new money, KFT appears to continue its ability to service its debt. KFT had a loss in FY 2013 that led to negative unrestricted net assets for that fiscal year. However, in FY 2014 KFT returned to profitability and moved closer to positive unrestricted net assets.

#### **Particular Facts to Note:**

- Cash has decreased in each of the three years of the review period, from approximately \$28,000 in FY 2012 to approximately \$6,000 in FY 2014, an overall drop of 79.5%. According to management, the majority of KFT's revenue is derived from government contracts, which takes a minimum of 45 days to receive reimbursement for services while KFT's payables are outstanding for a much shorter period of time. According to management, the sale of Alice's House has improved KFT's cash position and decreased monthly outlays. In addition, KFT has increased the amount of some of its contracts without any additional associated administrative costs, which contributes to an increase in KFT's overall cash position.
- Accounts receivable fluctuated from approximately \$192,000 in FY 2012 down to approximately \$155,000 in FY 2013, and then back up to approximately \$222,000 in FY 2014. According to management, the growth in accounts receivable directly relates to the growth in KFT's contracts. According to management, the drop in FY 2013 occurred because KFT used up one of its contracts before the end of the fiscal year, and therefore did not have that contract as part of its year-end receivables.
- Accrued payroll increased sharply from approximately \$300 in FY 2012 to approximately \$34,000 in FY 2013. FY 2014 saw another increase, but at a much less significant rate as it rose to approximately \$46,000. According to management, the growth in accrued payroll relates to sub-contractors being placed on KFT's staff. KFT implemented better accounting methods, and changed its payroll periods and pay dates, which also contributed to the overall increase.

**EXHIBIT 1**

**UTILIZATION STATISTICS**

**Clients Served / (Patient Visits)**

**Kids & Families Together  
Fiscal Year Ended June 30,**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Totals</b>	1,080 / (16,913)	810 / (12,864)	648 / (10,147)

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**EXHIBIT 2**

**OUTSTANDING DEBT**

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding<sup>(a)</sup> As of June 30, 2014</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<b>-EXISTING LONG-TERM DEBT:</b>			
Clearinghouse CDFI July 01, 2011	\$ 460,000	\$ 444,492	\$ -
City of San Buenaventura *Contingent Mortgage	260,000	260,000	260,000
<b>-PROPOSED NEW DEBT:</b>			
CHFFA HELP II Loan			515,000
<b>-TOTAL DEBT</b>		<u><u>\$ 704,492</u></u>	<u><u>\$ 775,000</u></u>

(a) Includes current portion of long-term debt

\*Matures March 1, 2025 with no principal or interest payments required as long as KFT remains in compliance with terms of the mortgage and complies with US Department of Housing and Urban Development rules and regulations.

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## **EXHIBIT 3**

### **BACKGROUND AND LICENSURE**

#### **Background**

Opened on January 1, 2000, KFT is a not-for-profit support, education and counseling resource center that provides services for the preservation of families and the physical, emotional and mental health of children. KFT's mission is to strengthen relationships by providing safe, supportive help that keeps family members emotionally connected to one another. Children who have experienced trauma, abuse, neglect, loss, grief and multiple placements often need extraordinary care, understanding and "attachment-focused" therapeutic interventions. Parents/caregivers need specialized education, support and strategies that will enhance their ability to raise safe, healthy and nurtured children.

KFT has contracts with Ventura County Human Services Agency and Ventura County Behavioral Health, to provide counseling and support services for children's health. In addition to counseling services, KFT also offers a supportive resource center where individuals, families, and community members can meet and share information and concerns. KFT continually seeks out innovative programs to meet the needs of its community.

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

KFT qualifies as a licensed community mental health center as defined in the Welfare and Institutions Code 5667 in accordance with Government Code Section 15432(d)(16). Per Section 5667 of the Welfare and Institutions Code, a nonprofit agency that has a contract with a county mental health program to provide mental health services as well as diagnostic and therapeutic services for individuals with diagnosed mental health problems shall be considered to be a licensed facility. KFT provides counseling and support services for children's health under its contract with Ventura County Human Services Agency and Ventura County Behavioral Health.

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Loan Program**

**Resolution Number HII-293**

**RESOLUTION APPROVING EXECUTION AND DELIVERY OF  
HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN  
PARTICIPATING HEALTH INSTITUTIONS**

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to provide secured or unsecured loans to participating health institutions to refinance existing debt and finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **Kids & Families Together** (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower in an amount not to exceed **\$440,000** for a term not to exceed **15 years** for the purpose of refinancing, and a second loan in an amount not to exceed **\$75,000** for a term not to exceed **20 years** for the purpose of renovations as each are described in the application filed with the Authority (the “Project”), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 15-year, three percent (3%) fixed rate for refinance;
2. 20-year, two percent (2%) fixed rate for renovations;
3. First (1st) lien position on property located at 856 East Thompson Blvd., Ventura, CA 93001;
4. Loan to value ratio not to exceed 95%;
5. Corporate gross revenue pledge;
6. Subordination Agreement with City of San Buenaventura; and
7. Verification of Borrower’s funds to close escrow.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loan may not be increased above the amount approved by the Authority and provided further that the loan continues to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the Program fund not to exceed those amounts approved by the Authority for the Borrower. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires six months from the date of approval.

Date of Approval: \_\_\_\_\_