CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicants:	Fellowship Homes (dba Casa de Modesto) ("FH"); and TLC Child & Family Services ("TLC"); (collectively the "Borrowers") (See Exhibit 1 for addresses)	**Amount Requested:**	FH: $3,205,000 TLC: 2,745,000
		Date Requested:	December 2, 2010
		Requested Loan Term:	FH: 8 years TLC: 14 years
		Resolution Number:	FH: 358 TLC: 359
Projects Sites:	**(**See Exhibit 2)		
Facility Types:	FH is a multi-level skilled nursing and residential care facility for the elderly. TLC operates group homes and community mental health centers for adolescent children.		
Prior Borrower:	Yes		

Background: FH was formed in 1960 and provides retirement living and health care services for the elderly.

TLC was established in 1975 and provides a broad range of mental health services, including shelter, education (non-public), guidance, foster care, and counseling to emotionally disabled children and their families.

Use of Proceeds: The bond proceeds will be used to refinance certificates of participation issued by the City of Sebastopol, to current refund outstanding bonds issued by the Authority, to fund debt service reserve funds, and to pay the costs of issuance including the fees and premiums associated with Cal-Mortgage insurance. As a result of this refunding, FH and TLC will realize a collective $438,000 in savings over the life of the bonds (FH savings is roughly $284,000 and TLC savings is roughly $154,000).

Type of Issue:	Negotiated public offering with fixed rate bonds (Minimum $5K denominations)
Credit Enhancement:	Cal-Mortgage Insurance (Pending approval)
Additional Security:	A fully funded debt service reserve fund
Expected Credit Rating:	A- (S&P) based on Cal-Mortgage Insurance
Senior Underwriters:	Piper Jaffray, Southwest Securities, and Edward D. Jones
Bond Counsel:	Quint & Thimmig LLP
Financing Team:	*Please see Exhibit 3 to identify possible conflicts of interest*

Financial Overview: FH's income statement appears to exhibit improved operating results during the review period FY 2007- FY 2009. FH's financial strength appears sound with a pro-forma debt service coverage ratio of 2.36x.

TLC's income statement appears to reflect near breakeven operations during FY 2009 with a decreasing operating margin from FY 2007 to FY 2009. This financing will likely improve TLC's capacity to service debt due to the anticipated lower debt service payments arising from this proposed refinancing.

<u>**Estimated Sources of Funds:**</u>		<u>**Estimated Uses of Funds:**</u>	
FH		**FH**	
Par amount of CHFFA bond	$ 3,205,000	Deposit to current refunding fund	$ 3,399,000
Transfers from prior issue DSR* funds	489,000	Deposit to DSR fund	321,000
Transfers from prior issue DS** funds	201,000	Cost of issuance	120,000
Additional required equity contribution	34,000	Gross bond insurance premium	111,000
Insurance reserve and payment	21,000		
TLC		**TLC**	
Par amount of CHFFA bond	2,745,000	Deposit to current refunding fund	2,701,000
Transfers from prior issue DSR funds	384,000	Deposit to DSR fund	260,000
Transfers from prior issue DS funds	42,000	Cost of Issuance	125,000
Transfers of prior issue insurance reserves and payment	24,000	Gross bond insurance premium	108,000
Total Sources	$ 7,145,000	**Total Uses**	$ 7,145,000

*** DSR: Debt Service Reserve** **** DS: Debt Service**

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

Staff Recommendation: Staff recommends the Authority approve Resolution Numbers 358 & 359 in an amount not to exceed $5,950,000 for FH and TLC subject to a bond rating of at least investment grade by a nationally recognized rating agency, and contingent upon approval of Cal-Mortgage insurance. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, the Authority's financial advisor, concurs with the Authority's staff recommendation.

(YD/CA)

I. PURPOSE OF FINANCING:

The proceeds of the proposed financing are to current refund two existing CHFFA insured revenue bonds for each of the borrowers and TLC's City of Sebastopol Certificates of Participation. As a result of this financing, FH and TLC will collectively realize an estimated $438,000 in savings over the life of the bonds (FH will save an estimated $284,000 and TLC will save an estimated $154,000).

Current Refund FH CHFFA Bonds **..** ***$3,399,000***

The proceeds will be used to current refund FH's CHFFA Insured Health Facility Refunding Revenue Bond Series 1996A that were issued to refund CHFFA's Insured Revenue Bonds, Series 1989A, the proceeds of which were used to finance the acquisition, construction, improvement, and equipping of certain health facilities owned and operated by Fellowship Homes.

(FH) Debt Service Reserve Fund **...** ***321,000***

(FH) Cost of Issuance **..** ***120,000***

(FH) Cal-Mortgage Premium **..** ***111,000***

Current Refund TLC CHFFA Bonds and COPs **.................................** ***2,701,000***

The proceeds will be used to current refund CHFFA 2000 Series A Bonds, and the 1997 City of Sebastopol Certificates of Participation (COPs). The proceeds were used to refinance certain outstanding notes payable and capital leases, and to construct and improve existing facilities.

(TLC) Debt Service Reserve Fund **..** ***260,000***

(TLC) Cost of Issuance **..** ***125,000***

(TLC) Cal-Mortgage Premium **..** ***108,000***

Total Uses of Funds.. **$7,145,000**

II. COVENANTS, SECURITY AND DISCLOSURES:

Cal-Mortgage Insurance. The Authority's approval of the issuance of the Bonds will be subject to the requirement that the Bonds are insured by the Office of Statewide Health Planning and Development ("Cal-Mortgage"). As the insurer for the Bonds, Cal-Mortgage will take the responsibility for negotiating the covenants with the Borrowers that it decides are necessary for this transaction. These covenants will be incorporated into the Regulatory Agreement which the Authority will be a party to, however, Cal-Mortgage is granted the power to amend, modify or terminate the terms of the Regulatory Agreement (including the covenants) without the Authority's consent.

Because of the role of Cal-Mortgage as the insurer of the Bonds, the covenants described below (other than the unconditional promise to pay) may be subject to change and further negotiation after the Authority's Board takes action on the Resolution relating to the Bonds.

Unconditional Promise to Pay. Each Borrower agrees to pay the Trustee all amounts required for principal, interest or reserve deposits and other payments and expenses designated in such Borrower's Loan Agreement. The primary source of payment for each Borrower's obligations under its Loan Agreement will be the monthly base rent payable by certain service providers for such Borrower's facilities as a portion of the total monthly rent payable by such service providers under long-term residency lease agreements with such Borrower.

Mortgage or Deed of Trust. Each Borrower's obligations under its Loan Agreement will be secured by a Deed of Trust on its facilities that are being refinanced with the proceeds of the Bonds. The Authority should note that the lien of the Deed of Trust can be released with the consent of Cal-Mortgage but without the consent of the Authority.

Pledge of Gross Revenues. Each Borrower pledges to deposit all revenues, income, receipts and money received into a Gross Revenues Fund over which the Trustee has a control deposit account agreement.

Negative Pledge Against Prior Liens. Each Borrower agrees not to create or assume any Lien upon Borrower's Property other than the Permitted Encumbrances.

Limited Permitted Encumbrances. Each Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Loan Agreement.

Debt Service Reserve. The Bonds shall be secured by a Bond Reserve Fund that will be funded at the time of issuance of the Bonds in an amount equal to maximum annual debt service on the Bonds or such lesser amount as shall be required to comply with applicable federal tax rules. The Bond Reserve Fund is available to make principal and interest payments if any of the Borrowers fail to deposit timely loan payments.

Debt Service Coverage Requirement. The Loan Agreement and the Regulatory Agreement will contain a debt service coverage requirement based on not less than 1.25 times annual debt service for TLC Child & Family Services and 1.20 for Fellowship Homes. A debt service coverage requirement is a ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments. This ratio can be based either on annual debt service for the next 12-months or maximum annual debt over the life of the bonds.

Additional Debt Limitation. Each Borrower agrees not to incur additional Indebtedness unless authorized by such Borrower's Loan Agreement.

Disposition of Cash and Property Limitations. Each Borrower agrees not to sell, lease or dispose of any property, plant or equipment or liquid assets unless authorized by such Borrower's Loan Agreement.

Comply with SEC Rule 15c2-12. The Borrowers will take such action as is necessary to comply with SEC Rule 15c2-12. The rule prohibits underwriters from underwriting municipal bond deals unless the issuer or borrower contractually agrees to disclose designated financial and operating information to the marketplace during the life of the bonds and to report designated "material events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.

Cash Requirements. Borrowers promise to annually measure the balance of their cash and cash equivalent assets and maintain them at a 30 days cash on hand level.

Current Ratio Requirement. Borrowers promise to annually measure the current ratio and maintain such at 1.50x.

<u>Staff has reviewed the entirety of this financing package and finds it to be acceptable.</u>

III. FINANCIAL STATEMENTS AND ANALYSIS:

Fellowship Homes

Statement of Activities

(Unrestricted)

	For the Year Ended December 31,		
	2009	2008	2007
Revenue:			
Skilled nursing	$ 3,740,267	$ 3,589,922	$ 3,577,803
Residential	1,170,490	1,095,559	1,141,809
Apartments	935,369	958,515	918,075
Casitas	307,121	484,820	478,010
Gain (loss) from investments	201,360	(815,177)	130,484
Donations and memorials	178,883	94,408	158,621
Other operating revenue	100,081	87,120	66,623
Ancillary	57,439	47,944	49,600
Interest and dividends	52,704	107,588	120,349
Other non-operating revenue	8,637	9,963	8,476
Net assets released from donor restrictions	6,321	4,382	42,195
Auxiliary activity	4,332	4,198	6,121
Total Revenue	6,763,004	5,669,242	6,698,166
Expenses:			
Nursing	2,280,838	2,310,007	2,199,647
Dietary	839,828	837,164	790,972
Administration	763,792	863,445	870,358
Plant operation and maintenance	534,279	505,886	508,403
Depreciation	471,382	469,535	449,750
Casitas	334,142	415,003	407,525
Housekeeping	307,919	302,671	285,520
Activities	254,701	239,961	261,999
Residential	251,297	251,318	263,533
Bond interest	232,207	246,930	261,719
Social services	52,358	55,231	49,534
Property insurance	22,778	23,281	24,653
Bond insurance	18,734	19,983	21,174
Other	7,320	7,320	7,320
Total Expenses	6,371,575	6,547,735	6,402,107
Change in unrestricted net assets	**391,429**	**(878,493)**	**296,059**
Unrestricted net assets - beginning of year	2,822,731	3,701,224	3,405,165
Unrestricted net assets - end of year	$ 3,214,160	$ 2,822,731	$ 3,701,224

Fellowship Homes
Financial Position

	As of December 31, 2009	2008	2007
ASSETS			
Current assets:			
Cash and cash equivalents	$ 375,332	$ 382,359	$ 996,601
Accounts receivable less allowance for doubtful accounts	304,788	257,860	173,806
Inventory	15,397	20,590	19,224
Prepaid expenses	166,646	147,968	126,870
Accrued interest receivable	1,041	1,041	1,041
Total current assets	863,204	809,818	1,317,542
Other assets:			
Property, plant, and equipment, net	4,392,470	4,305,283	4,225,316
Capital replacement fund	76,383	90,285	21,708
Bond reserve account	488,628	488,628	488,628
Other bond accounts	226,313	234,286	247,634
Investments	1,736,421	1,797,611	2,552,064
Charitable gift annuity	25,975	24,600	34,827
Deferred bond issue costs, net	70,757	78,076	85,396
Total assets	$ 7,880,151	$ 7,828,587	$ 8,973,115
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	$ 268,293	$ 330,733	$ 324,504
Accrued payroll and related expenses	445,692	430,984	427,832
Accrued interest payable	71,941	76,838	81,370
Tenant security deposits	72,469	71,425	66,133
Current portion of bonds payable	270,000	260,000	245,000
Current portion of annuity payable	1,633	1,442	1,905
Current portion of long-term debt	26,577	25,792	25,031
Total current liabilities	1,156,605	1,197,214	1,171,775
Long-Term liabilities:			
Bonds payable, less current portion	3,276,723	3,544,315	3,801,907
CHFFA loan, net of current portion	204,581	231,158	256,950
Annuity payment liability, less current portion	9,792	10,662	16,885
Total liabilities	4,647,701	4,983,349	5,247,517
Net assets:			
Unrestricted net assets	3,214,160	2,822,731	3,701,224
Temporarily restricted net assets	18,290	22,507	24,374
Restricted net assets	-	-	-
Total net assets	3,232,450	2,845,238	3,725,598
TOTAL LIABILITIES AND NET ASSETS:	$ 7,880,151	$ 7,828,587	$ 8,973,115

Financial Ratios:	**Proforma (a) FYE December 31, 2009**			
Operating Debt Service Coverage (x)	2.36	2.11	(0.31)	1.93
Debt/Unrestricted Net Assets (x)	1.07	1.09	1.34	1.09
Operating Margin (%)		5.79%	-15.50%	4.42%
Current Ratio (x)		0.75	0.68	1.12

[a] Recalculates FY 2009 audited results to include the impact of this proposed financing.

TLC Child & Family Services
Statement of Activities
(Unrestriced)

	For the Year Ended December 31,		
	2009	2008	2007
Revenue and Support:			
Fees and grants from government agencies	$ 6,713,503	$ 6,899,190	$ 6,579,614
Other income	25,004	54,630	77,236
Contributions and special events	19,575	62,815	55,226
Total revenue and support	6,758,082	7,016,635	6,712,076
Expenses:			
Salaries and benefits	4,055,143	4,060,161	3,702,807
Foster Parent Fees	759,923	927,494	1,042,913
Other	295,711	333,269	268,594
Rent	294,239	275,887	151,772
Payroll taxes	248,935	245,244	232,494
Interest	195,708	176,794	186,073
Food	165,504	169,717	125,809
Professional fees and contract services	117,262	119,748	149,970
School supplies	102,065	32,358	49,893
Vehicle operating costs	97,341	102,844	102,275
Depreciation	90,460	89,682	83,808
Insurance	77,924	82,390	92,978
Miscellaneous	75,168	127,789	99,686
Utilities	69,654	77,692	51,057
Telephone	58,036	55,642	48,822
Maintenance and repairs	58,000	56,734	63,237
Expendable equipment	51,193	60,968	65,145
Total expenses	6,812,266	6,994,413	6,517,333
Change in unrestricted net assets before refund and interest income	(54,184)	22,222	194,743
Loan overpayments refund and interest income	124,295	-	-
Change in unrestricted net assets	70,111	22,222	194,743
Unrestricted net assets - beginning of year	1,866,745	1,844,523	1,649,780
Unrestricted net assets - end of year	$ 1,936,856	$ 1,866,745	$ 1,844,523

TLC Child & Family Services
Financial Position

	As of December 31,		
	2009	2008	2007
ASSETS			
Current assets:			
Cash	$ 748,473	$ 878,110	$ 1,268,013
Accounts receivable	822,420	779,970	772,158
Deposits	43,947	47,571	31,865
Prepaid insurance	84,350	81,559	100,061
Other prepaid expenses	564,251	596,823	579,968
Total current assets	2,263,441	2,384,033	2,752,065
Other assets:			
Property and equipment	3,182,565	2,915,553	2,646,644
Total assets	5,446,006	5,299,586	5,398,709
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	$ 143,469	$ 153,624	$ 183,578
Accrued liabilities	391,226	372,656	323,049
Accrued unemployment liability	30,000	30,000	30,000
Capital lease obligations		3,158	7,026
Total current liabilities	564,695	559,438	543,653
Long-Term liabilities:			
Certificate of participation & CHFFA Bond	2,719,380	2,857,712	2,986,046
Notes payable	35,565	15,691	24,487
Line of credit	189,510	-	-
Total liabilities	3,509,150	3,432,841	3,554,186
Net assets:			
Unrestricted net assets	1,936,856	1,866,745	1,844,523
Temporarily restricted net assets	-	-	-
Restricted net assets	-	-	-
Total net assets	1,936,856	1,866,745	1,844,523
TOTAL LIABILITIES AND NET ASSETS:	$ 5,446,006	$ 5,299,586	$ 5,398,709

Financial Ratios:	**Proforma (a) FYE December 31, 2009**			
Operating Debt Service Coverage (x)	1.27	1.01	0.91	0.78
Debt/Unrestricted Net Assets (x)	1.52	1.51	1.65	1.65
Operating Margin (%)		-0.80%	0.32%	2.90%
Current Ratio (x)		4.01	4.26	5.06

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

FH's income statement appears to exhibit improved operating results during the review period FY 2007- 2009.

Particular Facts to Note:

- FH's operating margin has increased from 4.42% in 2007 to 5.79% in 2009, which appears to reflect that their profitability from their core business has increased.
- During the review period, revenue dropped by 15.36% from FY 2007 to FY 2008 primarily due to large losses on investments that resulted from the decline in the stock market, but they were able to repost a gain in investments in FY 2009 thus surpassing their FY 2007 revenue.
- The increases in total revenue from operations for the review period were attributed to increases in reimbursement rates and rental rates for FH's services (which excludes the one-time gains and losses on investments).
- Expenses have remained relatively stable during the review period.
- According to FH's interims for September 30, 2010, there is a minor loss of $10,379 from operations, which will be offset by non-operating revenues such as investment gains.

Financial Discussion – Statement of Financial Position (Balance Sheet)

FH's financial strength appears sound with a pro-forma debt service coverage ratio of 2.36x.

- FH's pro-forma debt-to-unrestricted net assets ratio is 1.07x, while FH's current ratio (measurement of liquidity), appears to be .75x, below the normal range, which appears to be due to their large sums in investments. The existing debt service coverage ratio is 2.11x, and with this financing the pro-forma debt service coverage ratio will improve to 2.36x, which indicates that FH should be able to repay the proposed CHFFA Bonds.
- FH's cash decreased by 62% from FY 2007 to FY 2008. FH reports the decrease was caused by the large losses on investments. According to FH's Financial Advisor, the loss on investments was the result of the decline in the stock market in 2008.
- According to FH's interims for September 30, 2010, it appears that FH is in a better cash position with cash of $454,296 compared to $375,332 in FY 2009.

Financial Discussion – Statement of Activities (Income Statement)

TLC's income statement appears to reflect near breakeven operations during FY 2009 with a decreasing operating margin from FY 2007 to FY 2009.

Particular Facts to Note:

- During the review period, unrestricted net assets appear to have increased from approximately $1,844,523 in FY 2007 to $1,936,856 in FY 2009, which shows a growth of 3.8%.
- Expenses have increased by about 5% from FY 2007 to FY 2009, which TLC reports that it is mostly due to a 9% increase in salaries and benefits. According to TLC, the salary increase is a result of opening a new transitional housing program and expanding the outpatient mental health services in FY 2008 which required an increase in staffing as well as an increase in salaries.
- TLC's revenue decreased from FY 2008 to FY 2009 by about 4%, which was primarily due to a combination of declines in the occupancy of its group homes, foster family services, and shelter care program.
- TLC's operating margin, which reflects their profitability from their core business, has decreased from 2.90% in 2007 to -.80% in 2009. This seems primarily to be due to an increase in expenses while revenues remained relatively stable.
- TLC had a loan overpayment refund and interest income, which consisted of over-remitted installment payments that earned interest over the past two years, to offset their loss in operations of $54,184 for FY 2009 making their net assets increase by $70,111.
- According to TLC's interims for September 30, 2010, their operations are improving with higher revenue and somewhat lower expenses, with an increase of unrestricted net assets of $319,467.

Financial Discussion – Statement of Financial Position (Balance Sheet)

TLC's financial statement appears to indicate this financing would likely improve their capability to repay their debt.

- Cash reserves decreased by about 31% from FY 2007 to FY 2008 and about 15% from FY 2008 to 2009. TLC indicates this decline in cash reserves was due to TLC making improvements in its facilities during FY 2008 and FY 2009.
- TLC's pro-forma debt-to-unrestricted net assets ratio appears to be leveraged at 1.51x, yet TLC is very liquid with a solid current ratio of 4.01x. The existing debt service coverage ratio appears to be 1.01x, and with this financing the pro-forma debt service coverage ratio will become an acceptable 1.27x.
- However, since CHFFA already has outstanding bond issues with TLC, this refunding will yield interest savings and lower bond maintenance costs (TLC is refunding a CHFFA Bond Series in addition to the COPs and is currently paying fees to two different trustees), resulting in a reduction of risk of default. In addition, the new bond series will remain insured by Cal-Mortgage.
- According to TLC's interims for September 30, 2010, its cash position appears to be $747,821, which is about the same amount exhibited in FY 2009.

V. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- **Section 15438.5(a) of the Act (Savings Pass Through)**: the Borrowers properly completed and submitted the "Pass-Through Savings Certification," in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement)**: the Borrowers properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations**: the Borrowers properly completed and submitted a description of its seismic requirements.
- **Religious Due Diligence**.
- **Legal Review**.

EXHIBIT 1

BORROWERS' ADDRESSES

Fellowship Homes
(dba Casa de Modesto)
1745 Eldena Way
Modesto, CA 95350
(Stanislaus County)

TLC Child & Family Services
1800 North Gravenstein Highway
Sebastopol, CA 95473
(Sonoma County)

EXHIBIT 2

PROJECTS' SITES

Fellowship Homes:

- 1745 Eldena Way, 1824 Plaza De Maria, Modesto, California;

TLC Child & Family Services:

- 1800 North Gravenstein Highway, Sebastopol, California;
- 1740 North Gravenstein Highway, Sebastopol, California;
- 11740 Occidental Road, Sebastopol, California;
- 400 Morris Street, Sebastopol, California;
- 3157 Frei Road, Sebastopol, California; and
- 8511 Sonoma Ave., Sebastopol, California.

EXHIBIT 3

FINANCING TEAM

Title Company:	Chicago Title Company
Trustee and Escrow Agent:	US Bank National Association
Trustee's Counsel	Dorsey & Whitney LLP
Rating Agency:	Standard and Poor's ratings service
Bond Insurer:	Office of Statewide Health Planning and Development (Cal-Mortgage Loan Insurance Division)
Bond Counsel:	Quint and Thimmig LLP
Underwriters:	Piper Jaffray, Southwest Securities, and Edward D. Jones
Disclosure Counsel:	Jennings Strouss & Salmon

EXHIBIT 4

UTILIZATION STATISTICS

Fellowship Homes:

	Year Ended December 31		
	2007	**2008**	**2009**
Senior Housing			
Units Available	68	68	68
Resident Days	23,202	23,469	22,588
Occupancy	94%	95%	91%
Residential Care[1]			
Licensed Beds	99	99	99
Available Beds	94	94	94
Patient Days	21,550	20,795	20,165
Occupancy	63%	61%	59%
Skilled Nursing			
Licensed Beds	59	59	59
Available Beds	59	59	59
Patient Days	21,177	19,967	20,110
Occupancy	98%	93%	94%

TLC Child & Family Services:

	Year Ended December 31		
	2007	**2008**	**2009**
Residential Treatment (Group Homes):			
Licensed and Available Beds	26	26	26
Average Daily Census	25.5	24.9	24.4
Occupancy percentage	98%	96%	94%
Average Number of Nonpublic School Clients	37.5	31.0	32.2
Average Number of Foster Family Clients	78.7	70.2	59.4
Average Number of Shelter Care Clients	6.6	5.3	3.4

EXHIBIT 5

OUTSTANDING DEBT:

Fellowship Homes:

Date Issued	Original Amount	Amount Outstanding* As of Dec. 31, 2009	Estimated Amount Outstanding after Proposed Financing
Existing Long-Term Debt:			
1996 California Health Facilities Financing Authority Series A	$ 6,065,000	$ 3,546,723	$ 0
2002 California Health Facilities Financing Authority HELP II Loan	400,000	231,158	231,158
1997 Charitable Gift Annuity Payment Liability	144,125	11,425	11,425
Proposed			
CHFFA Revenue Bond, 2011		N/A	**3,205,000**
TOTAL DEBT		**$ 3,789,306**	**$ 3,447,583**

TLC Child & Family Services:

Date Issued	Original Amount	Amount Outstanding* As of Dec. 31, 2009	Estimated Amount Outstanding after Proposed Financing
Existing Long-Term Debt:			
1997 City of Sebastopol Certificates of Participation	$ 1,700,000	$ 861,047	$0
2000 California Health Facilities Financing Authority Revenue Bonds	2,400,000	1,858,333	0
Line of Credit		189,510	189,510
Vehicle Loans Payable		35,565	35,565
Proposed 2011 CHFFA Revenue Bond		N/A	**2,745,000**
TOTAL DEBT		**$2,944,455**	**$2,970,075**

* Includes current portion of long-term debt.

EXHIBIT 6

BACKGROUND, GOVERNANCE AND LICENSURE

Fellowship Homes (FH):

Background

FH was formed in 1960 as a California nonprofit public benefit corporation. The primary purpose of FH is to provide retirement living and health care services for the elderly. FH owns and operates a multi-level long-term care facility located on one campus located at 1745 Eldena Way, Modesto, California. Three levels of care are provided at its facilities: senior housing apartments (68 units), residential care (99 beds licensed by the State of California Department of Social Services), and skilled nursing (59 beds licensed by the State of California Department of Public Health). FH serves the elderly community throughout the Modesto and outlying areas.

FH's health facility opened its doors in 1965 after construction was completed on 24 senior housing apartments, a 65-bed residential care facility and 22-bed skilled nursing facility. In 1978, due to an increasing demand for skilled nursing care, FH expanded its services by adding a new 59-bed skilled nursing wing to its existing residential care facility, which was expanded to a capacity of 84 beds by converting its existing skilled nursing beds to residential care use. In 1990, FH completed construction of 44 new senior housing apartments. Since 1995, FH has acquired three townhomes directly adjacent to its health facility that provide a total of 15 additional licensed residential care beds, increasing its residential care capacity to 99 beds.

Corporate Governance

FH is governed by a 15-member board of directors (the "Board"). Board members are selected from the life membership of FH, each serving three-year terms. Life membership is bestowed upon those who contribute $100 to the Corporation for a membership.

Licensure and Memberships

FH is currently licensed to operate a total of 158 beds (59 skilled nursing beds licensed by the State of California Department of Public Health and 99 residential care beds licensed by the State of California Department of Social Services). FH is a member of the California Association of Homes and Services for the Aging and is also an eligible provider under California's Medi-Cal program. FH is not an eligible provider under the Medicare program.

TLC Child & Family Services (TLC):

Background

TLC, a California nonprofit public benefit corporation was established in 1975. It is dedicated to providing shelter, education, guidance, foster care, and counseling to emotionally disabled children. TLC provides a broad range of mental health services to children who have been physically, sexually or emotionally abused, and to the children's family. TLC also treats children who have learning disabilities, developmental disabilities or have problems relating to drug abuse. TLC provides a range of behavioral health services including residential treatment, day treatment, foster care, and specialized educational services (nonpublic schools). TLC's facilities are located in or near the City of Sebastopol, approximately sixty miles north of the City of San Francisco. TLC's primary service area is Sonoma and Mendocino Counties (approximately 75% of TLC's clients originate from its primary service area), with its secondary service area covering much of northern California. The current estimated population of permanent residents living within TLC's primary service area is approximately 530,000.

TLC began operations in South Lake Tahoe in 1975. At that time, the primary focus was to provide a group home setting for children coming out of institutional care. Treatment style involved the extensive use of recreational therapy in an "Outward Bound" type program. In 1978, the program was incorporated and in 1980 the six bed program moved to its current location in the City of Sebastopol. The program has received the support of Sonoma County agencies, the local schools and TLC's neighbors.

Commencing in 1983, TLC opened a second home named the Phoenix Home. Rapid growth continued with the opening of the Hidden Lake Home in 1984, the Coast Home in 1985, and the Mariposa Home in 1987. These group homes provide settings for severely, emotionally disturbed adolescents between the ages of 12 and 19 years. During those years each home utilized an experienced, well educated and professional set of "live-in" parents, plus relief counselors.

In 1986, TLC was licensed to operate a Foster Family Agency program. This program was designed to provide foster homes for children whose needs were best met in smaller and less restrictive environments than those found in group homes. Normally, children in the foster homes have either completed a residential program or are at an age or behavioral make-up which precludes a more intense setting. They do, however, come from a variety of dysfunctional backgrounds including abandonment, neglect and multiple abuse situations.
In 1988, TLC began operation of Journey High School, a certified nonpublic school designed to provide special education services to severely emotionally disturbed children. Later in 1990, a second school was provided for another of TLC's programs, the Short Term Assessment Residential Treatment ("START") program.

Corporate Governance

TLC is governed by a Board of Directors, which consists of twelve voting members. There are currently four vacancies on the Board. The term of an elected director is for a period of one year. Directors may continue to serve for successive terms.

The Board has overall responsibility for the operation and management of all affairs relating to TLC. The following table lists the members and officers of the Board as of January, 2000, their tenure on the Board and their respective occupations.

Licensure, Certification and Accreditation

TLC's group home facilities are licensed by the State of California, Department of Social Services. TLC's community mental health center is certified by the County of Sonoma. TLC is accredited by the California Association of Services for Children, and the California Council of Community Mental Health Agencies.