

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Desert Haven Enterprises, Inc. (“DHE”) 43437 Copeland Circle Lancaster, CA 93535 Los Angeles County</p> <p>Project Site: 43437, 43439 & 43501 Copeland Circle, Lancaster, CA (Los Angeles County)</p> <p>Facility Type: Developmental Disability Services</p> <p>Eligibility: A qualified health facility pursuant to Government Code Section 15432(d)(19)</p> <p>Prior HELP II Borrower: Yes, 2003 (The current loan balance is \$188,667 and the monthly payments are current.)</p>	<p>Amount Requested: \$665,000</p> <p>Requested Loan Term: 15-year fixed</p> <p>Authority Meeting Date: June 28, 2012</p> <p>Resolution Number: HII-269</p>
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Background: DHE was established in 1954. In 1966, the organization began vocational training for adults. Currently, DHE serves 565 persons with development disabilities at its numerous facilities. A fuller description of the services provided by DHE can be found on page two of this report, as well as in the more detailed history of the organization found on Exhibit 3.

Uses of Loan Proceeds: Loan proceeds will be used to refinance an existing \$695,095 loan with a 6.1% variable interest rate. The loan is held by National Cooperative Bank (NCB) and was originally used to refinance the original loan to purchase three facilities. This refinancing will result in a total interest savings of approximately \$200,000 over the life of the loan, due to the lower interest rate. The additional savings will be utilized to improve existing programs.

Financing Structure:

- 15-year loan.
- 180 equal monthly payments of approximately \$4,593 (annual payments of about \$55,116).
- Corporate gross revenue pledge.
- 2nd lien position (subordinate to the existing HELP II loan) on three parcels of real property located at 43437, 43439 & 43501 Copeland Circle, Lancaster, CA. (Los Angeles County.)
- Verification of the borrower funds of approximately \$40,000 to pay off the existing loan and the new loan closing costs.
- Current appraisal for all three parcels mentioned supra to be received by the Authority before the close of the loan.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is 28%).

Financial Overview: DHE’s income statement appears to exhibit improving operating results during the review period. DHE’s balance sheet also appears solid with a satisfactory debt service coverage ratio and growing net assets. The proforma debt service coverage ratio for the proposed HELP II loan appears to be acceptable at 1.98x.

Estimated Sources of Funds:

HELP II Loan	\$	665,000
Borrower Funds		40,593
Total Estimated Sources	\$	<u>705,593</u>

Estimated Uses of Funds:

Refinance existing loan	\$	695,095
Financing costs		10,498
Total Estimated Uses	\$	<u>705,593</u>

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: *(Included for the purpose of discerning conflicts of interest)*

Title Company: Fidelity National Title Company

Staff Recommendation: Staff recommends approval of Resolution Number HII-269 for Desert Haven Enterprises, Inc. in an amount not to exceed \$665,000 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. PURPOSE OF FINANCING: DHE seeks to refinance the outstanding balance of an existing loan with a 6.1% variable rate to improve its cash flow and lower its interest expense. This refinancing will result in approximately \$200,000 in total interest savings over the life of the new loan, which will be used to expand DHE’s existing programs and services for its growing developmental disabilities clientele.

Refinance Existing Loan ***\$695,095***

The proposed loan seeks to refinance an approximate \$695,095 outstanding loan secured by existing facilities located at: 43437, 43439 & 43501 Copeland Circle, Lancaster, CA. 93535.

The three facilities are utilized for separate functions by DHE. The facility located at 43437 Copeland, built in 1984, is 17,500 square feet. The facility consists of offices, cafeteria for staff and consumers, and a program area for the Work Readiness program clients. Work Readiness is a community based vocational skills training program. This facility is where the clients report to in the morning before going to work on their community crews and where they return to in the afternoon to be picked up by their transportation at the end of the program day. This facility is also used for training and in-services for consumers.

The second facility located at 43439 Copeland was built in 1992 and is two stories high at 17,680 square feet. The first floor is licensed for and operates the Project Independence program. Project Independence is a day program teaching social and daily living skills. The first floor consists of offices and classrooms. The second floor consists of offices and classrooms utilized for the Supported Employment Individual Placement program.

The third facility located at 43501 Copeland is a warehouse which houses the janitorial equipment and cleaning supplies. The warehouse was originally built in 1992 at 3,020 square feet and had 1,980 square feet added on in 2002. DHE provides maintenance training to their clients as part of its Work Readiness program.

The HELP II loan will be secured by a second lien (2nd) position (subordinate to the existing HELP II loan) on the above-mentioned properties. According to DHE’s management, these properties have a cumulative estimated current fair market value of \$3 million. The proposed HELP II loan combined with the \$188,000 existing HELP II loan results in an estimated combined loan to value ratio of approximately only 28%. CHFFA requires an appraisal to confirm the cumulative value of the properties as a condition to the close of the new loan.

Financing Costs ***10,498***

Authority Fees	\$8,313
Title and Escrow	<u>2,185</u>

Estimated Uses of Funds ***\$705,593***

II. FINANCIAL STATEMENTS AND ANALYSIS

Desert Haven Enterprises, Inc.

Statement of Activities

Unrestricted

	For the Year Ended June 30,		
	2011	2010	2009
Revenue and support:			
Grants	\$ 4,626,836	\$ 3,645,956	\$ 2,329,722
Other service income	3,067,280	2,941,742	3,571,961
Product & sales	113,848	113,953	109,799
United Way allocations	14,381	42,578	26,069
Contributions	22,791	15,565	35,171
Investment income	1,447	2,891	2,874
Miscellaneous income	15,396	20,058	3,153
Net assets released from restriction	-	-	20,632
Total revenue and support	<u>7,861,979</u>	<u>6,782,743</u>	<u>6,099,381</u>
Expenses:			
Salaries and benefits	6,154,134	5,032,102	4,607,195
Occupancy	403,036	363,562	334,463
Depreciation	245,210	208,919	215,083
Supplies	222,462	199,173	185,530
Travel	226,405	195,015	160,980
Materials	163,540	154,375	148,598
Service agencies	116,025	107,029	126,220
Interest expense	85,304	86,088	85,014
Communications	72,334	59,347	52,401
Other	93,937	92,690	92,066
Total expenses	<u>7,782,387</u>	<u>6,498,300</u>	<u>5,915,484</u>
Change in unrestricted net assets	79,592	284,443	91,831
*Unrestricted net assets, beginning of year	<u>1,875,014</u>	<u>1,590,571</u>	<u>1,498,740</u>
*Unrestricted net assets, end of year	<u>\$ 1,954,606</u>	<u>\$ 1,875,014</u>	<u>\$ 1,590,571</u>

*Program Service Fees for FYE June 30, 2011

<u>Payor Source</u>	<u>Percent</u>
DDS & DOR	67%
Contracts	31%
In house program	1%
Donations	1%
	<u>100.00%</u>

DDS - Department of Developmental Services

DOR - Department of Rehabilitation

Desert Haven Enterprises, Inc.
Financial Position

	2011	As of June 30, 2010	2009
ASSETS:			
Current assets:			
Cash	\$ 635,209	\$ 613,428	\$ 332,226
Grants & contracts receivables	921,415	829,888	958,501
Prepaid expenses	113,059	75,428	51,906
Inventory	47,163	40,850	32,607
Total current assets	1,716,846	1,559,594	1,375,240
 PROPERTY AND EQUIPMENT:			
Net of accumulated depreciation	2,291,385	2,150,512	2,110,954
Total assets	\$ 4,008,231	\$ 3,710,106	\$ 3,486,194
 LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	176,220	53,307	94,444
Current portion of notes payable	276,167	224,558	164,722
Accrued wages & payroll taxes payable	196,825	236,200	185,030
Line of credit payable	95,626	-	59,173
Compensated absences	164,722	115,636	115,636
Total current liabilities	909,560	629,701	619,005
 Long-Term Debt:			
Notes Payable	1,119,471	1,180,942	1,253,487
Total liabilities	2,029,031	1,810,643	1,872,492
 Net Assets:			
Temporarily restricted	24,594	24,449	23,131
Unrestricted	1,954,606	1,875,014	1,590,571
Total net assets	1,979,200	1,899,463	1,613,702
TOTAL LIABILITIES AND NET ASSETS	\$ 4,008,231	\$ 3,710,106	\$ 3,486,194

Financial Ratios:

Proforma (a)
FYE June, 2011

Debt service coverage (x)	1.98	1.32	2.31	1.77
Debt/Unrestricted Net Assets (x)	0.70	0.71	0.75	0.84
Margin (%)		1.01	4.19	1.51
Current Ratio (x)		1.89	2.48	2.22

(a) Recalculates FY2011 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

DHE's income statement appears to exhibit positive operating results for all three fiscal years.

During the review period, DHE expanded its operations and clients served from 484 in FY 2009 to 565 in FY 2011. DHE also managed to post increases as well as decreases of unrestricted net assets ranging from approximately \$92,000 in FY 2009 to \$284,000 in FY 2010 to a decline of \$79,000 in FY 2011. According to DHE, the fluctuation over the review period is largely attributed to the grants revenue and the salaries and benefits expenses. From FY 2009 to 2010, DHE's grants revenue increased 56%. Additionally, in May of 2009, DHE transitioned from a sheltered workshop with a low reimbursement rate to a community based vocational program with a reimbursement rate three times higher, but with this new program, salaries and benefits increased in FY 2010 and kept increasing FY 2011 because DHE was transitioning existing staff and hiring new staff.

Particular Facts to Note:

- Grants for DHE increased over the review period from approximately \$2.3 million in FY 2009 to \$3.6 million in FY 2010 and \$4.6 million in FY 2011. According to DHE, the increase in grants relates to the changes in the programs DHE offers. Specifically, DHE received three times higher grants from the Department of Social Services once DHE began offering the community based vocational training program, rather than the former sheltered workshop.
- Salaries and benefits increased along with occupancy, travel and communications. According to DHE, the increases were due to the 15% increase in patients and program needs. Salaries and benefits increased when DHE implemented the new community based vocation training program. DHE also increased the staff size.
- Total net assets increased from \$1.6 million in FY 2009 to approximately \$1.9 million in FY 2011, an increase of 16% due to three years of successful positive operations, according to DHE.
- According to DHE, net assets released from restrictions during FY 2009 was due to the death of the wife of one of DHE's long standing board members; her family and friends gave donations to build a patio for DHE's clients in her name. When the money was received, it was put in a restricted account and the money shown in FY 2009 was moved from restricted funds and used for the patio.
- Staff reviewed the interim financial statements for the period ending FY 2012, and the borrower's interim unaudited numbers support an increase in unrestricted net assets of approximately \$85,000 which appears consistent with FY 2011 operating results.

Financial Discussion – Statement of Financial Position (Balance Sheet)

DHE's balance sheet also appears solid with a very strong debt service coverage ratio and growing unrestricted net assets.

Important Facts to Note:

- For FY 2011, DHE appears to have adequate liquidity with approximately \$635,000 in cash, resulting in 32 days cash on hand (above CHFFA's target of 30 days), indicating a healthy level of cash reserves.
- For the Proforma FY 2011, DHE is moderately leveraged, with debt to unrestricted assets of only 0.70x (below CHFFA's target ratio of less than 1.0x), thus suggesting DHE can likely handle additional debt.
- DHE's balance sheet appears to be improving, with total net assets growing from \$1.61 million in FY 2009 to \$1.97 million in FY 2011, an approximate 15% increase due to positive operating cash flows, according to DHE.
- For FY 2011, DHE's debt service coverage ratio appears stable at 1.32x and with this financing, DHE's proforma debt service coverage ratio improves to 1.98x, indicating DHE should be capable of meeting its new debt obligations.
- DHE does not anticipate any future revenue cuts. DHE management does anticipate a portion of the state revenue cuts to be reinstated effective July 1, 2012, depending on the passing of the budget. According to management, this will increase DHE's revenue's by approximately \$100,000 annually.

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EXHIBIT 1

**Clients Served
Fiscal Year Ended June 30**

	2009	2010	2011
Totals	484	515	565

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EXHIBIT 2

OUTSTANDING DEBT

Desert Haven Enterprises, Inc.

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of June 30, 2011^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<i>-EXISTING LONG-TERM DEBT:</i>			
NCB, 2003	\$1,537,000	\$714,028	\$0
CHFFA, HELP II 2003	400,000	188,667	188,667
GMAC/ALLY	224,558	244,107	244,107
Wells Fargo	54,852	16,715	16,715
 <i>-PROPOSED NEW DEBT:</i>			
	<i>CHFFA, HELP II 2012</i>		\$665,000
<i>- TOTAL DEBT</i>		<u>\$1,163,517</u>	<u>\$1,114,489</u>

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Desert Haven Enterprises began with one parent seeking a playmate for her son who had developed brain damage and resulting mental retardation after having contracted meningitis. Responding to an ad placed by Luella Henstra in the local newspaper, a small group of parents met on July 15, 1954 in the Henstra's home. Out of that meeting grew the Antelope Valley Association for Retarded Children, later to become the Association for Retarded Citizen's of Antelope Valley, and today, Desert Haven Enterprises, Inc. The same year, preschool classes began in the homes of parents and by 1957, the classes had expanded to full-time at a separate facility built by community members, business persons and civic leaders on land donated by Luella and Jack Henstra.

In 1966, little more than a decade later, the organization began vocational training programs for adults. The 25,000 square foot Desert Haven facility was built in 1982 and included a 14,000 square foot industrial workshop. Numerous new programs were added and, in 1992, in anticipation of further expansion, DHE completed construction of the 16,000 square foot Administration/Program building, as well as a 3,000 square foot warehousing facility in 2001. The long-awaited day training activity center, Project Independence, opened in May 2007. Additional new programming opportunities are currently in the planning stages for development in the very near future.

Licensure, Certification and Accreditation

DHE is a developmental disability services program licensed by the State Department of Social Services.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

Resolution Number HII-269

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 make secured or unsecured loans to participating health institutions, as defined;

WHEREAS, the Authority established a HELP II Program to make loans to finance or refinance, among other things, all or a portion of the cost of acquiring, constructing, expanding, remodeling, renovating, improving, furnishing or equipping health facilities as authorized by the Act;

WHEREAS, **Desert Haven Enterprises, Inc.** (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan for the refinancing of an existing loan for three of its facilities (the “Project”), and the application has been reviewed by the staff of the Authority and must be approved by the Authority;

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 the amount of **\$665,000** for a term not to exceed **15 years** to refinance an existing loan as described in the application filed with the Authority, but solely to the extent there are available proceeds in the HELP II Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 15-year loan;
2. 180 equal monthly payments of approximately \$4,593 (annual payments of about \$55,116);
3. Corporate gross revenue pledge.
4. 2nd lien (subordinate the existing HELP II loan) position on real properties located at 43437, 43439 & 43501 Copeland Circle, Lancaster, CA (Los Angeles County);
5. Verification of the borrower funds of approximately \$40,593 to pay-off the financing costs;
6. Current appraisal for the parcels of real property mentioned in subparagraph no. 4 of this Section to be received by the Authority before the close of the loan; and
7. Combined loan to value ratio not to exceed 95% (estimated loan to value ratio is 28%).

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 approved pursuant to Section 1 hereof, 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, or that the Executive Director determines shall be funded from the HELP II Program. Any notice to an applicant approved hereunder shall indicate that the Authority shall not be liable to the applicant 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 HELP II Program fund not to exceed those amounts approved by the Authority for the Borrower in Section 1. 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 Authority hereby finds that the loan approved in Section 1 is for a Project eligible for financing pursuant to provisions of the Act.

Section 5. 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 6. This resolution expires one year from the date approved.

Date Approved: _____