

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
THE HELP II PROGRAM  
EXECUTIVE SUMMARY**

<b>Applicant:</b>	Humboldt Senior Resource Center, Inc. (“HSRC”) 1910 California Street Eureka, CA 95501 Humboldt County	<b>Amount Requested:</b>	\$750,000
		<b>Requested Loan Term:</b>	15 years
		<b>Date Requested:</b>	March 29, 2007
		<b>Resolution Number:</b>	HII-190
<b>Project Site:</b>	1925 California Street, Eureka, California 95501		
<b>Facility Type:</b>	Adult Day Health Center		
<b>Uses of Loan Proceeds:</b> Loan proceeds will be used to construct a new Alzheimer’s Center to help relieve the overcrowding at its existing facility and provide additional capacity.			
	<b>Type of Issue:</b>	HELP II Loan	
	<b>Prior HELP II Borrower:</b>	Yes	
	<b>Payments Status:</b>	Paid in full October 1999	
<b>Financial Overview:</b> HSRC’s income statement exhibits diversified revenue sources with positive operating results in FY 2006. The balance sheet reflects good liquidity with no long-term debt over the three-year review period.			
<b>Sources of Revenues</b>			
		<u>Amount</u>	<u>Percent</u>
	(FYE 06/30/2006)		
	Contracts and Exchange Transactions	\$ 1,439,825	36%
	Medi-Cal Revenue	1,198,282	30%
	Program Revenue	665,350	16%
	Contributions	373,653	9%
	Other	<u>381,907</u>	<u>9%</u>
	Total Revenue	<u>\$ 4,059,017</u>	<u>100%</u>
<b>Estimated Sources of Funds</b>			
		<u>Uses of Funds</u>	
	State and Federal Grants	\$1,463,462	Construction
	Private Grants & Foundations	1,451,576	\$5,104,663
	Bank Construction Loan	1,377,500	Equipment
	HELP II Loan	750,000	100,000
	Borrower Equity	<u>172,500</u>	Loan Fees
	Total Sources	<u>\$ 5,215,038</u>	<u>10,375</u>
			<u>\$5,215,038</u>
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.			
<b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$750,000 for a term not to exceed 15 years for Humboldt Senior Resource Center, Inc., subject to (1) approval of a \$1.38 million bank loan (2) a final appraised value on the property satisfactory to the Authority.			

**STAFF SUMMARY AND RECOMMENDATION  
THE HELP II PROGRAM**

March 29, 2007

Humboldt Senior Resource Center, Inc. (“HSRC”)  
Resolution Number: HII-190

**SECURITY PROVISION:** HSRC requests approval of a HELP II loan in the second lien position because HSRC is concurrently seeking a \$1.38 million bank construction loan in the first lien position. Staff recommends the Authority accept a second lien position based on a final appraised value of the property satisfactory to the Authority.

**I. PURPOSE OF FINANCING**

Because of the growing need for Alzheimer’s services in its community and the inability to meet the demand in its current space, HSRC seeks this loan to provide partial funds to construct a new facility. The existing site is at capacity and has had a waiting list for the past six years. The new Alzheimer’s Center will alleviate the overcrowding in the current facility and provide daycare to 60 additional clients per day. The Center will house a program providing specialized therapeutic day care for people with Alzheimer’s disease and related dementias and function as an educational and support facility for family caregivers and the community at large.

**Construction** ..... **\$5,104,663**  
HSRC plans to construct a two-story building (12,005 sq. ft.) next door to its existing Adult Day Health Care facility.

In addition to the proposed HELP II loan, the total project will be funded by a variety of sources. To date, HSRC has received approximately \$1.4 million of proceeds through its successful capital campaign along with commitments for two Community Development Block Grants in the total amount of \$810,500. HSRC is in the process of securing a bank construction loan in the amount of \$1.38 million and a small revolving line of credit (currently approximately \$262,000 – subject to change) to be used as bridge financing, if necessary, to assure adequate funding for the project regardless of the timing of the receipt of additional proceeds through its ongoing fundraising efforts.

**Equipment and Furniture** ..... **100,000**  
A portion of the funds will be used to purchase physical therapy, nursing equipment, and furniture to ready the new facility to serve patients.

**Financing Costs** ..... **10,375**

Authority Fees .....	\$9,375
Title/Escrow/Other .....	<u>1,000</u>

**Total Uses of Funds** ..... **\$5,215,038**

## **Financing Structure**

- 15-year fully amortized loan in the amount of \$750,000.
- 180 equal monthly payments of approximately \$5,179 (yearly payments of approximately \$62,152)
- Total interest payments of approximately \$182,285.
- A lien on corporate gross revenues.
- UCC-1 lien on equipment.
- Verification of Borrower's equity.
- A 2<sup>nd</sup> lien placed on property located at 1925 California Street, Eureka, CA 95501.
- A satisfactory appraisal on the property located at 1925 California Street, Eureka, CA 95501.

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## II. FINANCIAL STATEMENTS AND ANALYSIS

### Humboldt Senior Resource Center, Inc.

#### Statement of Activities

(Unrestricted)

	As of June 30,		
	2006	2005	2004
<b>Support and Revenue</b>			
Support			
Contracts and exchange transactions	1,439,825	1,377,235	1,342,362
Contributions	373,653	235,566	201,077
	<u>1,813,478</u>	<u>1,612,801</u>	<u>1,543,439</u>
Revenue and Gains			
Medi-Cal revenue	1,198,282	1,160,890	1,198,273
Program revenue	665,350	606,408	552,700
Fund-raising	24,075	14,275	69,153
Interest income	37,807	18,030	13,184
Other income	71,916	59,156	92,128
Gain on sale of assets	1,500	-	900
Realized gains on investments	2,678	-	1,268
Unrealized gains on investments	11,204	10,603	23,012
Total Revenue and Gains	<u>2,012,812</u>	<u>1,869,362</u>	<u>1,950,618</u>
Net Assets Released from Restrictions	<u>232,727</u>	<u>158,400</u>	<u>100,119</u>
Total Support, Revenue and Gains	<u>4,059,017</u>	<u>3,640,563</u>	<u>3,594,176</u>
<b>Expenses</b>			
Program Services			
Salaries, wages, and fringe benefits	2,273,123	2,144,787	2,026,978
Advertising	30,156	14,457	16,294
Contracted services	87,760	75,508	87,279
Equipment maintenance and rent	23,983	36,377	27,503
Insurance	21,659	21,387	22,696
Occupancy costs	89,136	81,481	100,269
Office expense and postage	32,857	31,636	28,770
Purchased meals	68,507	68,094	66,040
Raw food	217,517	194,504	207,485
Staff training and travel	37,515	33,614	41,490
Vehicle operations	38,976	33,976	28,081
Waived services	112,810	89,125	94,191
Administrative allocations	391,479	361,042	365,248
Depreciation	54,663	64,120	74,643
In-kind expense	83,675	83,744	77,569
Other expenses	202,207	176,883	203,719
Total Program Services	<u>3,766,023</u>	<u>3,510,735</u>	<u>3,468,255</u>
Support Services			
Fund-raising	132,365	121,472	78,584
General and administrative	57,629	89,777	89,205
Total Support Services	<u>189,994</u>	<u>211,249</u>	<u>167,789</u>
Total expenses	<u>3,956,017</u>	<u>3,721,984</u>	<u>3,636,044</u>
<b>Changes in unrestricted net assets</b>	<b>103,000</b>	<b>(81,421)</b>	<b>(41,868)</b>
Depreciation on grant funded fixed assets	(20,704)	(13,604)	(14,468)
Prior period adjustment	(32,191)	-	(39,649)
Unrestricted net assets, beginning of the period	<u>2,203,396</u>	<u>2,298,421</u>	<u>2,394,406</u>
Unrestricted net assets, end of the period	<u>\$ 2,253,501</u>	<u>\$2,203,396</u>	<u>\$ 2,298,421</u>

**Humboldt Senior Resources Center, Inc.**  
**Statement of Financial Position**

	<b>For the Year Ended June 30,</b>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets:</b>			
Current Assets			
Cash and cash equivalents	\$ 378,077	\$ 422,422	\$ 272,389
Account receivables (net)	198,152	234,734	242,956
Contracts and grants receivable	125,738	32,890	147,428
Interest receivable	6,457	-	-
Prepaid expenses	24,056	32,147	27,505
Inventory	18,603	18,051	14,601
Total current assets	<u>751,083</u>	<u>740,244</u>	<u>704,879</u>
Property and equipment (net)	<u>1,844,174</u>	<u>1,916,684</u>	<u>1,877,475</u>
Other Assets:			
Board designated endowment	282,346	282,346	146,634
Short term investments	807,492	298,899	497,620
Unconditional promises to give (net)	209,297	68,367	-
Total other assets	<u>1,299,135</u>	<u>646,612</u>	<u>644,254</u>
Total Assets	<u>\$ 3,894,392</u>	<u>\$ 3,303,540</u>	<u>\$ 3,226,608</u>
<b>Liabilities and Net Assets:</b>			
Current Liabilities:			
Accounts payable	\$ 123,842	\$ 106,931	\$ 111,988
Refundable advances	41,793	5,335	18,924
Accrued liabilities	188,615	182,782	177,267
Total current liabilities	<u>354,250</u>	<u>295,048</u>	<u>308,179</u>
Long Term Liabilities:			
Property reverting to funding source	<u>398,993</u>	<u>405,000</u>	<u>405,589</u>
Net Assets:			
Unrestricted	2,253,501	2,203,396	2,298,421
Temporarily restricted	887,648	400,096	214,419
Total net assets	<u>3,141,149</u>	<u>2,603,492</u>	<u>2,512,840</u>
Total liabilities and net assets	<u>\$ 3,894,392</u>	<u>\$ 3,303,540</u>	<u>\$ 3,226,608</u>

**Financial Ratios:**

	<b>Proforma (a)</b>			
	<b><u>FYE June, 2006</u></b>			
Debt service coverage (x)	1.04	N/A	N/A	N/A
Debt to unrestricted net assets (x)	0.94	N/A	N/A	N/A
Margin (%)	2.54	(2.24)	(1.16)	(1.16)
Current Ratio (x)	2.12	2.51	2.51	2.29

(a) Recalculates 2006 audited results to include the impact of this proposed financing and a pending \$1,377,500 bank loan estimated at 7% for a 25-year term.

## **Financial Discussion**

### **HSRC's income statement exhibits diversified revenue sources with positive operating results in FY 2006.**

HSRC's major sources of revenues are contracts and exchange transactions, Medi-Cal revenue, program revenue and contributions, which account for 36%, 30%, 16%, and 9% of total revenues, respectively. Total revenues increased 13% in FY 2006 as compared to FY 2004.

The increase in expenses during the most recent two fiscal years is due primarily to expansion in some programs resulting in higher staffing levels, personnel costs and fringe benefits as well as increased costs to remain competitive in retaining qualified staff.

In FY 2004, HSRC sustained a one-time casualty loss of \$30,000 due to a roof leakage contributing to the decline in the change in unrestricted net assets. Consistent with all organizations in the industry, health care costs continue to escalate. HSRC seeks opportunities to reduce costs wherever possible.

### **The balance sheet reflects good liquidity with no long-term debt over the three-year review period.**

HSRC maintains positive cash flows with long-term excess operating unrestricted cash and receivables net of liabilities ranging from \$250,000 - \$350,000. The current ratio is good averaging 2.31x over the review period indicating the organization's ability to pay its current obligations from current assets.

Temporarily restricted net assets more than doubled from FY 2005 to FY 2006 increasing over 314% since FY 2004. This notable increase is a result of its successful capital campaign efforts, with sizeable amounts to be used for the construction of the new Alzheimer's Center.

The balances under Current Liabilities in the Refundable Advances category represent amounts received from funding agencies and not expended for allowable program costs. HSRC records grants and contract revenues as Refundable advances until it is expended for the purpose of the grant or contract, at which time it is recognized as revenue.

HSRC had no long-term debt outstanding over the review period. With the pending \$1.38 million bank construction loan and this proposed financing, the proforma debt service coverage ratio will be 1.04x, slightly below the standard 1.10x. Management anticipates additional \$240,000 to \$340,000 in revenues to be generated from the first three years of operation of the new facility and expects to meet its debt service coverage obligations.

### III. UTILIZATION STATISTICS

**Clients Served/(Patient Visits)  
Fiscal Year Ended June 30**

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>February 2007</b>
<b>Totals</b>	711 / (10,870)	707 / (10,531)	726 / (10,224)	446 / (6409)*

*\* The statistic is for the eight-month period, July 2006 through February 2007.*

### IV. ORGANIZATION

#### Background

HSRC is a non-profit organization established in 1974 to provide a comprehensive choice of services to support seniors and caregivers in maintaining health, dignity, and self-determination for the people of Humboldt, Del Norte, and Trinity Counties. It currently provides a variety of services that include nutritional programs, social services, health services and an Alzheimer's resource center.

Adult Day Health Service facilities serve those with chronic mental and physical disabilities in the greater Eureka area and in the Fortuna/Eel River Valley area. HSRC has two care management programs in these areas, which help frail seniors remain independent in their homes. It also offers a wide range of activities and publishes a monthly senior newspaper. In addition, HSRC has senior dining centers in three cities, which serve hot, nutritious meals. Home delivered meals are provided to the homebound elderly from Trinidad to Fortuna.

#### Licenses

HSRC is certified by the California Department of Aging and licensed by the Department of Health Services to operate as an Adult Day Health Care provider.

#### Contracts

HSRC is subject to Medi-Cal contracting. It has been awarded a Medi-Cal contract by agreeing to provide community services and accept Medi-Cal and Medicare patients.

### V. OUTSTANDING DEBT

Historically, HSRC has had no long-term debt outstanding. In conjunction with this HELP II loan request for \$750,000, HSRC is applying for a \$1.38 million bank construction loan. The estimated bank loan interest rate will be 7% for approximately 25 years.

## **VI. DUE DILIGENCE:**

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

- Section 15428.5 of the Act (Savings Pass Through) HSRC has provided a description of its savings pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): HSRC 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 in an amount not to exceed \$750,000 for a term not to exceed 15 years for Humboldt Senior Resource Center, Inc., subject to (1) approval of a \$1.38 million bank loan (2) a final appraised value on the property satisfactory to the Authority.