

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Asian American Drug Abuse Program, Inc. ("AADAP") 5318 South Crenshaw Boulevard Los Angeles, CA 90043 Los Angeles County		Amount Requested: \$461,700	
		Requested Loan Term: 15 years	
		Date Requested: May 31, 2007	
		Resolution Number: HII-193	
Project Site: 5825 W. Olympic Boulevard, Los Angeles, California			
Facility Type: Chemical Dependency Facility			
Use of Loan Proceeds: Loan proceeds will be used to renovate various facilities and refinance two loans. The loan will be secured by a lien on the facility being refinanced. AADAP will save approximately \$200,000 in interest payments over the life of the loan compared to a commercial loan at 7.5% interest per annum.			
Type of Issue:		HELP II Loan	
Prior HELP II Borrower:		Yes	
Payments up to date:		Yes (As of May 1, 2007, current loan balance is \$267,071)	
Financial Overview: AADAP continues to operate with profitability due to stable revenue and cost containment initiatives. The balance sheet remains strong with good liquidity and demonstrates the ability to manage the increased loan obligation.			
Sources of Revenue:		<u>Amount</u>	<u>Percent</u>
(FYE 6-30-06)	Support & revenue - unrestricted	\$8,218,234	96%
	Other support	223,166	2%
	Other revenue	<u>186,563</u>	<u>2%</u>
	Total Support and Revenue	<u>\$8,627,963</u>	<u>100%</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
	HELP II Loan	\$461,700	Renovation/Remodeling
			\$154,000
			Refinancing
			300,000
			Financing Costs
			<u>7,700</u>
	Total Sources	<u>\$461,700</u>	Total Uses
			<u>\$461,700</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for Asian American Drug Abuse Program, Inc. in an amount not to exceed \$461,700 for a term of 15 years and financing terms acceptable to the Authority.			

STAFF SUMMARY AND RECOMMENDATION

ASIAN AMERICAN DRUG ABUSE PROGRAM, INC. (“AADAP”)

May 31, 2007

Resolution Number: HII-193

I. PURPOSE OF FINANCING: AADAP intends to renovate five facilities located at Los Angeles, Inglewood, and Gardena in Los Angeles County. In addition, AADAP proposes to refinance two loans with high interest rates. The proposed financing will further assist in a cost cutting strategy.

A description of the project is as follows:

Renovation.....\$154,000

Renovation to be carried out at facilities located at 520 La Brea Avenue, Inglewood, 13931 South Van Ness, Gardena, 5825 W. Olympic Boulevard, 5318 Crenshaw Boulevard, and 4654 W. 18th Street, all in Los Angeles. Renovation will include roof replacements, air conditioning unit replacements, exterior painting, kitchen remodeling and tile flooring.

Refinancing300,000

AADAP intends to refinance a current loan with Comerica Bank, which was issued on March 1, 2002, and has a current interest rate of 8.75% with an outstanding amount of approximately \$36,750. AADAP also intends to refinance a current loan with the Wells Fargo Bank, which was also issued on March 1, 2002, and has a current interest rate of 8.60% with an outstanding amount of approximately \$249,550. Both of these loans were secured by a lien on the property located at 5825 Olympic Boulevard, Los Angeles. The refinancing includes prepayment fees of \$8,500 and third party cost of \$ 6,500 associated with the pay-off of the current loans.

Financing Costs..... 7,700

Authority Closing Fee..... \$5,700
Title/Escrow/Other..... 2,000

Total\$461,700

Financing structure and terms:

- 15-year loan term.
- 180 equal monthly payments of roughly \$3,188 (yearly payments of about \$38,261).
- Total interest payments of approximately \$112,215.
- 1st position lien on property located at 5825 W. Olympic Blvd., Los Angeles, California.
- Maximum loan to value of 95%, estimated loan to value of 46% based on \$1,000,000 property valuation.
- 1st lien on corporate gross revenue pledge.
- Verification of a property appraisal satisfactory to the Authority.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Asian American Drug Abuse Program, Inc.
Statement of Activities
(Unrestricted)

	For the year ended June 30		
	2006	2005	2004
<u>REVENUE</u>			
Support and revenue released from restrictions	\$ 8,218,234	\$7,647,670	\$ 8,884,532
Other support	223,166	71,755	233,026
Other revenue	186,563	96,499	76,103
Gain on sale of fixed assets	2,188,818	-	-
Total support and revenue	10,816,781	7,815,924	9,193,661
<u>EXPENSES</u>			
Salaries and related expenses	5,703,229	5,560,264	5,950,240
Equipment rental	74,351	78,892	110,954
Supplies	45,741	42,543	63,359
Travel	66,558	73,233	86,933
Auto expense	136,846	139,817	132,602
Insurance	98,196	91,816	95,637
Facility expenses	312,060	246,145	266,031
Telephone and office expenses	315,231	235,853	285,118
Program expenses	345,909	198,875	397,587
Food expenses	119,199	122,002	127,217
Depreciation	216,452	179,135	210,085
Interest	236,883	106,116	107,031
Miscellaneous	81,870	79,018	80,069
Rental expenses	183,179	246,528	265,499
Consultant fees	212,435	90,567	170,229
Subcontracts	262,700	260,506	542,820
Total expenses	8,410,839	7,751,310	8,891,411
Change in net assets	2,405,942	64,614	302,250
Net assets at beginning of year	2,876,112	2,811,576	2,512,869
Prior period adjustment	17,472	(78)	(3,543)
Net assets end of year	\$ 5,299,526	\$2,876,112	\$ 2,811,576

Asian American Drug Abuse Program, Inc.
Statement of Financial Position

	As of June 30		
	2006	2005	2004
<u>Assets</u>			
Cash and cash equivalent	\$ 2,060,788	\$ 763,397	\$ 602,964
Investments	609,377	593,743	479,567
Accounts receivable	1,262,334	995,688	1,192,039
Prepaid expenses	9,642	9,973	-
Total Current Assets	3,942,141	2,362,801	2,274,570
Property and equipment - net	7,255,059	2,432,553	2,582,778
Other assets	95,807	61,506	49,295
Total Assets	11,293,007	4,856,860	4,906,643
<u>Liabilities & Net Assets</u>			
Notes and loan payable - current portion	\$ 226,072	\$ 116,009	\$ 104,511
Accounts payable	300,544	206,463	221,029
Accrued expenses	309,295	304,194	322,521
Total Current Liabilities	835,911	626,666	648,061
Notes and loan payable - less current portion	5,132,906	1,332,335	1,430,834
Total Liabilities	5,968,817	1,959,001	2,078,895
Unrestricted Net Assets	5,299,526	2,876,112	2,811,576
Temporarily Restricted Net Assets	24,664	21,747	16,172
Total Net Assets	5,324,190	2,897,859	2,827,748
Total Liabilities & Net Assets	\$11,293,007	\$ 4,856,860	\$ 4,906,643

Financial Ratios:

	Proforma (a)			
Debt Service Coverage (x)	1.29	1.78	1.69	3.16
Debt/Unrestricted Net Assets (x)	1.04	1.01	0.50	0.55
Margin (%)		2.52 *	0.83	3.29
Current Ratio (x)		4.72	3.77	3.51

(a) Recalculates 2006 audited results to include the impact of this proposed financing.

* This excludes a one-time gain on sale of assets.

Financial Discussion:

AADAP continues to operate with profitability due to stable revenue and cost containment initiatives.

Although AADAP is dependent on LA County government funding for drug and family and gang - related counseling, it has demonstrated an ability to obtain grants and contracts for its diverse services, such as HIV-AIDS outreach and drug prevention and treatment (initially recorded as temporarily restricted and later released as unrestricted).

Apart from the gain on sale of the fixed assets in 2006, the total support and revenue had a minor decrease of 7% for the review period from 2004 to 2006 due to the drop in revenue in 2005 and resulting from a drop in the number of clients served in 2006. Operating expenses also experienced a decrease of 5% for the review period due to cost containment measures to salaries and related expenses and a substantial reduction in rental expenses and subcontracts.

AADAP was profitable each year of our review period with the 10% increase in net assets for the review period. Based on management's strategy for operational efficiency by controlling expenses while raising funds for support, including grants and contracts, AADAP anticipates an increase of approximately \$250,000 in unrestricted net assets for 2007.

The balance sheet remains strong with good liquidity and demonstrates the ability to manage the increased loan obligation.

AADAP's balance sheet reflects a growth rate of 130% for the review period. The cash had a substantial increase in 2006 due to \$2 million gain on sale of fixed assets. It has maintained positive cash flows with adequate liquidity, as demonstrated by a current ratio that has exceeded 3.5x. AADAP has more than doubled its fixed assets in 2006, and significantly increased its long-term debt. With this new proposed loan, AADAP will remain slightly leveraged, with a proforma debt-to-unrestricted net assets ratio of 1.04x. AADAP will build equity as debts are paid off, and management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 1.29x.

III. UTILIZATION STATISTICS:

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

	2006	2005	2004	
Totals	15,220 / (24,650)	18,678 / (30,100)	17,856 / (28,425)	

IV. ORGANIZATION:

Background: Founded in 1972, Asian American Drug Abuse Program Inc. manages various programs, including treatment and counseling services to youth and adults for substance abuse, HIV/AIDS outreach services and cross-training, gang prevention and intervention, community organizing, specialized services for the IndoChinese community, and employment access services.

AADAP operates four facilities for youth, aimed at drug and alcohol prevention and gang intervention, an outpatient facility, a youth group home (opened in late 2002), an adult residential facility and the Satellite House, a transitional home for women in recovery and their children. In all, AADAP owns seven facilities and leases three others.

Licenses: AADAP is licensed to operate adult residential alcohol or drug abuse recovery or treatment facilities by the State Department of Alcohol and Drug Programs. AADAP is licensed by the Department of Social Services to operate a group home.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/06 *	Estimated Amount Outstanding After Proposed Financing
Existing:			
Wells Fargo Bank, June 1, 2005	\$14,019	\$10,781	\$-0-
Comerica Bank, March 1, 2002	46,000	38,486	-0-
CHFFA HELP II Loan, May 1, 2003	340,000	285,280	285,280
NCB Dev. Corp., Nov. 1, 2003	391,500	350,277	350,277
Comerica Bank, Nov. 1, 2005	657,000	644,749	644,749
Comerica Bank, Dec. 1, 2005	1,122,000	1,100,071	1,100,071
Comerica Bank, Dec. 1, 2005	748,000	733,379	733,379
Comerica Bank, Dec. 1, 2005	1,188,000	1,164,263	1,164,263
Comerica Bank, Dec. 1, 2005	792,000	776,281	776,281
Wells Fargo Bank, March 1, 2002	282,000	255,411	-0-
Proposed:			
CHFFA HELP II Loan, 2007			461,700
TOTAL DEBT		<u>\$5,358,978</u>	<u>\$5,516,000</u>

*Includes current portion of long-term debt.

VI. SECTION 15438.5 OF THE ACT:

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

- Section 15428.5 of the Act (Savings Pass Through) AADAP has provided a description of its savings pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): AADAP 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 for Asian American Drug Abuse Program, Inc. in an amount not to exceed \$461,700 for a term of 15 years and financing terms acceptable to the Authority.