

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: \$340,000 Requested Loan Term: 15 years Date Requested: April 24, 2003 Resolution Number: HII-143	
Project Site: 2547 South Bronson Avenue, Los Angeles, California			
Facility Type: Adult alcoholism/drug residential facility			
Use of Loan Proceeds: Loan proceeds will be used to continue renovations and refinance a loan for a facility which will house six clients.			
Type of Issue:		HELP II Loan	
Prior HELP II Borrower:		No	
Financial Overview: AADAP has been mostly, although not consistently, profitable and continues to operate with low debt and strong liquidity. Interim figures and AADAP's substantial net assets demonstrate the ability to service the debt.			
Sources of Revenue:			
		<u>Amount</u>	<u>Percent</u>
(FYE 6-30-02)	Government grants & contracts	\$ 7,154,251	96%
	Client fees	169,667	2%
	Donations	59,560	1%
	Other	<u>32,349</u>	<u>1%</u>
	Total Support and Revenue	<u>\$7,415,827</u>	<u>100%</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
	HELP II Loan	\$340,000	Renovation/Remodeling
	Equity Contribution	18,000	Refinancing
			Financing Costs
	Total Sources	<u>\$358,000</u>	Total Uses
			<u>\$158,365</u>
			193,420
			<u>6,215</u>
			<u>\$358,000</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 \$340,000 for a term of 15 years subject to a 1 st deed of trust acceptable to the Authority, and subject to the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION
ASIAN AMERICAN DRUG ABUSE PROGRAM, INC. (“AADAP”)

April 24, 2003

Resolution Number: HII-143

I. PURPOSE OF FINANCING: AADAP is renovating and remodeling a single-family residence into a residential substance abuse treatment facility. In addition, AADAP proposes to refinance a short-term construction loan.

A description of the project is as follows:

Remodeling.....\$158,365

In September 2000, a donor provided AADAP with a 4,000 square foot, two-story house (but not the land) for AADAP to house six clients of its various treatment programs. In April 2001 AADAP purchased a vacant lot for \$100,000 and relocated the house. Renovations and remodeling (to add living space and a two-car garage) began in June 2001. Initial work on the project was completed in September 2002, and AADAP has hired a new contractor to complete the remodeling.

AADAP has obtained a contract from the County of Los Angeles, Alcohol and Drug Program Administration that will provide \$75,000 in revenues per year for this facility and in addition, clients will pay a small monthly rent.

The building and land was appraised at \$400,000 in February 2003, providing a loan to value ratio of 85%.

Refinancing.....\$193,420

In order to finance the above-mentioned purchase of land, moving the building, and initial phase of construction, AADAP received a short-term loan at 10%, with a maturity of May 2002 (which has been extended to May 2003). Interest savings from this refinancing are expected to be approximately \$106,000 over the 15-year loan term compared to the existing 10% interest rate.

Financing Costs..... 6,215

<i>Authority Closing Fee.....</i>	<i>\$4,250</i>
<i>Title/Escrow/Other.....</i>	<u><i>1,965</i></u>

Total\$358,000

Financing structure: The AADAP financing will be structured as follows:

- 15-year loan term.
- 180 equal monthly payments of roughly \$2,330 (yearly payments of about \$27,960).
- Total interest payments of approximately \$81,970.
- 1st position lien on property located at 2547 South Bronson Avenue, Los Angeles, California.
- Maximum loan to value of 95%, estimated loan to value of 85%.
- 1st lien on corporate gross revenue pledge.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Asian American Drug Abuse Program, Inc. Statement of Activities

	Six months	For the year ended June 30		
	ending 12/31/02 (unaudited)	2002	2001	2000
Revenue:				
Grants and contracts	\$ 4,046,936	\$ 7,154,251	\$ 7,366,431	\$ 6,527,614
Donations and special events	24,117	107,709	413,056	62,547
Fees	64,103	169,667	193,860	-
Unrealized loss on investments	(16,145)	(44,532)	(75,515)	(37,203)
Other revenue	90,028	28,732	74,324	113,190
Total support and revenue	<u>4,209,039</u>	<u>7,415,827</u>	<u>7,972,156</u>	<u>6,666,148</u>
Expenses:				
Salaries & benefits	2,658,961	4,689,032	4,236,927	3,376,305
Consultants and subcontracts	302,900	667,919	605,329	200,723
Program expenses	216,786	413,711	477,971	365,810
Maintenance and repairs	194,737	385,656	257,188	257,247
Rental expenses	137,346	225,613	231,014	233,053
Business services	91,287	173,393	239,268	171,999
Depreciation	51,150	157,685	125,177	106,404
Equipment rental	48,473	92,104	128,213	43,188
Food	64,143	96,192	61,495	49,442
Auto expenses	57,050	104,680	125,959	69,058
Telephone, postage and printing	65,313	133,346	132,398	86,347
Interest	62,498	76,067	63,151	4,832
Indirect expenses	-	-	-	783,517
Other expenses	189,365	344,787	367,736	259,045
Total expenses	<u>4,140,009</u>	<u>7,560,185</u>	<u>7,051,826</u>	<u>6,006,970</u>
Increase (decrease) in net assets	69,030	(144,358)	920,330	659,178
Net assets, beginning of year	<u>2,257,528</u>	<u>2,401,886</u>	<u>1,481,556</u>	<u>822,378</u>
Net assets, end of year	<u>\$ 2,326,558</u>	<u>\$ 2,257,528</u>	<u>\$ 2,401,886</u>	<u>\$ 1,481,556</u>

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

	<u>As of</u> <u>12/31/02</u> <u>(unaudited)</u>	<u>2002</u>	<u>As of June 30</u> <u>2001</u>	<u>2000</u>
ASSETS				
Current assets:				
Cash	\$ 508,751	\$ 641,677	\$ 569,874	\$ 211,697
Reimbursable contract costs	1,031,004	932,587	1,140,412	879,755
Investments	347,621	287,173	192,621	167,228
Due from affiliates	126,616	131,494	352,861	426,636
Other current assets	19,741	28,150	49,343	51,162
Total Current Assets	<u>2,033,733</u>	<u>2,021,081</u>	<u>2,305,111</u>	<u>1,736,478</u>
Property and equipment, net	1,902,974	1,926,131	1,347,907	811,122
Other assets	29,454	29,454	17,999	-
Total assets	<u>\$ 3,966,161</u>	<u>\$ 3,976,666</u>	<u>\$ 3,671,017</u>	<u>\$ 2,547,600</u>
LIABILITIES & NET ASSETS				
Current liabilities:				
Accounts payable	\$ 261,573	\$ 315,040	\$ 465,055	\$ 388,968
Accrued expenses	209,298	211,904	175,961	174,384
Loan payable, current portion	242,841	243,000	208,835	-
Note payable, current portion	50,924	50,924	37,530	33,937
Capitalized lease	-	-	-	49,481
Total current liabilities	<u>764,636</u>	<u>820,868</u>	<u>887,381</u>	<u>646,770</u>
Notes payable, less current portion	874,967	898,270	381,750	419,274
Total liabilities	<u>1,639,603</u>	<u>1,719,138</u>	<u>1,269,131</u>	<u>1,066,044</u>
Total net assets	<u>2,326,558</u>	<u>2,257,528</u>	<u>2,401,886</u>	<u>1,481,556</u>
Total liabilities and net assets	<u>\$ 3,966,161</u>	<u>\$ 3,976,666</u>	<u>\$ 3,671,017</u>	<u>\$ 2,547,600</u>
Financial Ratios:				
	Proforma^(a)			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Debt Service Coverage (DSC) (x)	1.11 (b)	1.19	12.54	72.69
Debt/Unrestricted Net Assets (x)	0.57	0.53	0.26	0.35
Margin (%)		-1.93%	11.91%	9.89%
Current Ratio (x)		2.46	2.60	2.68

(a) Recalculates 2002 audited results to include the impact of this proposed financing.

(b) Using 2003 unaudited results, DSC would be 2.10X.

Financial Discussion:

AADAP has been mostly, although not consistently, profitable and continues to operate with low debt and strong liquidity.

Although AADAP is dependent on governmental funding, it has demonstrated an ability to obtain grants and contracts for its diverse services. These revenues have grown with contracts aimed at steering youth from gang activity and for employment training and counseling. AADAP was profitable in 2000 and 2001 with good operating margins.

The main factor for AADAP's loss in fiscal 2002 was the expiration of a contract (which had generated net revenues of nearly \$350,000 per year in 2000 and 2001) with the City of Los Angeles, Department of Water and Power. Due to the contract expiration, management reports that it laid-off three outreach employees which reduced labor costs by \$60,000 per year. However, in June 2002 AADAP was successful in securing additional State (\$900k) and Federal (\$1.3M) funding for employment service contracts that run through December 2003 and December 2004, respectively. These contracts contributed to the modest operating margin for the six months ended December 2002.

AADAP's management budget estimates that the new facility will produce a net operating gain of \$5,000 per year, after all direct and indirect expenses.

Interim figures and AADAP's substantial net assets demonstrate the ability to service the debt.

AADAP has more than doubled its fixed assets since 2000, without significantly leveraging itself. It has also managed to retain a substantial reserve of cash and investments and has maintained current ratios of 2.0x or greater throughout our review period.

Although proforma debt service coverage, based on fiscal 2002 operating results, was a marginal 1.11x, interim figures indicate a proforma ratio of 2.10x, indicating that AADAP should comfortably be able to repay the proposed debt. In addition, AADAP has significant financial resources, which shall provide a financial cushion, with unrestricted net assets in excess of \$2 million, including approximately \$900,000 of cash and investments. This loan will increase AADAP's long-term debt by approximately \$147,000, producing a debt to net asset ratio of 0.57x.

III. UTILIZATION STATISTICS:

	<u>Number of Clients</u>		
	Fiscal Year Ended June 30,		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Adult Residential (12 to 18 months residency)	64	83	73
Transitional home for women/children	200	193	162
Employment Access services	146	769	427
LA Bridges (gang & substance abuse intervention)	540	134	379
Individual, group & family counseling	752	708	531
Community center (counseling & employment svcs.)	1,826	1,011	2,236
Workshops, outreach, & training	<u>10,938</u>	<u>10,953</u>	<u>8,074</u>
Totals	<u>14,466</u>	<u>13,851</u>	<u>11,882</u>

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 four facilities and leases six 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 and will seek the same licensing for the new facility. In July 2002, AADAP received a license from the Department of Social Services to operate a group home.

Competition: There are numerous facilities in Los Angeles providing substance abuse treatment and counseling. However AADAP also provides comprehensive services, including residential, outpatient, and employment services, and specializes in multilingual services to the Asian American community.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/02</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Mortgage loan, May 2000	\$453,210	\$382,085	\$382,085
Mortgage loan, March 2002	286,000	286,000	286,000
Mortgage loan, March 2002	282,000	281,109	281,109
Construction loan, May 2002	243,000	243,000	0
Proposed:			
CHFFA HELP II Loan, 2003			340,000
TOTAL DEBT		<u>\$1,192,194</u>	<u>\$1,289,194</u>

VI. SECTION 15438.5 OF THE ACT:

With the proposed HELP II Loan, interest savings from this refinancing are expected to be approximately \$106,000 over the 15-year loan term in comparison with its existing loan rate of 10%. AADAP will use these savings to reduce the rents charged to residents of the treatment facility.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. 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 \$340,000 for a term of 15 years subject to a 1st deed of trust acceptable to the Authority, and subject to the standard HELP II loan provisions.