

**STAFF SUMMARY AND RECOMMENDATION**  
**Adult Day Health Care of Mad River**

**Amendment to Resolution Number HII-79**

**October 30, 2003**

**ORIGINAL APPROVED HELP II LOAN AMOUNT:** \$300,000

**DATE OF APPROVAL:** July 29, 1999

**PURPOSE OF AMENDMENT:** The Authority approved a HELP II Loan in the amount of \$300,000 for Adult Day Health Care of Mad River (ADHC) on July 29, 1999, for the purpose of expanding and remodeling buildings on leased property in Arcata, California. The loan closed on March 29, 2000, with monthly payments beginning April 1, 2000 and a final payment due March 1, 2010.

ADHC was required to provide \$150,000 in cash collateral, consistent with prior HELP II borrowers with a similar inability to meet the requirement of real property collateral of 100% of the loan amount. Staff requests a reduction in the amount of required cash collateral.

There is a lack of safe, liquid investments for this cash that can match the 3% interest that ADHC is paying on the loan. Because of this, and based on ADHC's good payment history, strong operating margins, superior liquidity, modest debt and substantial reserves, staff recommends lowering the collateral requirement to the equivalent of one year's debt service payments, in the amount of \$34,762.

ADHC continues to have no real property available as collateral.

ADHC has an outstanding balance of \$202,670 and is current on its payments (\$2,897 due monthly) and has never been late. This is a 10 year loan, with 6 years and 4 months remaining until maturity.

At the time the HELP II loan was approved, ADHC had only one year of audited financial statements; ADHC has submitted audited financial statements for each year that the HELP II loan has been outstanding as required under the Loan & Security Agreement.

**BACKGROUND:**

Adult Day Health Care of Mad River (ADHC) was established in 1985 by Mad River Community Hospital and a local physician. ADHC's day care program includes health, social, and recreational services, serving older adults with physical and/or mental impairment who are unable to remain unattended. Meals, including a hot lunch, are served. Licensed professionals are also brought in to provide rehabilitative therapy and psychological services. ADHC's licensed capacity is 45 participants per day.

In 1999, ADHC sought to expand and remodel its facilities on land leased from a for-profit hospital. ADHC had negligible real property, but had over \$400,000 in cash and investments available. The Authority required securing the loan with \$150,000 of internal cash to establish an account, to be restricted for the life of the loan, with gradual releases as the loan is paid-down at the point that there was \$100,000, \$50,000, and \$0 outstanding.

**FINANCIAL UPDATE:**

ADHC has generated strong profit margins in the three most recent years, allowing it to accumulate a sizable amount of unrestricted net assets, consisting largely of liquid investments. Cost containment, plus a diversity of revenues, have resulted in these strong operating margins.

ADHC continues to benefit from discounted rent and services from the for-profit Mad River Community Hospital, which helped establish ADHC in 1985.

From the balance sheet perspective, ADHC maintains low accounts receivable and little long-term debt other than the HELP II loan. It has few fixed assets, as it leases all of its facilities, other than the leasehold improvements financed with the HELP II loan.

Debt service coverage remains strong at 3.91x as of June 30, 2003.

A summary of the financial statements are included on pages 3 and 4.

**RECOMMENDATION:** Staff recommends the Authority approve an amendment to HII-79, lowering the collateral requirement by creating a debt service fund equivalent to one year's debt service payments, subject to the fiscal 2003 final audit being materially consistent with the financial information presented in this report. All other conditions of HII-79 remain in place.

**Adult Day Health Care of Mad River**  
**Income Statement**  
For the fiscal years ended June 30 (\$000's)

	<u>2003</u> (unaudited)	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b><u>REVENUES</u></b>				
Medi-Cal	\$ 763	\$ 658	\$ 457	\$ 381
Private pay, net	300	265	230	211
In-kind revenue *	36	31	52	35
Transportation	28	21	23	22
Nutrition program	32	23	21	17
Donations	-	1	2	1
Other income	12	14	45	2
Charity adjustment	<u>(125)</u>	<u>(112)</u>	<u>(98)</u>	<u>(89)</u>
Unrestricted operating revenue	<u>1,046</u>	<u>901</u>	<u>732</u>	<u>580</u>
<b><u>EXPENSES</u></b>				
Employee related expense	571	512	430	384
Therapy, Psychological & Dietary services	81	58	44	44
Meals	66	61	44	42
Depreciation	35	31	24	10
Rent	35	36	36	36
Van expenses	61	50	36	27
Other expenses	<u>95</u>	<u>92</u>	<u>76</u>	<u>56</u>
Total expense	<u>944</u>	<u>840</u>	<u>690</u>	<u>599</u>
Net operating income	102	61	42	(19)
Other revenue/expense	<u>(8)</u>	<u>(14)</u>	<u>4</u>	<u>18</u>
<b>Change in unrestricted net assets</b>	<b>94</b>	<b>47</b>	<b>46</b>	<b>(1)</b>
Unrestricted net assets at beginning of year	<u>750</u>	<u>703</u>	<u>657</u>	<u>658</u>
Unrestricted net assets end of year	<u>\$ 844</u>	<u>\$ 750</u>	<u>\$ 703</u>	<u>\$ 657</u>
Margin	9.0%	5.2%	6.3%	-0.2%

\* ADHC purchases some goods and services from Mad River Community Hospital at less than fair market value. The difference between ADHC's cost and fair market value is included in financial statements as "In-kind services".

**Adult Day Health Care of Mad River**  
**Balance Sheet**  
As of June 30 (\$000's)

	<u>2003</u> (unaudited)	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b><u>ASSETS</u></b>				
Cash	\$ 235	\$ 195	\$ 129	\$ 213
Investments	99	104	119	162
Accounts receivable	86	69	80	54
Leasehold improvements, net	519	512	525	511
Equipment, net	12	15	11	8
Vehicles, net	28	40	10	16
Other assets	<u>175</u>	<u>173</u>	<u>169</u>	<u>160</u>
Total assets	<u>\$ 1,154</u>	<u>\$ 1,108</u>	<u>\$ 1,043</u>	<u>\$ 1,124</u>
<b><u>LIABILITIES</u></b>				
Accounts payable	\$ 10	\$ 25	\$ 16	\$ 29
Accrued payroll and vacation	71	67	59	50
HELP II Loan	210	238	265	291
Other liabilities	<u>19</u>	<u>28</u>	<u>-</u>	<u>97</u>
Total liabilities	<u>310</u>	<u>358</u>	<u>340</u>	<u>467</u>
Unrestricted Net Assets	<u>845</u>	<u>750</u>	<u>703</u>	<u>657</u>
NET ASSETS	<u>845</u>	<u>750</u>	<u>703</u>	<u>657</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,155</u>	<u>\$ 1,108</u>	<u>\$ 1,043</u>	<u>\$ 1,124</u>
Current ratio	5.19	4.00	4.37	5.43
Long term debt to unrestricted net assets	0.25	0.32	0.38	0.44
Debt service coverage	3.91	2.47	2.24	1.31
Margin	9.0%	5.2%	6.3%	-0.2%