

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

Applicant:	Asian Pacific Health Care Venture, Inc. ("APHCV") 1530 Hillhurst Avenue Los Angeles, CA 90027 Los Angeles County	Amount Requested:	\$650,000
		Requested Loan Term:	15 years
		Date Requested:	December 4, 2008
		Resolution Number:	HII-230

Project Site: 4216 W. Fountain Avenue, Los Angeles, CA 90029
Facility Type: Community Clinic Facility (Federally Qualified Health Center)
Prior HELP II Loan Borrower: Yes (Paid in full, April 2003.)

Background: APHCV was incorporated in 1987 to provide primary care services to socially and economically depressed Asian, Pacific Islander and other populations in the Los Angeles area. In 1997, it was designated a Federally Qualified Health Center. It derives significant support through grants and contracts with federal, state and Los Angeles county government health agencies.

Uses of Loan Proceeds: Loan proceeds will be used to refinance an existing variable interest rate line of credit (LOC), which has an expected interest rate of 6.0% (the LOC has not yet closed nor has the interest rate been set; therefore, APHCV can only estimate the anticipated interest rate for this loan). For purposes of our analysis, assuming a commercial loan rate of 7.5%, refinancing this loan at a lower fixed interest rate of 3% will result in an estimated interest savings of approximately \$276,000 over the life of the proposed HELP II loan.

Financing Structure

- 15-year fixed rate loan.
- 180 equal monthly payments of approximately \$4,489 (yearly payments of approximately \$53,866).
- Gross revenue pledge.
- A 2nd lien position on the property located at 4216 W. Fountain Avenue, Los Angeles, CA.
- Combined Loan to value ratio not to exceed 90%.

Financial Overview: APHCV's income statement appears to exhibit a profitable operation and an overall increase in unrestricted net assets. Its balance sheet appears adequate with good liquidity and satisfactory proforma debt service coverage of 1.57x, which tends to indicate APHCV will likely be able to meet its repayment obligation for the proposed HELP II loan.

Sources of Funds

HELP II Loan	\$650,000
Borrower Funds	<u>11,000</u>
Total Sources	<u>\$661,000</u>

Uses of Funds

Refinance LOC bank loan	\$650,000
Financing costs	<u>11,000</u>
Total Uses	<u>\$661,000</u>

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends approval of a HELP II loan for Asian Pacific Health Care Venture, Inc. in an amount not to exceed \$650,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.

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

December 4, 2008

Asian Pacific Health Care Venture, Inc. (“APHCV”)

Resolution Number: HII-230

I. PURPOSE OF FINANCING

Refinance LOC bank loan **\$ 650,000**

The HELP II loan will refinance \$650,000 of a Wells Fargo Bank (“Wells Fargo”) LOC in the amount of \$1,080,000, with the balance of refinancing being derived from permanent financing of \$430,000 from Wells Fargo. The Wells Fargo LOC will be used as interim financing to purchase a two-story 5,000 square foot commercial-office building, located on a 6,900 square foot lot at 4216 W. Fountain Avenue, Los Angeles. The purchase of the property will enable APHCV to relocate the administrative offices from its main clinic located at 1530 Hillhurst (Hillhurst) Avenue in Los Angeles. This will create space for expansion of women’s health services (5 exam rooms) at its Hillhurst facility, which APHCV expects will ultimately increase service levels to an additional 11,800 patients visits per year.

The purchase price of the facility is \$1.2 million. APHCB is providing a down payment of \$120,000. The sale and purchase agreement for the acquisition of the property requires the close of escrow by the middle of December. APHCV is obtaining the Wells Fargo LOC to bridge the timing gap between the mid-December escrow closing and the closing of this proposed HELP II loan. Refinancing will provide APHCV with a low fixed interest rate and stable debt payments when compared to the variable interest rate of the bridge Wells Fargo LOC. CHFFA will require a full appraisal report on the property prior to closing the loan.

Financing Costs		11,000
Escrow fee	\$2,875	
Authority fee	<u>8,125</u>	
<i>Total Uses of Funds</i>		<u>\$ 661,000</u>

II. FINANCIAL STATEMENTS AND ANALYSIS

Asian Pacific Health Care Venture, Inc.
Statement of Activities
(Unrestricted)

	For the year ended September 30		
	2007	2006	2005
<u>Revenue</u>			
Patient and third party revenue, net	\$ 3,598,787	\$ 3,005,881	\$ 2,971,169
Grant revenue	4,012,779	3,375,095	3,091,178
Contributions	2,063,062	2,177,599	2,150,739
Other	205,470	185,979	134,229
Net assets released from restrictions-revenue	118,291	412,725	446,955
Net assets released from restrictions-capital	141,955	157,924	61,760
Total support and revenue	10,140,344	9,315,203	8,856,030
<u>Expenses</u>			
Salaries and wages	4,388,220	3,880,257	3,384,191
Payroll taxes and employee benefits	963,712	887,735	762,578
Medical supplies and drugs	2,343,256	2,295,184	2,201,330
Purchased services	664,828	631,342	568,427
Occupancy costs	186,755	151,144	171,848
Repairs and maintenance	5,211	6,460	6,198
Medical contractual services	593,170	631,883	467,956
Depreciation and amortization	199,242	179,165	182,694
Insurance	50,310	56,890	59,611
Other supplies	117,803	70,701	72,373
Communications	32,561	29,782	40,249
Travel, conferences and meetings	83,710	60,492	55,788
Provision for bad debts	23,648	25,600	84,100
Other	338,025	205,954	164,066
Total expenses	9,990,451	9,112,589	8,221,409
Change in net assets	149,893	202,614	634,621
Net assets at beginning of year	5,179,400	4,926,379	4,291,758
Prior year adjustment	-	50,407	-
Net assets end of year	\$ 5,329,293	\$ 5,179,400	\$ 4,926,379

Asian Pacific Health Care Venture, Inc.
Statement of Financial Position

	As of September 30,		
	2007	2006	2005
<u>Assets</u>			
Cash and cash equivalent	\$ 479,489	\$ 621,508	\$ 245,469
Short term cash investments	1,225,521	529,813	-
Grants and other accounts receivable	757,665	487,430	783,522
Third party payor settlements, current portion	227,221	204,162	272,451
Prepaid expenses	96,258	34,202	45,777
Total Current Assets	2,786,154	1,877,115	1,347,219
Estimated third party payor settlements	368,421	504,879	354,938
Property and equipment, net	2,081,446	2,071,395	2,000,672
Cash investments, non-current	1,426,000	1,996,000	2,622,327
Total Assets	6,662,021	6,449,389	6,325,156
<u>Liabilities & Net Assets</u>			
Accounts payable and accrued expenses	\$ 504,292	\$ 332,742	\$ 397,478
Accrued compensation and related liabilities	409,654	350,972	254,815
Current portion of other liabilities	20,000	20,000	20,000
Deferred revenue	126,950	156,152	45,380
Total Current Liabilities	1,060,896	859,866	717,673
Other liabilities - net of current portion	209,384	229,384	249,384
Total Liabilities	1,270,280	1,089,250	967,057
Unrestricted Net Assets	5,329,293	5,179,400	4,926,379
Temporarily Restricted Net Assets	62,448	180,739	431,720
Total Net Assets	5,391,741	5,360,139	5,358,099
Total Liabilities & Net Assets	\$ 6,662,021	\$ 6,449,389	\$ 6,325,156

Financial Ratios:

	Proforma (a)			
Debt Service Coverage (x)	1.57	17.46	19.09	40.87
Debt/Unrestricted Net Assets (x)	0.34	0.04	0.05	0.05
Margin (%)		1.50	2.21	7.17
Current Ratio (x)		2.63	2.18	1.88

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

APHCV's income statement appears to exhibit profitable operations with increases in unrestricted net assets.

APHCV has been in operation since 1987. Although profitability has declined over our review period, APHCV continues to experience positive operating results, with increases in unrestricted net assets. APHCV's income statement appears to exhibit consistent revenue growth supported by its ability to provide services to an increasing number of clients, as the clients served over the review period increased from 8,819 in FY 2005 to 11,171 in FY 2007. APHCV receives a large portion of its medical supplies and drugs, as donations, which they account for as revenue when received and list as an expense when the medical supplies and drugs are used in operations.

Important Facts to Note:

- The unrestricted net assets increased from \$4.9 million in FY 2005 to \$5.3 million in FY 2007, due to continued profitability from FY 2005 to FY 2007.
- Total revenue increased from \$8.8 million in FY 2005 to \$10.1 million in FY 2007, due to significant increases in patient-third party revenue and grant revenue. APHV is confident grant revenues will remain stable annually. The two largest sources of grant revenue come from federal and Los Angeles County health care safety net programs that are not likely to terminate. Over the last 20 years, APHCV has adjusted to gaps in funding by raising additional funds and has strategic budgeting plans in place. In the event of an emergency funding loss, APHCV has liquid reserves available and is prepared to also implement budget reductions as needed.
- Patient and third party revenue increased 21% due to increases in patient visits from 34,067 in FY 2005 to 42,262 in FY 2007. Grant revenue increased 29% due to the funding of many grants from Los Angeles County and the State, including a CHFFA Community Clinic Grant.
- Salaries and wages increased from FY 2006 to FY 2007 mainly due to increased utilization, additions to APHCV full-time equivalent workforce, and higher costs related changes in provider mix. Travel expenses showed a slight increase in FY 2007 due to rising gasoline prices and other travel related costs attending conferences. Other supplies expenses increased due to new office supplies being purchased in FY 2007, including a computer monitor upgrade. Other expenses, which include uncategorized expenses, increased in FY 2007 due to fundraising for the APHCV 20th anniversary celebration and an increase in parking fee licensing and permits.

Financial Discussion – Statement of Financial Position (Balance Sheet)

APHCV's balance sheet appears strong with good liquidity and satisfactory debt service coverage which tends to indicate APHCV will likely be able to meet its repayment obligation for the proposed HELP II loan.

APHCV appears to have a strong balance sheet which has grown over the review period from FY 2005 to FY 2007, including good liquidity, low leverage, and increasing total net assets.

Important Facts to Note:

- The total current assets increased 106% from FY 2005 to FY 2007, while total current liabilities only increased 47% from FY 2005 to FY 2007. APHCV has solid liquidity with a current ratio exceeding 1.88x over the review period. Total current assets including cash and short-term cash investments are over \$1.7 million.
- The increases in total current assets is attributed to a 131% increase in short term cash investments from FY 2005 to FY 2007, as all interest earnings were reinvested in short term securities.
- APHCV was able to grow its balance sheet with a relatively low leverage financial structure. The proforma debt to unrestricted net assets ratio is only .34x and the proforma debt service coverage ratio is 1.57x, thus APHCV likely has the ability to meet comfortably its loan repayment obligation for the proposed HELP II loan.

III. UTILIZATION STATISTICS

Clients Served / (Patient Visits) Fiscal Year Ended September 30

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Totals	11,171 / (42,262)	9,356 / (37,320)	8,819 / (34,067)

IV. ORGANIZATION

Background

APHCV, a not-for-profit organization was incorporated in 1987 for the purpose of providing culturally competent access to quality health care services to socially and economically depressed Asian, Pacific Islander, and other populations living in Hollywood, North Hollywood and the greater downtown area of Los Angeles. In early 1987, APHCV obtained a Federal 330 grant from the Federal Bureau of Primary Health Care to begin providing primary care services through subcontracted clinics.

In June 1999, APHCV purchased the building it had been leasing at 1530 Hillhurst Avenue in Hollywood. The purchase was funded in part by a CHFFA loan in the amount of \$450,000, which APHCV paid in full in April 2003. In 2001, APHCV completed renovation of the building, resulting in the opening of a dispensary and full utilization of the 23 exam rooms on both floors. In the same year, APHCV opened a school based health clinic on the campus of John Marshall High School where full primary care services are provided eight hours per day, three days a week.

APHCV has had the same executive level leadership for the past 10 years. To compensate for any future unforeseen leadership changes, APHCV has a sustainability plan based on clear strategic direction, a decentralized functional organizational structure, and individual work groups empowered to make day to day work decisions. APHCV is confident that the current management team, their philosophy, and APHCV's highly functional team organizational structure will successfully support continued operations.

APHCV was designated as a Federally Qualified Health Center for Medicare and Medi-Cal reimbursement effective June 18, 1997. APHCV derives significant support through grants and contracts with the U.S. Department of Health and Human Services, Los Angeles County Department of Health Services and the State of California Department of Health Care Services.

Licenses

APHCV is licensed by the State Department of Public Health Services to operate and maintain a Community Clinic at 1530 Hillhurst Avenue, Los Angeles.

V. OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding* As of June 30, 2007	Estimated Amount Outstanding after Proposed Financing
Existing Long-Term Debt:			
City of Los Angeles	\$400,000	\$229,384	\$229,384
Wells Fargo	1,080,000		430,000
Proposed			
CHFFA HELP II, 2008		N/A	650,000
TOTAL DEBT		\$229,384	\$1,309,834

*Includes current portion of long-term debt.

+CHFFA HELP II loan will refinance a portion of the Wells Fargo LOC, which will be used to purchase property located at 4216 W. Fountain Avenue, Los Angeles, CA.

VI. DUE DILIGENCE:

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

- Savings Pass Through: APHCV has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): APHCV 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 approval of a HELP II loan for Asian Pacific Health Care Venture, Inc. in an amount not to exceed \$650,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.