

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Asian American Drug Abuse Program, Inc. ("AADAP") 2900 South Crenshaw Blvd, Los Angeles, CA 90016 Los Angeles County	Amount Requested:	\$300,000
		Requested Loan Term:	15-year fixed
		Authority Meeting Date:	September 27, 2012
		Resolution Number:	HII-270
Project Site:	Multiple Sites (See Exhibit 1 for complete listing)		
Facility Type:	Chemical Dependency Facility		
Eligibility:	A qualified health facility pursuant to Government Code Section 15432(d)(6)		
Prior HELP II Borrower:	Yes, loans originated in 2007 & 2003 (The loan balances are \$330,198 and \$150,608, respectively and the payments are current.)		

Background: Founded in 1972, AADAP manages various programs, including treatment and counseling services for 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. In 2011, AADAP served over 21,000 patients.

Uses of Loan Proceeds: Loan proceeds will be used to renovate, remodel, and expand four existing facilities owned by AADAP.

Financing Structure:

- 15-year fixed rate loan.
- 180 equal monthly payments of approximately \$2,072 (annual payments of \$24,861).
- First (1st) position lien on property located at 5318 South Crenshaw Blvd., LA, CA 90043.
- Corporate gross revenue pledge.
- Loan to value ratio not to exceed 95% to be confirmed by an appraisal acceptable to the Authority prior to loan closing (currently estimated at 30%).
- Any future loans or obligations by the borrower must be preapproved in writing by the Authority for the three consecutive years following the approval of this loan, except that the Authority will not require consent and instead just notification for vendors extending a line of credit under \$15,000. However, the Authority will re-evaluate AADAP's financial condition after one year to determine if sufficient improvement occurred so as to merit releasing some or all of the consent restrictions.
- AADAP required to maintain non-profit status throughout the term of the loan with an acceleration clause if it fails to do so.
- AADAP required to submit FY 2011-2012 audited financials once they are available.

Financial Overview: Although AADAP's income statement appears to exhibit modest operating losses during the review period, according to AADAP's management, the current fiscal year interim financial statements for ten months exhibit improvement in operating results. AADAP's balance sheet appears strong and highly liquid, with cash and cash equivalents of 65 days, and AADAP appears to have accumulated \$5.2 million in unrestricted net assets over its 40 years of operating history. AADAP has made timely payments on its two current HELP II loans, indicating its likely ability to make debt payments.

Estimated Sources of Funds:

HELP II Loan	\$ 300,000
Borrower Funds	<u>5,750</u>
Total Estimated Sources	<u>\$ 305,750</u>

Estimated Uses of Funds:

Renovation & Remodeling	\$ 300,000
Financing Costs	<u>5,750</u>
Total Estimated Uses	<u>\$ 305,750</u>

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority's requirements.

Parties of Interest: *(Included for the purpose of discerning conflicts of interest)*

Not applicable

Staff Recommendation: Staff recommends approval of Resolution Number HII-270 for Asian American Drug Abuse Program, Inc. in an amount not to exceed \$300,000 for a term not to exceed 15 years and contingent upon financing terms acceptable to the Authority, including without limitation the conditions set forth in this staff report. Macias Gini & O'Connell, LLP, the Authority's financial analyst, concurs with the Authority's staff recommendations.

I. PURPOSE OF FINANCING: AADAP will use the loan proceeds to renovate, remodel, and expand four existing owned facilities. AADAP will implement several projects to remodel and restore the facilities, thus increasing the capacity of its existing facilities and services.

Renovation of facility located at 5318 S. Crenshaw Blvd., Los Angeles, CA \$180,000

AADAP seeks to install new plumbing throughout the facility to allow for conserving water and minimizing annual plumbing repair costs. Also, other projects include replacing the existing central heat and air units, replacing carpets for the entire building, and renovating the laundry/storage rooms. Additionally, the project will increase the capacity of this facility to hold 12 more residents by adding six more rooms and bathrooms.

Renovation of facility located at 5825 W. Olympic Blvd., Los Angeles, CA 60,000

AADAP seeks to renovate a 400 square foot dining room, replace 18 damaged windows and replace 2,000 square feet of carpet.

Renovation of facility located at 2900 S. Crenshaw Blvd., Los Angeles, CA 50,000

AADAP seeks to install a new 11,000 square foot roof for this facility.

Renovation of facility located at 2547 S. Bronson Blvd., Los Angeles, CA 10,000

AADAP seeks to install new carpet on the first floor in the living room and the recreation room.

The HELP II loan will be secured by a first (1st) lien position on the property located at 5318 South Crenshaw Blvd., Los Angeles, CA 90043. AADAP estimates the property is currently valued at \$1 million. The Authority will require an appraisal acceptable to the Authority on this property prior to loan closing. The Authority will require additional conditions (listed on page 1) on this particular transaction, due to the low debt service coverage of .82x and even lower proforma of .79x. The Authority will revisit and review AADAP's financials in one year to determine if sufficient improvement occurred to merit the release of some or all of the consent restrictions.

Financing Costs 5,750

Authority Fees.....	\$3,750
Title & Escrow	<u>2,000</u>

Estimated Uses of Funds \$305,750

II. FINANCIAL STATEMENTS AND ANALYSIS

Asian American Drug Abuse Program, Inc.

(Unrestricted)

	For the year ended June 30		
	2011	2010	2009
REVENUE			
Support:			
Special events and others	\$ 101,838	\$ 104,314	\$ 125,788
Miscellaneous	66,069	81,344	82,796
Unrealized gain on investment	44,275	87,733	27,252
Realized gain (loss) on investment	41,784	(9,706)	(64,530)
Donations	36,933	29,523	96,498
Dividend and interest	28,282	17,249	34,866
Fee	-	75	-
Loss on disposal of fixed assets	-	(536)	(1,051)
Net assets released from restrictions			
Satisfaction of program restrictions	<u>9,691,999</u>	<u>9,030,340</u>	<u>8,688,790</u>
Total support and revenue	<u>10,011,180</u>	<u>9,340,336</u>	<u>8,990,409</u>
EXPENSES			
Salaries and related expenses	4,998,501	4,667,726	4,423,364
Employee benefits	1,471,750	1,318,586	1,253,816
Program expenses	882,655	468,595	396,537
Payroll taxes	434,601	423,880	395,847
Depreciation	391,452	349,093	343,172
Interest	354,871	363,568	384,859
Subcontracts	314,242	397,817	303,898
Facility expenses	311,684	288,027	296,783
Consultant services	224,697	207,753	271,255
Food	123,934	125,142	134,654
Insurance	99,194	97,826	91,787
Travel	91,342	91,732	83,827
Auto expenses	84,177	83,165	92,275
Equipment expenses	83,807	83,060	119,969
Business services	82,397	108,083	138,378
Telephone	78,179	73,021	80,432
Miscellaneous	47,453	50,353	41,620
Rental expenses	44,567	49,580	45,514
Supplies	41,109	42,501	46,018
Postage and printing	36,734	44,859	46,806
Training expenses	27,549	29,680	26,352
Amortization	20,377	20,377	56,736
Community involvement	9,999	9,819	6,641
Dues and subscriptions	9,447	7,810	9,634
Total expenses	<u>10,264,718</u>	<u>9,402,053</u>	<u>9,090,174</u>
Change in unrestricted net assets	(253,538)	(61,717)	(99,765)
Unrestricted net assets at beginning of year	<u>5,332,822</u>	<u>5,394,539</u>	<u>5,494,304</u>
Unrestricted net assets end of year	<u>\$ 5,079,284</u>	<u>\$ 5,332,822</u>	<u>\$ 5,394,539</u>

Revenue Sources	Percent
Federal	58%
State, LA regional Center, and LA City and County County	29%
Medi-Cal	5%
Donations/Special Events	4%
Miscellaneous (Fees, Investments, Interest, Misc)	4%
TOTAL	100%

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

	As of June 30		
	2011	2010	2009
<u>Assets</u>			
Cash and cash equivalent	\$ 813,901	\$ 992,249	\$ 851,351
Investments	931,763	823,886	734,547
Reimbursable contract costs	1,164,858	1,304,555	1,458,261
Due from affiliate	220,981	221,281	223,081
Other receivables	8,926	4,580	3,385
Prepaid expenses	53,899	33,737	39,800
Total Current Assets	3,194,328	3,380,288	3,310,425
Property and equipment - net	11,068,058	11,398,172	11,698,319
Other assets	322,777	343,752	363,819
Total Assets	14,585,163	15,122,212	15,372,563
<u>Liabilities & Net Assets</u>			
Notes and loan payable - current portion	\$ 275,855	\$ 266,515	\$ 259,963
Accounts payable	236,076	214,476	261,148
Accrued expenses	235,200	257,505	264,499
Total Current Liabilities	747,131	738,496	785,610
Notes and loan payable - less current portion	8,597,874	8,888,872	9,168,231
Total Liabilities	9,345,005	9,627,368	9,953,841
Unrestricted Net Assets	5,079,284	5,332,822	5,394,539
Temporarily Restricted Net Assets	160,874	162,022	24,183
Total Net Assets	5,240,158	5,494,844	5,418,722
Total Liabilities & Net Assets	\$ 14,585,163	\$15,122,212	\$ 15,372,563

Financial Ratios:

	Proforma (a)			
Debt Service Coverage (x)	0.79	0.82	1.08	1.10
Debt/Unrestricted Net Assets (x)	1.81	1.75	1.72	1.75
Margin (%)		(2.53)	(0.66)	(1.11)
Current Ratio (x)		4.28	4.58	4.21

(a) Recalculates FY 2011 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

Although AADAP’s income statement appears to exhibit modest operating losses during the review period, according to AADAP’s management, the current fiscal year interim financial statements exhibit improvement in operating results.

AADAP has a long and successful operating history of over 40 years and has accumulated over \$5 million in unrestricted net assets. AADAP operates 10 facilities and provides much needed services for over 21,000 clients annually. During the review period of FY 2009 through FY 2011, AADAP has operated near break-even, with modest operating losses, but with positive cash flows after adding back over \$400,000 annually for non-cash items of depreciation and amortization.

Particular Facts to Note:

- In FY 2011, AADAP posted decreases in the change in unrestricted net assets, which were due to the under-utilization¹ of Los Angeles Department of Mental Health, Olympia Academy and CalWORKs contracts and the late start of new contracts, beginning in October 2011 and January 2012. According to AADAP’s management, these contracts now yield revenue surpluses in the current fiscal year for the interim financial statements ending on April 30, 2012.
- Revenues have increased by 11% since FY 2009 in tandem with approximately 34% increase in patients; however, this increase was offset by a 13% increase in expenses during the same period. AADAP has increased patient visits from 23,722 in FY 2009 to 34,258 in FY 2011.
- For the unaudited interim financial statements for the period ending on April 30, 2012, AADAP appears to exhibit positive operating results, with \$16,138 increase in net assets. According to AADAP’s management, AADAP projects a surplus at the end of the current fiscal year.
- According to AADAP’s management, in FY 2012, AADAP received over one million dollars in new CalWORKs contracts that are renewed annually, which should help in their efforts to yield positive operational cash flow. AADAP stated that they are exerting an aggressive outreach effort to meet that goal.
- According to AADAP’s management, they do not anticipate any major cuts in existing revenues going forward, and they are not dependent on Medi-Cal funding.

¹ The term “underutilization” is used to indicate that actual billings were less than permitted by the contract.

Financial Discussion – Statement of Financial Position (Balance Sheet)

AADAP's balance sheet appears very strong and highly liquid, with cash and cash equivalents of 65 days, and AADAP has accumulated \$5.2 million in unrestricted net assets over its 40 years of operating history. AADAP has made timely payments on its current HELP II loan, indicating its likely ability to make debt payments.

Particular Facts to Note:

- In FY 2011, AADAP maintained adequate liquidity with \$1.75 million in cash and cash equivalents, resulting in approximately 65 days of operating cash reserve, above the Authority's target of 30 days. Also, AADAP's current assets of \$3.19 million exceed its current liabilities of \$747,131, yielding a healthy current ratio of 4.28x, above the Authority's target ratio of 1.0x. All of the foregoing tend to indicate a healthy balance sheet.
- AADAP has posted satisfactory debt service coverage (DSC) of 1.10x and nearly satisfactory DSC of 1.08x in FY 2009 and 2010 (minimum DSC is 1.10x). However, in FY 2011, AADAP's DSC ratio was only 0.82x, which falls below the Authority's target of 1.10x. In addition, the proforma DSC ratio with the addition of the proposed HELP II loan is only 0.79x. When calculating proforma DSC for the unaudited period ending on June 30, 2012, and including the payments of the proposed HELP II loan, the DSC appears satisfactory at 1.22x, which suggests AADAP should be able to service the new debt payments. Nevertheless, to reduce the risk of default, staff recommends requiring AADAP to seek consent from the Authority prior to taking on any new debt (except for new vendors less than \$15,000 which staff suggests should require only notification). Additionally, staff recommends requiring AADAP to maintain its non-profit status throughout the term of the loan (with an acceleration clause for failure to do so) and to provide the Authority with copies of its FY 2011/2012 audited financials once available.
- AADAP is leveraged at 1.81x, above the target maximum leverage of 1.0x; however, AADAP does meet the minimum DSC in three out of the four fiscal years observed, suggesting its ability to make debt service payments. In addition, AADAP has consistently made timely debt service payments on its two existing HELP II loans.
- In the 2011 audited financial statements, there were two notations citing loan covenant breaches for two promissory notes due to the debt to net worth ratio exceeding the maximum allowable of 1.0x (debt to unrestricted net assets ratio). AADAP has provided CHFFA staff with the written waivers by the lenders for the above two promissory notes indicating the lenders will not be calling the loans due.

EXHIBIT 1

PROJECT SITES

1. 5318 South Crenshaw Boulevard, Los Angeles, CA 90043
2. 2547 South Bronson Avenue, Los Angeles, CA 90018
3. 5825 West Olympic Boulevard, Los Angeles, CA 90036
4. 2900 South Crenshaw Boulevard, Los Angeles, CA 90016

EXHIBIT 2

**CLIENTS SERVED/ (PATIENT VISITS)
FISCAL YEAR ENDED JUNE 30**

	2009	2010	2011
Totals	15,815 / (23,722)	16,819 / (27,246)	21,147 / (34,258)

EXHIBIT 3
OUTSTANDING DEBT

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/11 *</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
CHFFA HELP II Loan May 16, 2003	\$340,000	\$179,597	\$179,597
NCB Dev. Corp., November 18, 2003	391,500	243,431	243,431
LDC Management Services November 14, 2005	657,000	487,111	487,111
CHFFA HELP II Loan July 6, 2007	461,700	364,943	364,943
Community Reinvestment Fund June 1, 2008	625,000	588,728	588,728
Comerica Bank, July 11, 2008	3,630,000	3,430,000	3,430,000
Chase Bank December 1, 2008	3,750,000	3,579,919	3,579,919
Proposed:			
CHFFA HELP II Loan, 2012			300,000
TOTAL DEBT		<u><u>\$8,873,729</u></u>	<u><u>\$9,173,729</u></u>

*Includes current portion of long-term debt.

EXHIBIT 4

BACKGROUND AND LICENSURE

Background

Founded in 1972, AADAP manages various programs, including treatment and counseling services for 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 (7) facilities and leases three others.

Licensure, Certification and Accreditation

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 also licensed by the Department of Social Services to operate a group home.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-270

**RESOLUTION APPROVING EXECUTION AND DELIVERY OF
HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN
PARTICIPATING HEALTH INSTITUTIONS**

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to provide secured or unsecured loans to participating health institutions, to finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **Asian American Drug Abuse Program, Inc.** (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority;

WHEREAS, approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower, in the amount of **\$300,000** for a term not to exceed **15 years** for the purpose described in the application filed with the Authority and as Exhibit A attached hereto (the “Project”), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 15-year fixed rate loan;
2. 180 equal monthly payments of approximately \$2,072 (annual payments of about \$24,861);
3. First (1st) lien position on property located at 5318 South Crenshaw Blvd., Los Angeles, CA 90043;
4. Corporate gross revenue pledge;
5. Loan to value ratio not to exceed 95% to be confirmed by an appraisal acceptable to the Authority prior to loan closing;
6. Any future loans or obligations by the borrower must be preapproved in writing by the Authority for the three consecutive years following the approval of this

loan, except that the Authority will only require notification (as opposed to consent) for vendors extending a line of credit under \$15,000. However, the Authority will re-evaluate AADAP's financial condition after one year to determine if sufficient improvement occurred so as to merit releasing some or all of the consent restrictions;

7. AADAP shall maintain its non-profit status throughout the term of the loan and failure to do so shall immediately accelerate the entire outstanding principal balance and interest then due; and
8. AADAP shall submit FY 2011-2012 audited financials as soon as the same become available.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loan may not be increased above the amount approved by the Authority and provided further that the loan continues to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the Program fund not to exceed those amounts approved by the Authority for the Borrower. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires six months from the date of approval.

Date of Approval: _____

EXHIBIT A

PROJECT DESCRIPTION

Loan proceeds will be used to renovate, remodel, and expand four existing facilities owned by AADAP.

Project Sites:

1. 5318 South Crenshaw Boulevard, Los Angeles, CA 90043
2. 2547 South Bronson Avenue, Los Angeles, CA 90018
3. 5825 West Olympic Boulevard, Los Angeles, CA 90036
4. 2900 South Crenshaw Boulevard, Los Angeles, CA 90016