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)

DEVENIUES	2003 (unaudited)		2002		2001		2000	
REVENUES Medi-Cal	\$	763	\$	658	\$	457	\$	381
Private pay, net	Ф	300	φ	265	φ	230	φ	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		(125)		(112)		(98)		(89)
Unrestricted operating revenue		1,046	-	901		732		580
EXPENSES								
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		95		92		76		56
-		944		840		690		
Total expense		944		840		090		599
Net operating income		102		61		42		(19)
Other revenue/expense		(8)		(14)		4		18
Change in unrestricted net assets		94		47		46		(1)
Unrestricted net assets at beginning of year		750		703		657		658
Unrestricted net assets end of year	\$	844	\$	750	\$	703	\$	657
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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)

	2003 (unaudited)		2002		<u>2001</u>		, :	2000
<u>ASSETS</u>								
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		175		173		169		160
Total assets	\$	1,154	\$	1,108	\$	1,043	\$	1,124
LIABILITIES								
Accounts payable	\$	10	\$	25	\$	16	\$	29
Accrued payroll and vacation		71		67		59		50
HELP II Loan		210		238		265		291
Other liabilities		19		28		-		97
Total liabilities		310		358		340	_	467
Unrestricted Net Assets		845		750		703		657
NET ASSETS		845		750		703		657
TOTAL LIABILITIES AND NET ASSETS	\$	<u>1,155</u>	<u>\$</u>	1,108	<u>\$</u>	1,043	<u>\$</u>	1,124
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%