CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY

Applicant:	Venice Family Clinic ("VFC") 604 Rose Avenue Venice, California 90291 Los Angeles County	**Amount Requested:** **Requested Loan Term:** **Date Requested:** **Resolution Number:**	$750,000 5 years May 27, 2010 HII-249

Project Site: 613 Rose Avenue, Venice, California (Los Angeles County)
Facility Type: Community Clinic, Federally Qualified Health Center (FQHC)
Prior HELP II Borrower: No

Policy Exception: VFC's gross revenues, inclusive of $12.5 million from in-kind donations, exceed the current HELP II $30 million gross revenue cap. Staff recommends approval of this loan notwithstanding this reality for the reasons as more particularly discussed on page two herein.

Background: VFC was founded in 1970 and began in a borrowed storefront dental office. VFC has since grown into the largest free clinic in the nation. More than 2,000 volunteers and $12.5 million in-kind contributions from hospitals, laboratories, specialty-care providers and pharmaceutical companies allow VFC to provide comprehensive primary health care, specialty care, dental care, mental health services, health education and child development services.

Uses of Loan Proceeds: Loan proceeds will be used to purchase and install a Practice Management and Electronic Health Record System.

Financing Structure

- 5-year fixed rate loan.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 91%).
- UCC-1 Lien on equipment.
- Corporate gross revenue pledge.

Financial Overview: VFC's income statement appears to show negative changes over the review period seemingly due to significant realized and unrealized losses on long-term investments, as well as declines in private and community support. In contrast to VFC's Statement of Activities, VFC's balance sheet appears very solid with $7.2 million in unrestricted net assets. VFC also has a solid proforma debt service coverage ratio of 2.67x indicating VFC should likely be able to meet its debt obligations.

Sources of Funds		**Uses of Funds**	
HELP II Loan	$750,000		
Grant Funds*	500,000	Purchase Equipment	$1,400,000
Borrower Funds	159,400	Financing costs	9,400
Total Sources	$1,409,400	Total Uses	$1,409,400

*Grant funds have been awarded, but have not yet been received from the Ralph Parsons' Foundation.

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

Parties of Interest: Not applicable
(Included for the purpose of discerning Conflicts of Interest)

Staff Recommendation: Staff recommends approval of Resolution Number HII-249 for Venice Family Clinic in an amount not to exceed $750,000 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O'Connell, LLP, the Authority's financial analyst, concurs with the Authority's staff recommendations.

I. POLICY EXCEPTION:

The HELP II program is intended to benefit eligible health facilities whose annual revenues are less than $30 million. VFC's audited income statement for FY 09 reflects gross revenues of $32 million. While VFC's gross revenues exceed the maximum by 7%, these revenues are inclusive of more than $12.5 million of in-kind contributions, including volunteered physician, emergency and laboratory services. The Authority has previously approved a similar request in which the applicant was 6% in excess of the maximum annual revenue limit (and in which none of the gross revenues derived from in-kind donations).

This transaction presents the Authority with a unique and meaningful opportunity to assist a vital institution in Los Angeles County. VFC is the largest free clinic in the United States. More than 2,000 volunteers participate to provide comprehensive primary health care, specialty care, dental care, mental health services, health education and child development services. VFC's public insurance enrollment is higher than 24,400 patients, including more than 6,000 children, who collectively make more than 103,000 visits on an annual basis. VFC also provides prescription medicine at no cost. Staff recommends the Authority permit this financing notwithstanding the fact that VFC's gross revenues (inclusive of in-kind donations) reached $32 million for FY 09.

II. PURPOSE OF FINANCING: VFC will use the loan proceeds, internal funds, and a $500,000 grant from the Ralph Parsons' Foundation to acquire, configure and install a new Practice Management and Electronic Health Record system. This project aims to improve the quality of care by enhancing patient histories, implementing system reminders, reducing medication errors and wait time, and improving communications amongst providers and patients.

Purchase Software and Hardware Equipment.. ***$ 1,400,000***

VFC solicited bids and completed contract negotiations in March 2010 with NextGen. In addition to the integrated NextGen System, multiple new servers, network equipment and hardware, backup and disaster recovery hardware, replacement workstations, new workstations at the point-of-care in six clinic sites, network vitals and other clinical equipment will be purchased, installed and integrated as part of this project. VFC estimates the hardware purchase will cost approximately $820,000, while the software portion will cost approximately $580,000. Staff recommends using the equipment hardware for collateral, which results in a loan to value ratio of 91%.

Financing Costs **9,400**

Authority Fee.. $9,400

Total Uses of Funds .... ***$ 1,409,400***

III. FINANCIAL STATEMENTS AND ANALYSIS

Venice Family Clinic
Statement of Activities
(Unrestricted)

	For the Year Ended June 30,		
	2009	2008	2007
Revenues, gain and other support:			
Third-party reimbursement for services *	$ 9,491,046	$ 8,198,592	$ 6,989,769
Private and community support	5,674,931	6,057,766	6,569,669
Government support	4,189,999	3,931,581	3,794,776
Net assets released from restrictions	896,834	826,756	1,683,064
Interest and divided income	22,332	274,636	284,407
Realized & unrealized gain (loss) long-term investments	(798,347)	(375,943)	416,050
Net loss on disposal of assets	-	-	(7,750)
Total revenues, gains and other support	19,476,795	18,913,388	19,729,985
In-kind contributions- Revenues	12,542,738	11,311,667	10,432,559
Total revenues	32,019,533	30,225,055	30,162,544

*** Venice Family Clinic FY 09 - Third Party Reimbursement for Services**

L.A. County PPP (Public Private Partnership Program)	42%
Medi-Cal	35%
Managed Care Capitation	8%
Family Pact (State Only Family Planning Program)	6%
State Expanded Access to Primary Care (EAPC)	4%
Managed Care	2%
CDP (State Cancer Detection Program)	2%
Medicare	1%
TOTAL	100%

Venice Family Clinic
Statement of Activities (Cont.)
(Unrestricted)

	For the Year Ended June 30,		
	2009	2008	2007
Expenses:			
Salaries	12,518,124	12,281,055	11,804,237
Employee benefits	3,629,320	3,515,266	3,241,371
Professional and contractual fees	1,030,175	811,044	899,215
Depreciation and amortization	624,654	559,650	559,899
Repairs and maintenance	388,981	413,267	375,077
Utilities and rent	388,911	330,674	285,153
Fundraising event expenses	300,978	319,846	357,877
Medical supplies and medical waste removal	222,392	202,502	309,772
Licenses, fees and dues	212,512	218,859	216,372
Pharmaceutical and lab supplies	198,016	251,138	267,949
Dental services	189,141	211,221	188,545
Computer / software / office supplies	180,087	221,806	518,784
Insurance	179,321	172,630	177,348
Postage printing and subscriptions	161,771	162,528	131,688
Telephone	157,171	178,667	169,118
Child care	144,655	134,752	198,240
Travel, training and workshops	112,953	92,046	128,365
Others	324,261	342,194	359,607
Expenses	20,963,423	20,419,145	20,188,617
In-kind contributions- Expenses	12,542,738	11,311,667	10,432,559
Total expenses	33,506,161	31,730,812	30,621,176
Deficit before net assets released for capital expenditure	(1,486,628)	(1,505,757)	(458,632)
Net assets released for capital expenditure	1,293,745	-	-
Change in unrestricted net assets	**(192,883)**	**(1,505,757)**	**(458,632)**
Unrestricted net assets at beginning of year	7,377,511	8,883,268	9,341,900
Unrestricted net assets at end of year	$ 7,184,628	$ 7,377,511	$ 8,883,268

Venice Family Clinic
Financial Position

	As of June 30, 2009	2008	2007
ASSETS:			
Current Assets			
Cash and cash equivalents	$ 1,021,888	$ 1,421,109	$ 400,144
Accounts receivable	964,353	864,995	402,242
Grants receivable	1,217,054	941,299	1,138,651
Pharmaceutical inventories	1,656,585	$ 1,822,662	$ 1,675,216
Prepaids and other	114,549	147,688	175,584
Total current assets	4,974,429	5,197,753	3,791,837
Other Assets			
Long-term investments	4,908,525	6,472,290	7,887,089
Long-term pledges, net of discount	408,582	-	-
Beneficial interest	374,264	535,681	333,190
Property and equipment, net	6,435,841	5,731,934	6,017,305
Total assets	$ 17,101,641	$ 17,937,658	$ 18,029,421
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Line of credit	$ 500,000	$ -	$ -
Accounts payable & accrued expenses	547,440	375,592	487,767
Total current liabilities	1,047,440	375,592	487,767
Pledge liabilities	557,646	557,646	557,646
Total liabilities	1,605,086	933,238	1,045,413
Net assets:			
Unrestricted	7,184,628	7,377,511	8,883,268
Temporarily restricted	4,837,870	6,163,552	4,657,498
Permanently restricted	3,474,057	3,463,357	3,443,242
Total net assets	15,496,555	17,004,420	16,984,008
Total Liabilities & Net Assets	$ 17,101,641	$ 17,937,658	$ 18,029,421

Financial Ratios:	Proforma (a) FYE June 30, 2009	2009	2008	2007
Debt service coverage (x)	2.67	N/A	N/A	N/A
Debt/Unrestricted Net Assets (x)	0.05	N/A	N/A	N/A
Margin (%)		(0.93)	(7.96)	(2.32)
Current Ratio (x)		4.75	13.84	7.77

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

VFC's income statement appears to show negative changes over the review period seemingly due to significant realized and unrealized losses on long-term investments, as well as declines in private and community support.

Two years ago VFC developed a budget plan to address its ongoing financial losses. This plan included using operating reserves to avoid drastic reductions in services and reducing expenses by re-prioritizing programs. VFC reports that over the last two years, it cut back programs identified as non-core programs, streamlined administrative positions, increased utilization of volunteers, and laid off 21 staff members. According to VFC's management the effect of these measures will materialize in the near future as unanticipated expenses offset the savings in FY 09.

VFC has also developed a five year fundraising campaign called Five Ways Forward. The goal of this campaign is to raise $23 million for capital, operating, reserve and endowment funds. According to VFC's management, to date, this campaign has raised nearly $7 million, most of which was raised after June 2009. In addition, VFC plans to seek federal funds through recent health care reform legislation which provides grants for clinics who qualify as 330e community health centers (Bureau of Primary Health Care grant for a Community Health Center). This means that VFC will be able to apply for and potentially receive 330e community health center federal grant funds. Once VFC becomes a federally funded community health center, there will be more opportunities to apply for and receive additional federal funds. According to management, VFC will be seeking to obtain as much as $1.2 million in grant funds over the summer of 2010 with grant funds released between October 2010 and February 2011.

Particular Facts to Note:

- Private and community support for FY's 09, 08 and 07 respectively, was $6.6 million, $8.26 million, and $7.5 million, a decline of 12% over the review period. VFC reports that it became more difficult to raise funds during the current economic downturn.

- Importantly, both government support and third-party reimbursement for services appears to be increasing steadily over the review period. Government support increased by 3.6% from FY 07 to FY 08, and by 6.6% from FY 08 to FY 09. Third-party reimbursement for services increased by 17.3% from FY 07 to FY 08, and by 15.8% from FY 08 to FY 09. VFC's management projects that government support will continue to increase in future years primarily as a result of the new federal health care reform legislation.

Financial Discussion – Statement of Financial Position (Balance Sheet)

In contrast to VFC's Statement of Activities, VFC's balance sheet appears very solid with $7.2 million in unrestricted net assets. VFC also has a solid proforma debt service coverage ratio of 2.67x indicating VFC should likely be able to meet its debt obligations.

Particular Facts to Note:

- VFC's cash reserves have increased 59% from FY 07 to FY 09. As of FY 09, VFC had approximately $1.02 million cash on hand; however this represents only 18 days cash on hand, which is at the lower end of the acceptable range.

- Accounts receivable went up from $402,000 in FY 07 to $964,000 in FY 09. VFC reports that this increase is related to the Clinic's FQHC settlement receivables. Prior to FY 08, VFC recorded final FQHC settlement receivable only when the amount was collected. VFC's auditors, in accordance with generally accepted accounting principles, now require VFC to accrue those receivables.

- Current liabilities increased during our review period, most notably in FY 09 due to VFC's $500,000 drawdown on its credit line to weather the current economic downturn.

- VFC appears to have managed its current liabilities adequately as evidenced by its current ratio of 4.75x. The current ratio indicates that VFC appears to have sufficient liquidity to meet its short-term obligations.

- During our review period, VFC had no long-term debt and with the proposed financing, VFC will be very moderately leveraged, with a Debt to Unrestricted Net Asset Ratio of only 0.05x.

- VFC had a negative margin of (0.93)% in FY 09 due to the decreases in unrestricted net assets; again, primarily the result of unrealized and realized losses on long-term investments.

- The Pledge liability category in the long-term liability of the Balance Sheet refers to real estate donated to VFC through a trust and which was recorded at fair value when received. The proceeds from the future sale of the property will become available for use by VFC in future periods. Upon the death of the last surviving donor, up to 40% of the property value may be distributed to other qualified charitable organizations. The pledge liability shown on the financial position represents the amounts payable to those organizations, recorded at the percentage of the related real estate value. The related real estate is included in investments while the liabilities are separately presented on the statement of financial position.

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served/ (Patient Visits)
Fiscal Year Ended June 30,

	2009	**2008**	**2007**
Totals	24,424/ (108,654)	23,532/ (107,929)	21,536/ (101,670)

EXHIBIT 2

OUTSTANDING DEBT

As of FY 09, VFC has no long-term debt. With this financing, CHFFA's $750,000 HELP II will be its only outstanding long-term debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background and Licensing

VFC was founded in 1970 in a borrowed storefront dental office. Subsequently, the Clinic has grown into the largest free clinic in the nation. More than 2,000 volunteers and $12.5 million of in-kind contributions from hospitals, laboratories, specialty-care providers and pharmaceutical companies allows VFC to provide comprehensive primary health care, specialty care, dental care, mental health services, health education and child development services, as well as public insurance enrollment to more than 24,400 patients, including more than 6,000 children, who make over 103,000 visits annually to eight different offices. Prescription medicines are provided at no charge. The majority of VFC's patients live and work in the Westside neighborhoods of Venice, Mar Vista, Santa Monica, Culver City, and Inglewood, and are typically low-income and lacking of private health insurance. 16% of the Clinic's patients are homeless.

Licensing:

VFC is licensed by the California Department of Public Health to operate as a Community Clinic.