



ASSET PRESERVATION ADVISORS

HOSPITAL AUTHORITY OF THE CITY OF SMYRNA, GEORGIA First Mortgage Revenue Bonds (Ridgeview Institute, Inc. Project) Series 1998 (CUSIP: 832808BR9)

JANUARY 27, 2006

EXECUTIVE SUMMARY

- This review is being conducted to evaluate the creditworthiness of the Ridgeview Institute, Inc. in connection with its outstanding First Mortgage Revenue Bonds (Ridgeview Institute, Inc. Project) Series 1998 (CUSIP: 832808BR9)
- The Bonds are secured by a pledge of all revenues and accounts of the Institute as well as a mortgage on the Institute's primary psychiatric treatment facility
- A debt service reserve equal to the maximum amount of future debt service requirements on the Bonds was fully funded as of fiscal year end 2005
- The credit backing the proposed bonds appears satisfactory as highlighted by:
 - A favorable financial profile which includes healthy coverage of debt service requirements by available net revenues and substantial growth in liquidity in recent years
 - Management's proven ability to react quickly and effectively to administrative challenges which affect financial performance
 - A favorable trend of facility utilization which demonstrates healthy and growing demand for Institute services
- There do not appear to be any bond ratings assigned to debt issued by, or on behalf of, the Institute

OBLIGOR BACKGROUND AND DEMOGRAPHICS

The First Mortgage Revenue Bonds (the "Bonds") were issued by the Hospital Authority of the City of Smyrna, GA, (the "Authority") on behalf of the Ridgeview Institute, Inc., (the "Institute"). The Authority exists as an agency of the City solely to facilitate the financing of certain healthcare projects by not-for-profit entities.

The Institute was incorporated in the State of Georgia in May 1994 as a not-for-profit organization to provide psychiatric and substance abuse treatment, including inpatient, partial, and intensive outpatient treatment options for children, adolescents, adults, and seniors. In addition, the Institute also offers specialty programs for impaired professionals, eating disorders, young adults, and senior citizens.

Patients are served at the Institute's primary facility located in Smyrna, GA, about fifteen miles northwest of downtown Atlanta. The Institute primarily serves patients from the greater Atlanta metropolitan area. However, several programs, such as the impaired professionals program, have regional and national reputations and therefore attract patients from other parts of the nation.

Data provided by the Institute indicates that the level of facility utilization has been increasing in recent years. The number of in-patient patient days increased by 11.8% in fiscal year 2005 to stand at 24,873. In addition, the number of out-patient visits grew by 3.8% in 2005 to 27,827 and intensive out-patient service days increased from 9,281 in 2004 to 11,451 in 2005, an increase of 23.4%.

SECURITY PROVISIONS

Overall Structure

The Bonds are special limited obligations of the Authority, payable solely from the payments paid by the Institute to the Authority under a Loan Agreement (the "Agreement") dated November 1, 1998. Under the terms of the Agreement, the Institute is required to make regularly scheduled loan payments equal to the debt service payments due on the Authority's Bonds.

Security Features

The Agreement provides for a gross pledge of revenues and accounts generated from the operation of the Institute's primary treatment facility. In addition, the Agreement also provides a first lien security interest in the treatment facility and all personal property located within the facility. A debt service reserve was funded upon the issuance of the Bonds. The reserve is required to be maintained at the maximum amount of annual debt service costs due in any one year. Maximum future annual debt service is \$609,100.00 and is due in 2023.

Additional debt can be issued on parity with, or with an identical security pledge to, the Bonds. However, before such additional debt can be issued, the Institute must satisfy one of several financial tests. All of the tests require that the Institute's historical or prospective generation of funds available to pay debt service and other contractually fixed charges, equal at least 1.25-times the annual amount of these charges.

Prior to 2003, additional security was provided by the availability of \$1 million in cash placed by the Ridgeview Foundation within an Operating Reserve Fund held by the bond trustee. These assets served as collateral securing the Bonds and were available to be used for the facility's operating costs. However, the Institute was able to satisfy certain financial tests, including the posting of 1.50-times coverage or better of annual fixed charges by available funds.

FINANCIAL ANALYSIS

The Institute appears to possess a sound financial profile as highlighted by an ongoing pattern of strong coverage of annual debt service requirements by available net revenues—gross revenues less operating and maintenance costs—and a satisfactory balance sheet. Although the Institute has pledged all revenues to the payment of debt service on the Bonds, in practice without the payment of regular operating and maintenance expenses, the Institute would not be able to operate for very long and long-term security would suffer. As a result, an analysis of the Institute's financial profile must consider its ability to pay both the costs of operation and debt service on the Bonds on an ongoing basis.

Over the last three fiscal years the Institute posted satisfactory operating results. Operating margins (income from operations divided by total operating revenues) ranged from a low of 3.2% to a high of 4.2% which was well above the 2004 median for all healthcare institutions rated "Baa3" by Moody's Investors Service. In addition, the excess of revenues over operating and maintenance expenses generated coverage of annual debt service costs that ranged from 2.82-times in 2005 to 3.71-times in 2004. For comparison, the 2004 Moody's median was a significantly lower at 2.3-times annual debt service requirements.

The Institute's balance sheet has appeared significantly improved in recent years due largely to the Institute's efforts to improve its billing and collection system. In 2003 the system broke down preventing the Institute from billing for services for a period of several months. As a result, as of fiscal year end 2003, liquidity stood at a level equal to a modest 36.8 days of annual operating expenses. However, management moved quickly to change the system and as a result billings and collections improved substantially, allowing the Institute's liquidity position to grow dramatically. Cash and cash equivalents grew from \$2.1 million at fiscal year end 2003 to \$5.2 million at fiscal year end 2005. This significantly greater level of liquidity equaled 74.7 days cash on hand and is roughly in-line with the 2004 Moody's median of 78.8-days for "Baa3" rated healthcare institutions. The amount of debt outstanding as of fiscal year 2005, while significant at \$13.4 million, appears

manageable relative to the Institute’s financial capacity. As of fiscal year end 2005, the Institute’s cash-to-debt ratio was reported as 41.2%, below the 2004 Moody’s “Baa3” median of 50.0%.

FINANCIAL SUMMARY (FISCAL YEAR END AUGUST 31, \$000)			
	2003	2004	2005
Operating Statement Data			
Net patient service revenue	\$22,349	\$25,963	\$28,276
Total operating revenues and other support	\$22,645	\$26,121	\$28,477
Total operating expenses before restructuring costs	\$21,916	\$24,675	\$27,297
Increase (decrease) in net assets	\$729	\$1,446	\$1,180
Funds available to pay debt service	\$2,480	\$3,281	\$3,019
Annual debt service	\$870	\$884	\$1,070
Coverage of annual debt service by available funds	2.85	3.71	2.82
Operating margin	3.2%	5.5%	4.1%
Balance Sheet Data			
Cash and cash equivalents	\$2,083	\$4,425	\$5,316
Total assets	\$21,779	\$23,044	\$27,851
Total liabilities	\$12,397	\$12,219	\$15,846
Total net assets	\$9,382	\$10,825	\$12,004
Days-cash on hand	36.8	69.1	74.7
Cash-to-debt ratio	20.5%	45.1%	41.2%
Debt-to-assets ratio	46.7%	42.5%	46.3%
Debt-to-capitalization ratio	52.0%	47.5%	51.8%

Source: Ridgeview Institute, Inc. annual financial statements, fiscal years 2003, 2004 and 2005

Looking forward, the Institute faces an evolving set of reimbursement rates for services provided. Managed care entities are seeking to limit or eliminate reimbursements for certain services, including partial payments for short-term patient stays. On the other hand, beginning in April 2006, Medicaid reimbursements will be available for certain services which were not previously covered. According to Institute management, Medicaid reimbursements are not significantly different from those provided by other third-party payors.

CREDIT RATINGS

There do not appear to be any bond ratings assigned to debt issued by, or on behalf of, the Institute.

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