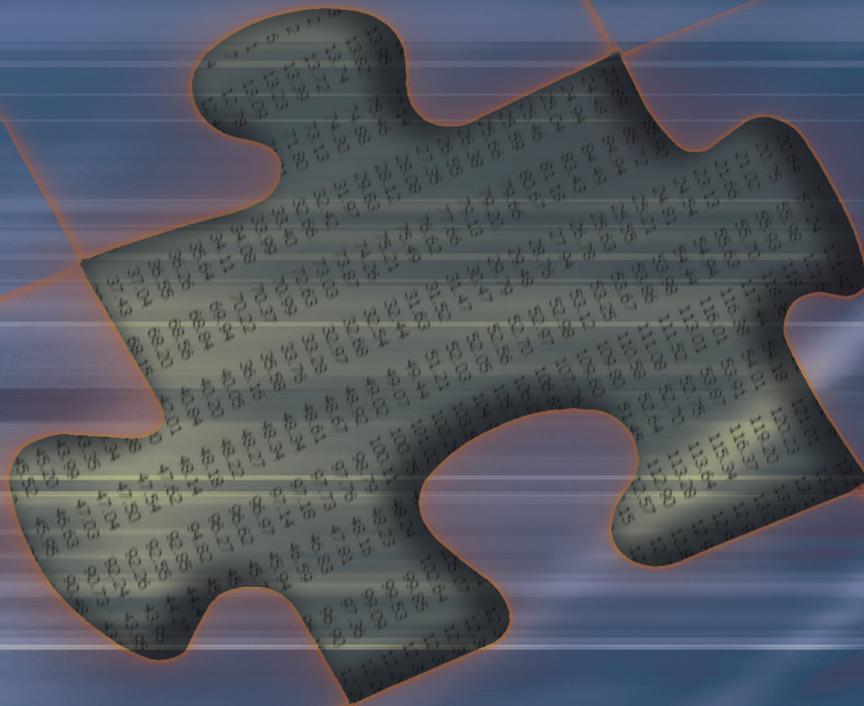


FINANCIAL RATIOS & TREND ANALYSIS

OF CARF-ACCREDITED CONTINUING CARE RETIREMENT COMMUNITIES

A joint project of CARF, Ziegler, and Baker Tilly

2018



carf INTERNATIONAL

Ratio Summary

Ratio Name	2017 Median*	
	Single-site	Multi-site
Sample Size	123	26
Margin (Profitability) Ratios		
Net Operating Margin Ratio	4.84%	4.61%
Net Operating Margin—Adjusted Ratio	22.19%	19.43%
Operating Ratio	98.15%	96.53%
Operating Margin Ratio	-0.29%	0.55%
Total Excess Margin Ratio	2.25%	2.66%
Liquidity Ratios		
Days in Accounts Receivable Ratio	19	20
Days Cash on Hand Ratio	399	337
Cushion Ratio (x)	8.53	8.42
Capital Structure Ratios		
Debt Service Coverage Ratio (x)	2.64	2.56
Debt Service Coverage—Revenue Basis Ratio (x)	0.92	1.38
Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio	10.02%	8.46%
Unrestricted Cash and Investments to Long-Term Debt Ratio	69.77%	77.20%
Long-Term Debt as a Percentage of Total Capital Ratio	74.81%	72.62%
Long-Term Debt as a Percentage of Total Capital—Adjusted Ratio	44.49%	45.93%
Long-Term Debt to Total Assets Ratio	34.58%	36.17%
Average Age of Community Ratio (Years)	11.77	13.06
Capital Expenditures as a Percentage of Depreciation Ratio	100%	134%

*50th Percentile

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Feedback

Your feedback is very important to us. The publication team would like to solicit your feedback related to the 2018 edition of *Financial Ratios & Trend Analysis of CARF-Accredited Continuing Care Retirement Communities*. If you have any suggestions for changes in terminology or other clarifications for ratio calculations, the online survey is the best place to share these. Please complete the online survey at:

www.surveymonkey.com/s/RatiosPublicationFeedback

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A Message from the CARF Financial Advisory Panel Chair

We are pleased to present the 2018 edition of *Financial Ratios & Trend Analysis*. The publication has been around for 26 years and throughout that time key financial ratio data have been collected and trended and utilized as benchmark data for the Continuing Care Retirement Community (CCRC) field. Over the years, financial ratios have been added and there have been adjustments made to ensure alignment with industry and accounting standards. Trends like changes to residency agreements and recovery from the financial crisis have been noted and analyzed.

The 2018 edition contains data for single-site and multi-site organizations, and 17 separate financial ratios are presented in the publication. Comparative information is provided based upon contract type and quartile rankings. Fitch credit rating categories were expanded beginning in 2017 to provide a broader basis for comparison. And new this year, we are making the publication available in a digital format. We hope this will increase the usability of the report and we welcome your feedback on additional innovations that would make the report most useful in the years to come. Please take some time to review and respond to the questions in our Ratio Trends survey www.surveymonkey.com/s/RatiosPublicationFeedback.

Your feedback will help drive future innovations in this publication.

The Ratio Trends publication also highlights key changes in accounting standards under the What's New and What's Coming? section of Chapter 1. In this edition, we highlight the upcoming adoption of new accounting standards relating to financial reporting for not-for-profit entities, revenue recognition, contributions, and lease accounting. We have also acknowledged the impact of tax reform in relation to the CCRC industry and how this will impact financing and bond issuance.

It is important for an organization to assess its financial health in a variety of ways. Comparing actual to budgeted performance, evaluating trends, and utilizing financial ratios are methods available to help evaluate performance. Comparing your organization's results to like organizations, or looking at trends over multiple periods, helps to identify areas of strength as well as areas for improvement. Nonaccredited organizations can derive value from these data by comparing their results to accredited organizations or simply calculating trends for their own organization from one period to another. The ratios can be used as a leading indicator to provide valuable information as organizations strategically plan their future.

We encourage organizations to routinely calculate ratios and use these as part of your internal review process as well as share results with key stakeholders to provide information regarding the financial health of the organization. An advantage of this publication is the calculations are consistently applied against all participating organizations so an apples-to-apples comparison can be made. CARF regularly reviews the validity and relevance of the financial ratios and definitions that have been applied over the years. The Financial Advisory Panel also reviews the CARF financial ratio calculations and makes suggestions for alignment with industry standards and banking practices to make the ratio data more meaningful to both providers and financial institutions.

We hope you continue to find this publication a valuable tool that supports your journey to regularly improve the financial health of your organization.

Michael Flynn
Vice President & Financial Officer
Friendship Senior Options
Chair, CARF Financial Advisory Panel

Uses and Limitations of this Publication

Background

The purpose of this publication is to provide in summary form for the past ten years (2008 through 2017) the financial ratio quartiles of CARF-accredited organizations (hereafter referred to as CCRCs regardless of individual state's designations) that were accredited by CARF as of December 2017. This year's publication provides valuable industry benchmarks, allowing readers a unique opportunity to view the financial trends resulting from a number of factors, including provider growth, accounting changes, operating challenges, and regulatory changes.

The group of organizations included in this report consists of 26 multi-site providers and 123 single-site providers. One organization included in this publication operates on a for-profit basis.

The intent of this report is to:

- Assist individual CCRC boards and management teams understand and fulfill their fiduciary responsibilities;
- Provide an ongoing mechanism for strengthening CARF's financial performance standards; and
- Promote better understanding of CCRCs among outside constituencies such as investors, regulators, and consumers.

This report represents the 26th publication of financial ratios for CARF-accredited providers. It provides standardized financial information to CCRC boards, management teams, and the broader professional and consumer constituencies.

Ratios have been computed using information from the audited financial statements of the accredited organizations. Data have been collected and the ratios calculated and analyzed by representatives from CARE, Baker Tilly, and Ziegler. The information provided herein is of a general nature and is not intended to address the specific circumstances of any individual organization or entity.

Quartile Rankings

For each financial ratio, quartile divisions have been calculated. Each single-site or multi-site provider's ratio was ranked in ascending order (or descending order, depending on the nature of the ratio); the list was then divided into four equal groups. The best ratio in the lowest quarter defines the 25th percent quartile (the point at which 25 percent of the providers reporting that ratio are at or below), the best ratio in the second quarter of the data defines the 50th percent quartile (or the median), and the best ratio in the third quarter of the data defines the 75th percent quartile.

The Benefits of Financial Ratios

Financial ratios are valuable tools of analysis. Ratios are:

- A useful tool in analyzing a provider's financial strengths and weaknesses;
- Valuable in identifying trends;
- Presented in the form of numerical computations that are easy to use for both internal and external comparisons;
- Helpful in identifying unusual operating results;
- Useful for illustrating best practices of the financially strong providers; and
- Valuable because they provide comparisons among providers regardless of the actual dollar amounts for the underlying data.

The Limitations of Financial Ratios

However, financial ratios have limitations. Specifically:

- Ratios are not an exclusive tool to be used in isolation; and
- The interpretation of an individual CCRC's ratios may vary due to variations in financial reporting treatments.

Ratios are often characterized as having "best" values. Yet, specific circumstances often require substantial exceptions to these standard interpretations. Thus, the reader is cautioned about drawing quick conclusions that Provider A is better than Provider B because Provider A has a particular financial ratio above the 75th percent quartile while Provider B's is below the 25th percent quartile. In general, no single ratio should be looked at in isolation. Rather, ratios must be looked at in combination with other ratios and with nonfinancial information to interpret the overall financial condition of a provider.

For instance, whether a provider has one site or multiple sites will impact its financial ratios. It is for this reason that throughout this publication we always categorize the data as either pertaining to single-site providers or multi-site providers.

A particular provider's performance must also be evaluated based on where it is in its lifecycle. For example, start-up organizations would be expected to have a relatively unfavorable (high) Long-Term Debt to Total Assets (LTD-TA) ratio, whereas a mature community would be expected to have a relatively favorable (low) LTD-TA. Similarly, a high Long-Term Debt as a Percentage of Total Capital (LTDC) ratio for a start-up community should not necessarily be considered a point of concern. Conversely,

unless further investigation reveals that a substantial renovation and modernization program has recently been financed, a comparatively high LTDC for a mature community could signal a significant problem.

Furthermore, the types of contracts that are offered to residents at CCRCs may affect certain ratios. Knowledge of this contract experience is helpful when examining ratio results. When the results of the ratios appear to have been affected by the types of contracts in existence, comments have been included in the ratio discussion. Chapter 5 discusses the variety of contract types and presents each of the ratios by the organization's predominant contract type.

Uses of this Report

Given the limitations mentioned above, we expect CARF-accredited CCRCs to use the ratios published in this report and defined within Ratio Pro (an Excel® spreadsheet provided by CARF to facilitate ratio calculations) as points of reference for developing internal targets of financial performance, but only after evaluating their own specific marketing, physical plant, and mission/vision considerations.

We also anticipate that others will use these ratios, particularly within the capital markets, to learn about the financial position of organizations that have been through CARF's accreditation process. The ratios can also be used as benchmarks against which to evaluate nonaccredited organizations and to gain a deeper understanding about the sector as a whole.

Growth in the financial sophistication of retirement communities and increased understanding of their credit strength and operational patterns by rating agencies and other capital market participants have produced a favorable environment for many CCRCs. Currently 136 senior living providers, the majority of which are continuing care retirement organizations, have their debt rated—78 are single-site and 58 are multi-site. Five organizations have debt rated by more than one rating agency. Within CARF's accredited population, 72 CCRCs are affiliated with rated organizations, some of which are members of an obligated group where the parent company is the rated entity.

The reference chart in Appendix B provides a guide for the calculation of each of the ratios in this publication. It should be noted that many CCRCs are required to calculate certain financial ratios (e.g., Days Cash on Hand ratio, Debt Service Coverage ratio) in accordance with long-term debt agreement covenants. The methods used for these calculations may differ from the CARF methodology. The ratio definitions matrix in Appendix B is provided for comparative purposes for this reason.

CARF Financial Advisory Panel

The CARF Financial Advisory Panel is an advisory group. It traditionally has included consumer representation and professional representation from accredited CCRCs, and the development and finance industries with expertise in both for-profit and not-for-profit senior living. As CARF introduces finance and financial ratios to other CARF product lines in the future, the composition of the Financial Advisory Panel will continue to change to include financial experts from those business areas.

This group will continue to provide leadership and guidance:

- Through specialized consultation in addressing Quality Improvement Plans related to standards conformance;
- By assisting in the development of financial ratio methodology for other CARF accreditation products;
- By writing articles and monographs;
- Through participation with CARF on international, national, and state educational sessions;
- By working with CARF Research and Quality Improvement to provide trend analysis on financial standards conformance; and
- By assisting with the development of leadership panels and training on the impact of financial issues related to the field of aging services.

Current Financial Advisory Panel members:

- Susan Ahern, **ACTS Retirement-Life Communities, Inc.**
- James Bodine, **Herbert J. Sims & Co., Inc.**
- Jeffrey Boland, **RKL**
- Todd R. Boslau, **Baker Tilly**
- Carolyn Buttolph, **Goodwin House Bailey's Crossroads**
- Amy Castleberry, **Ziegler**
- Michael Flynn, **Friendship Senior Options**
- John Franklin, **BB&T Capital Markets**
- Thomas L. Gibbons, **The Huntington National Bank**
- Geary Milliken, **Carroll Lutheran Village**
- Mary Morton, **Moorings Park**
- Timothy Myers, **Ingleside & Westminster Retirement Communities**
- Bradley Paulis, **Continuing Care Actuaries**
- J. Wickliffe Peterson, **Senior Resources Group, LLC**
- Alan B. Wells, **Eventus Strategic Partners**

CARF International

Founded in 1966 as the Commission on Accreditation of Rehabilitation Facilities, CARF International is an independent, non-profit accreditor of health and human services in the following areas.

- Aging Services
- Behavioral Health
- Opioid Treatment Programs
- Networks
- Child and Youth Services
- Employment and Community Services
- Vision Rehabilitation Services
- Medical Rehabilitation
- DMEPOS (Durable Medical Equipment, Prosthetics, Orthotics, and Supplies)

CARF currently accredits 7,700 service providers with more than 58,000 accredited programs and services at 27,000 locations. More than 10.3 million persons of all ages are served annually by CARF-accredited service providers. CARF accreditation extends to countries in North and South America, Europe, the Middle East, Asia, and Central America.

In 2003, CARF acquired the Continuing Care Accreditation Commission (CCAC). The accreditation process is for CCRCs and is supported by CARF's Aging Services Customer Service Unit based in the Washington, DC office. CARF-accredited CCRCs are located in 32 states, including the District of Columbia. CARF's accreditation process offers assurance to the public that there has been an external third-party review of quality.

For more information please visit the CARF website at www.carf.org; for more information about accreditation of CCRCs, visit www.carf.org/aging or call us toll free at (888) 281-6531.

Ziegler

Ziegler is a privately held investment bank, capital markets, and proprietary investments firm. Specializing in the healthcare, senior living, education, and religion sectors, as well as general municipal and structured finance, enables Ziegler to generate a positive impact on the communities it serves. Headquartered in Chicago with regional and branch offices throughout the United States, Ziegler provides its clients with capital raising, strategic advisory services, equity and fixed income sales and trading, and research.

Baker Tilly Virchow Krause, LLP (Baker Tilly)

Baker Tilly Virchow Krause, LLP (Baker Tilly) is a nationally recognized, full-service accounting and advisory firm whose specialized professionals connect with clients and their businesses through refreshing candor and clear industry insight. With approximately 2,700 employees across the United States, Baker Tilly is ranked as one of the 15 largest accounting and advisory firms in the country.

As senior living industry thought leaders, Baker Tilly's audit, tax and consulting professionals help CCRCs, skilled nursing and assisted living facilities, and affordable housing projects for the elderly consider new strategies for the future. Baker Tilly's team has a vast array of financial, operational and strategic expertise covering the full spectrum of issues confronting senior living providers today. As valued business advisors, Baker Tilly's team is knowledgeable and can provide proactive insight to help senior living providers move their business forward through the provision of a wide range of services, including:

- Accounting, auditing, and tax services
- Accountable care and integrated delivery system development and operations
- Board development and guidance
- Clinical advisory services
- Community health needs assessments
- Construction contract/cost analysis and oversight services
- Financial planning, modeling, and feasibility studies
- HIPAA and cybersecurity advisory services
- Home and community-based services
- Human resources consulting
- Information technology and security services
- Market assessments and research
- Medicare and Medicaid cost reporting and reimbursement services
- Operational/information technology transformation support
- Operational assessments, including quality, financial, and operational benchmarking
- Revenue cycle optimization
- Risk readiness assessments (for participation in ACOs, bundled payment arrangements, etc.)
- Strategic planning
- Transaction advisory services including business valuations
- Value-based managed care contracting
- Value-based service management

Development of the Database

The tables in this report present data collected from the 2008 through 2017 fiscal year audited financial statements of the single-site and multi-site providers accredited as of December 2017. The trended median graphs in this report present data collected from the 2008 through 2017 fiscal year end. For organizations that were accredited for the first time during their 2017 fiscal year, the ratio results reported for prior years have not been restated. In general, prior year ratio results were comparable to the ratios resulting had these newly accredited organizations been included. Prior to each ratio's discussion, the definition of the ratio is displayed. However, this definition is general in nature. To enhance the accuracy and usefulness of this publication, and to provide guidance in benchmarking using the CARF financial ratios, Appendix B has been developed.

Data Collected from Audited Financial Statements

Audited financial statements are used as the data source for the ratio calculations in order to enhance the integrity of the database. The classification of certain items in the audited financial statements, such as investment earnings and unrestricted contributions, may differ among providers. Accordingly, certain reclassifications were made by the preparers of this report for the purposes of calculating certain ratios to promote consistency within the ratio category. Such adjustments were analyzed by professionals from Baker Tilly.

Single-site and Multi-site Providers

We divided the presentation of data between single-site and multi-site providers. Where the type of provider appears to have a significant impact on ratio performance, the impact is noted and discussed. The decision to include only data derived from audited financial statements in calculating the ratios means that some single-site organizations may contain other operating entities, such as home health care and adult day services. For multi-site organizations, the ratio calculation is dependent on the strategy employed by the organization for managing its debt. For multi-site organizations that originate debt at the individual CCRC level, the ratios are computed based on the audited financial statement of that CCRC, and that CCRC's data are included with the single-site population. For organizations that use an obligated group structure, ratios are computed from the obligated group's financial statements and included with the multi-site ratio data. For multi-site organizations whose debt is originated at the corporate/parent level, the ratio analysis is done from the audit of the corporate/parent and included with the multi-site ratio data. Because multi-site providers generally have corporate structures that, for financial statement purposes,

consolidate or combine subsidiaries or unincorporated divisions, some of these divisions may include activities and results from other operations in addition to those of an accredited CCRC.

Types of Financial Ratios

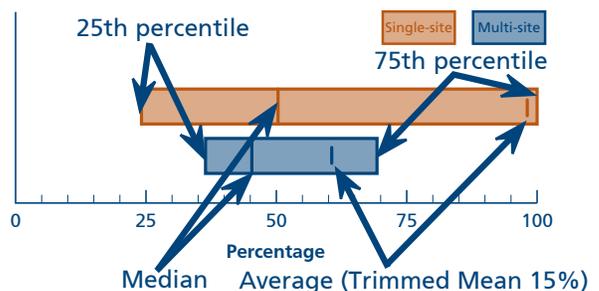
Three groups of financial ratios are presented in this report: Margin (or profitability) ratios, liquidity ratios, and capital structure ratios. Each group is covered in one of the following chapters. Each chapter, in turn, is divided into certain commonly used ratios in each group.

For each ratio, we provide a specific definition and formula, a bar graph illustrating the accredited population's interquartile range (from 25th to 75th percentiles) for the data for both single-site and multi-site providers, a graph showing the trends in each ratio's medians over the years, and a table summarizing the results of the quartile analysis for each of the years of the study.

Sample Ratio Charts



Interquartile Range (25th to 75th percentiles)



What's New and What's Coming?

Financial Statements of Not-For-Profit Entities

In August 2016, the Financial Accounting Standards Board ("FASB") issued *Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that are useful in assessing a not-for-profit's liquidity, financial performance, and cash flows. A summary of the changes resulting from this ASU consists of the following:

Net Asset Classifications

The three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) will be replaced by two classes of net assets (those with donor-imposed restrictions and those without donor-imposed restrictions). In addition, ASU 2016-14 requires enhanced disclosures regarding amounts and purposes of self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period. These include information on governing board designations, appropriations, and other similar actions.

Reclassification of Underwater Endowments

Endowment funds that are underwater will be required to be reported within the proposed "with donor-imposed restrictions" class of net assets (rather than within unrestricted net assets as currently required). The underwater amount is the amount by which the fair value of an individual donor-restricted endowment fund is less than the original gift amount or level required by donor stipulations or law. Additional disclosure on this subject also will be required.

Expenses/Investment Return

Expenses will be required to be either reported or disclosed both by natural classifications and functional classifications. Enhanced disclosures relating to cost allocation methods will be required. In addition, investment expenses will be required to be netted against investment income. The disclosure of investment return components is no longer required. However, for purposes of the gathering of financial data for this publication, it is still recommended that organizations disclose the components of investment income (interest and dividends, realized gains and losses, and unrealized gains and losses) if they are not presented separately on the statement of operations.

Liquidity

Quantitative and qualitative disclosures will be required relating to a not-for-profit's (NFP) liquidity.

Cash Flow Presentation

While continuing to allow not-for-profits the option to present the net amount of operating cash flows using either the direct or indirect method of reporting, ASU 2016-14 eliminates the requirement to reconcile the change in net assets to net cash flow from operating activities using the indirect method (reconciliation) if a not-for-profit uses the direct method of reporting.

ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (calendar year 2018/fiscal 2019), with early adoption permitted. The adoption of this standard by CCRCs is not expected to have a significant impact on the calculation of the financial ratios included in this publication.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this ASU is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To achieve this core principle, an entity should apply the following steps:

- Step 1 – Identify the contract with a customer
- Step 2 – Identify the performance obligations in the contract
- Step 3 – Determine the transaction price
- Step 4 – Allocate the transaction price to the performance obligations in the contract
- Step 5 – Recognize revenue when (or as) the entity satisfies the performance obligation

There are also several additional financial statement disclosures required, as outlined in the ASU.

The impact of this guidance on CCRCs is currently being analyzed as part of the American Institute of Certified Public Accountants (AICPA) project on revenue recognition. The AICPA has formed several industry task forces, including a Healthcare Industry Task Force, to participate in providing AICPA members with useful information when applying this new standard. Mark Ross, Baker Tilly's Healthcare Practice Leader, is a member of this task force.

In February 2018, specific guidance was issued by the AICPA relating to the impact of this standard on CCRCs with Type A entrance fee contracts, which provided three primary options for the recognition of the nonrefundable entrance fees. One of the three options is the method currently being used under the existing guidance. It is expected that most CCRCs will elect this option. Accordingly, the adoption of this standard by CCRCs is not expected to have a significant impact on the calculation of the financial ratios included in this publication.

The ASU is effective for public entities with fiscal years beginning after December 15, 2017 (calendar 2018/fiscal 2019) and nonpublic entities with fiscal years beginning after December 15, 2018 (calendar 2019/fiscal 2020). The ASU may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application.

Contributions

In June 2018, the FASB issued *ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

The ASU is effective for public entities with fiscal years beginning after June 15, 2018 (fiscal year ending June 30, 2019) and nonpublic entities with fiscal years beginning after December 15, 2018 (calendar 2019/fiscal 2020).

Lease Accounting

In February 2016, the FASB issued *ASU No. 2016-02, Leases (Topic 842)*. The FASB has issued ASU No. 2016-02 for the purpose of increasing transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet.

ASU No. 2016-02 establishes principles that require a lessee to recognize a lease asset and a lease liability for those leases classified as operating leases under previous accounting principles generally accepted in the United States of America. The lessee would recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a straight-line basis. ASU No. 2016-02 should not have a significant impact on those leases currently classified as capital leases.

The ASU is effective for public entities with fiscal years beginning after December 15, 2018 (calendar 2019/fiscal 2020) and nonpublic entities with fiscal years beginning after December 15, 2019 (calendar 2020/fiscal 2021), with early adoption permitted.

Other Current FASB Projects

For more information on these and other current FASB projects, please visit the FASB website: www.fasb.org.

Impact of Tax Reform

As a result of the tax law changes, organizations are working through a number of implications. First, provisions in many bank financing documents allow for automatic increases in borrowing costs to the borrower to compensate the bank for the marginal loss of the tax advantage. Most of these increases occurred automatically, although some required a reissuance of debt for tax purposes to effect the increase.

In addition, organizations lost the ability to advance refund tax-exempt bonds with tax-exempt debt ahead of the call date. In response, organizations are issuing bonds with more flexible call provisions and exploring financing structures that convert from taxable to tax-exempt.

Overview

Margin ratios indicate the excess or deficiency of revenues over expenses. One of the drivers of success for senior living providers is the organization's ability to generate annual operating surpluses to provide for future resident care expenses and capital and program needs and to handle unexpected internal and external events. Five margin ratios measure the degree to which providers generate surpluses:

- Net Operating Margin (NOM) ratio
- Net Operating Margin—Adjusted (NOM-A) ratio
- Operating Ratio (OR)
- Operating Margin (OM) ratio
- Total Excess Margin (TEM) ratio

An intent of the CARF accreditation process is that financially savvy organizations analyze the various revenue and expense components of net income in order to make informed decisions. They must understand the revenues/expenses associated solely with the delivery of services to residents and other persons served. They must identify their financial reliance on nonresident income, such as contributions, investment earnings, and other income (income earned from services not related to delivery of services to residents, such as space rental and catering services).

This chapter presents ratio information needed by proactive organizations to manage in a way that will enhance the delivery of services to residents in the future. Several of the profitability ratios measure the margins of an organization with both operating and nonoperating income included. Other ratios focus specifically on the revenues and expenses from a senior living provider's core service, resident care.

With the span of years and breadth of accounting firms producing the audited financial statements, inconsistencies across years and providers are to be expected. To maximize consistency among the information presented between providers and in previous years, certain protocols are employed. Certain items, regardless of the financial statement presentation of the individual provider, are reclassified as either operating or nonoperating revenue. Interest earnings are considered operating revenue; realized gains on investments are not. Net assets released from restriction for operations are also considered operating revenue. Although the majority of the total contributions reported by accredited organizations were identified as operating revenue on the audited financial statements, we have uniformly classified contributions/donations as nonoperating revenue. This classification method results in a variance between the OM ratio and TEM ratio that is useful for determining the degree to which a provider relies on its contributions/donations and realized investment gains to cover operating expenses.

Findings

Profitability ratios were generally stable for single- and multi-site providers in 2017, according to 2018 publication results. Both provider types experienced some improvement and some decline among the five key profitability ratios, with a slight weakening in core operating ratios but improvement in broader profitability measures.

For the 2018 publication, NOM, the measure of profitability in core operations, declined for single-site and multi-site providers. The median NOM for single-site providers dipped slightly to 4.84% from 4.96% the prior year. The median NOM for multi-site providers also declined, to 4.61% from 6.28%. Average independent living occupancy for the combined group remained stable at 91%. Average occupancy for assisted living declined to 89%. Nursing occupancy fell significantly to 84% from 89% the prior year. In addition, anecdotal reports of pressure on nursing margins may have impacted overall profitability.

The median NOM-A, which includes the impact of net entrance fees in profitability, weakened for both provider types for the second consecutive year; however, current levels remain strong. The single-site NOM-A declined slightly to 22.19%, just off the peak high of 23.34% for the 2016 publication year. The multi-site median NOM-A declined to 19.43%, its lowest level since 2012. The median OR improved for both single- and multi-site organizations at the median and at all quartiles. The median for this cash-only ratio declined for multi-site providers from 97.78% in 2016 to 96.53% in 2017. The median ratio for single-site organizations improved slightly to 98.15 in 2017 from 98.63% in 2016. One possible driver of improved ORs is an improvement in investment income. Investment income was up 9% for multi-site organizations and 7% for single-site organizations in 2017. The OR has remained below 100% (favorable) for single-site providers since 2007 and for multi-site providers since 2009, evidence of the fundamental positive shift in profitability for senior living organizations.

Finally, the median TEM also improved for both provider types, again likely driven by improved investment income and realized gains. The TEM for single-site organizations improved to 2.25% and the TEM for multi-site organizations improved to 2.66%. Because this ratio includes realized gains, it can be sensitive to investment market movement and vary depending on the volume and timing of investment activity. Historically a relatively volatile ratio, the median TEM for both single- and multi-site providers has remained fairly steady since 2010.

Net Operating Margin Ratio

$$\frac{\text{Resident Revenue}^* - \text{Resident Expense}^{**}}{\text{Resident Revenue}}$$

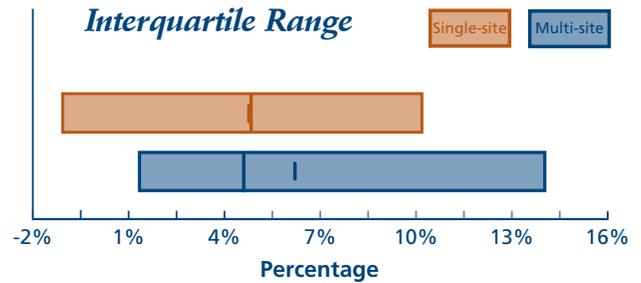
* Resident Revenue = Total Operating Revenues, excluding interest/dividend income, entrance fee amortization, and contributions

** Resident Expense = Total Operating Expense, excluding interest expense, depreciation, amortization, and income taxes

For those providers looking for ratios from which to benchmark operational performance, only this ratio and the Net Operating Margin—Adjusted (NOM-A) ratio look solely at resident-based operations. All of the critical elements for benchmarking operations are included in the computation of this ratio.

The Net Operating Margin (NOM) ratio looks at the core, sustainable business of a CCRC, that is, the revenues and expenses realized solely in the delivery of services to residents. Note that net proceeds from entrance fees are excluded from this ratio (the NOM-A incorporates net entrance fees). The purpose of this ratio is to provide a benchmark from which providers can determine the margin generated by cash operating revenues after payment of cash operating expenses. Interest/dividend income, interest expense, depreciation, amortization, income taxes, and entrance fee amortization are excluded from the calculation. Property taxes, if incurred, are included in the numerator.

Contribution income and net assets released from restriction for operations are also excluded from this ratio. Some providers argue that contribution income earned as a result of a sophisticated and consistent development effort and net assets from considerable endowments that are regularly released from restriction for operations should be included in the numerator and denominator, as fundraising expenses incurred to earn that contribution income and programs expressly funded by those released assets are incorporated as a deduction from the numerator. The authors believe that excluding these sources of revenue results in a more meaningful ratio for the broadest universe



of providers. However, providers with proven, ongoing development efforts or a predictable and reliable release of net assets may find it useful to calculate this ratio including these revenue sources as well.

Over the course of this study, NOM ratio results have typically varied by the contract types offered at each of the communities. Generally, the weakest NOM ratios are exhibited by providers with extensive contracts (see definition in Chapter 5). Not surprisingly, these communities may be relying on reserves that have been funded by entrance fees to cover operating shortfalls.

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
2008	-1.59%	4.90%	9.80%
2009	-0.23%	6.25%	12.26%
2010	0.69%	7.52%	12.20%
2011	1.40%	7.03%	12.32%
2012	-0.18%	6.55%	11.32%
2013	0.84%	6.93%	11.28%
2014	-1.43%	4.72%	11.47%
2015	-0.83%	5.44%	11.73%
2016	-1.57%	4.96%	10.39%
2017	-1.03%	4.84%	10.19%

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
2008	-3.22%	3.68%	12.12%
2009	-0.71%	5.56%	12.11%
2010	1.22%	6.50%	12.30%
2011	1.16%	6.90%	12.51%
2012	1.03%	6.77%	12.08%
2013	-0.19%	5.36%	11.05%
2014	0.35%	6.15%	10.83%
2015	0.43%	5.93%	11.78%
2016	0.92%	6.28%	13.97%
2017	1.35%	4.61%	14.04%

Net Operating Margin—Adjusted Ratio

$$\frac{\text{Resident Revenue}^* + \text{Net Proceeds from Entrance Fees} - \text{Resident Expense}^{**}}{\text{Resident Revenue} + \text{Net Proceeds from Entrance Fees}}$$

* Resident Revenue = Total Operating Revenues, excluding interest/dividend income, entrance fee amortization, and contributions

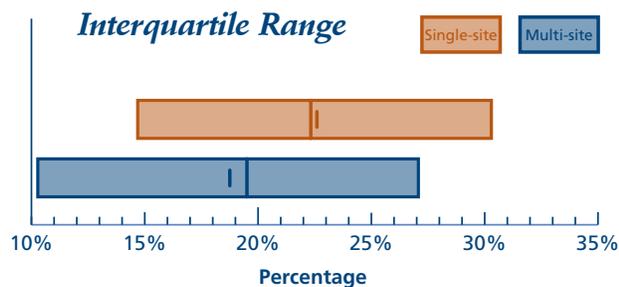
** Resident Expense = Total Operating Expense, excluding interest expense, depreciation, amortization, and income taxes

The Net Operating Margin (NOM) ratio is adjusted in the computation of the NOM-Adjusted (NOM-A) ratio to include net entrance fee receipts, recognizing that most not-for-profit CCRCs have entrance fees. Although excluded from the NOM ratio calculation, these entrance fees are typically employed, in part, for the provision of healthcare services to their residents and other operating expenses, a practice that has become widely accepted within the sector by both providers and creditors.

By comparing the results of this ratio to the NOM ratio, the user can determine the extent to which providers rely on net entrance fee receipts to enhance annual cash flows.

Newer CCRCs (with entrance fee contracts) that are in the fill-up stage and CCRCs that have added new units (subject to entrance fee contracts) through expansion or repositioning that are in the fill-up stage will experience unusually high NOM-A ratios as well as Debt Service Coverage (DSC) ratios. This occurs because of the impact the large amount of entrance fees received from initial resident move-ins has on the calculation of the NOM-A ratio. In general, meaningful NOM-A ratios for CCRCs with entrance fee receipts can only be relied on after occupancy for new units is stabilized.

Readers of this publication should note that, beginning in 2016, initial entrance fees relating to the first resident of an independent living unit are being excluded from “net proceeds from entrance fees” to be consistent with industry practice.



Year	Single-site Providers Quartiles		
	25th%	50th%	75th%
2008	11.56%	18.45%	25.83%
2009	11.71%	17.76%	26.88%
2010	13.31%	20.58%	27.57%
2011	13.53%	20.65%	29.43%
2012	15.04%	21.39%	27.40%
2013	16.11%	22.02%	29.06%
2014	14.30%	22.24%	29.96%
2015	14.53%	23.34%	29.37%
2016	15.01%	22.43%	30.39%
2017	14.57%	22.19%	30.27%

Year	Multi-site Providers Quartiles		
	25th%	50th%	75th%
2008	13.82%	17.06%	22.34%
2009	11.24%	17.64%	21.16%
2010	14.09%	19.08%	23.66%
2011	13.77%	19.47%	23.30%
2012	14.05%	19.69%	25.17%
2013	12.46%	22.09%	26.28%
2014	15.59%	21.67%	27.07%
2015	14.69%	21.89%	27.42%
2016	15.61%	20.83%	27.35%
2017	10.10%	19.43%	27.02%

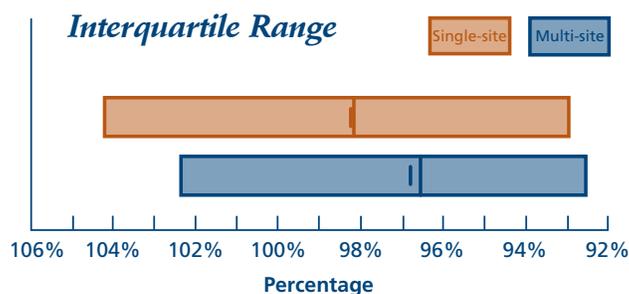
Operating Ratio

$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

The Operating Ratio (OR) measures whether current year cash operating revenues are sufficient to cover current year cash operating expenses. The set of items considered in the OR differs from the NOM ratio only by the inclusion of Interest/Dividend Income, Interest Expense, and Net Assets Released for Operations. Thus, like the NOM and NOM-A, the OR focuses on cash. This makes it a more stringent test of a provider's ability to support annual operating expenses than the Operating Margin (OM) ratio.

Although an OR of less than 100% is desired, this ratio may push above the 100% mark (a value resulting from cash operating expenses exceeding cash operating revenues) because of the historical dependence of many CCRCs on cash from entrance fees collected to offset operating expenses, particularly interest expense.

Many factors must be considered when evaluating the OR. These factors include, but are not limited to, contract type, price structure (balance between entrance fees and monthly service fees), and entrance fee refund provisions. New CCRCs in particular will often experience ratios in excess of 100 percent if they have been structured to rely on initial entrance fees to subsidize operating losses during the early fill-up years. ORs of mature CCRCs generally are expected to drop below 100 percent. Revenue sources shift toward a greater dependence on operating revenues, such as monthly resident charges, as entrance fee cash flows decline to those generated by normal resident turnover. In addition, mature providers generally are expected to rely on entrance fees only to cover capital expenditures and, as the results below indicate, over the last ten years, there generally has been less reliance on entrance fees by many providers to fund a portion of operations.



Year	Single-site Providers Quartiles		
	25th%	50th%	75th%
2008	105.74%	99.00%	93.59%
2009	103.30%	98.91%	93.08%
2010	104.24%	97.91%	93.43%
2011	103.18%	98.51%	94.08%
2012	103.82%	98.83%	94.32%
2013	103.32%	98.54%	92.99%
2014	104.66%	98.85%	93.88%
2015	104.79%	98.31%	93.74%
2016	104.39%	98.63%	92.97%
2017	104.20%	98.15%	92.96%

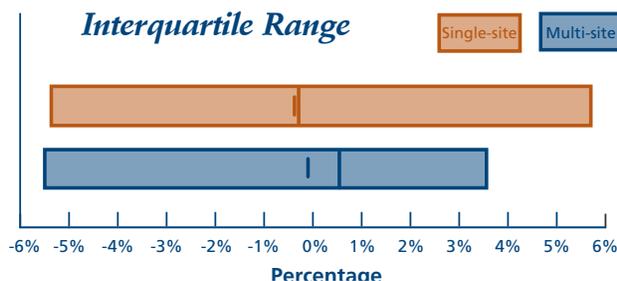
Year	Multi-site Providers Quartiles		
	25th%	50th%	75th%
2008	108.18%	101.44%	91.14%
2009	105.60%	99.65%	93.83%
2010	101.65%	98.77%	93.62%
2011	103.63%	97.50%	92.08%
2012	105.11%	97.57%	93.40%
2013	104.44%	98.58%	95.00%
2014	102.79%	98.07%	95.17%
2015	101.49%	96.70%	95.67%
2016	101.39%	97.78%	92.44%
2017	102.35%	96.53%	92.49%

Operating Margin Ratio

$$\frac{\text{Income or Loss from Operations}}{\text{Total Operating Revenues}}$$

The Operating Margin (OM) ratio measures the portion of total operating revenues remaining after operating expenses are met. For purposes of calculating the OM ratio, “total operating revenues” are defined to include all operating revenues net of contractual adjustments and charity care. Although financial statements may present contributions and realized investment gains and losses within operating income, these items are excluded from the OM ratio calculation. Revenues from nonoperating sources that are not ongoing, major, or central to operations, such as gains and losses from the disposition of assets, also are excluded. However, noncash operating items such as earned entrance fees and depreciation are included. For this reason, this ratio sometimes is considered to be the primary indicator of a provider’s ability to generate surpluses for future needs and unplanned events. However, many financial experts believe the Total Excess Margin (TEM) ratio to be a better indicator of a provider’s overall financial performance.

For purposes of calculating the OM ratio, we have excluded the impact of any changes in future service obligation reflected on the Statement of Operations. Typically, credit analysts do not consider the effects of this line item in their analysis of operating profitability because this actuarial computation has only long-range implications. Furthermore, incorporating this item in the budgeting process when targeting a specific level of performance in terms of the OM ratio could prove misleading because the change in future service obligation reflects a year-end adjustment in the associated deferred liability accounts versus a true operating revenue or expense. Other noncash items excluded from the computation of the OM are unrealized gains/losses on investments and derivatives (e.g., interest rate swap agreements).



In general, a trend of stable or increasing OM ratio values is favorable. A declining trend and/or negative ratio may signal an inappropriate monthly service fee pricing structure, poor expense control, low occupancy, or operating inefficiencies. If a provider has a low OM ratio but a high TEM ratio, the provider may be relying significantly on nonoperating gains and/or contributions. Although some providers experience a trend of steady contributions, others find donation revenue difficult to control and predict.

This ratio was impacted for CCRCs that were required to adopt ASU No. 2012-01. These CCRCs experienced a decrease in annual amortization revenue as a result of reclassifying refundable entrance fee balances from deferred revenues to a refundable entrance fee liability. The timing of the adoption of ASU No. 2012-01 by CCRCs across the United States impacted the comparability of this ratio in the last several years.

Year	Single-site Providers Quartiles		
	25th%	50th%	75th%
2008	-2.84%	1.59%	5.94%
2009	-2.13%	2.02%	5.83%
2010	-1.98%	1.48%	5.05%
2011	-3.41%	1.62%	5.15%
2012	-3.96%	0.57%	5.21%
2013	-5.92%	1.10%	4.96%
2014	-6.76%	-0.05%	4.13%
2015	-4.80%	0.22%	5.30%
2016	-5.56%	0.30%	5.02%
2017	-5.36%	-0.29%	5.70%

Year	Multi-site Providers Quartiles		
	25th%	50th%	75th%
2008	-3.68%	1.79%	5.03%
2009	-4.29%	1.46%	3.74%
2010	-2.56%	1.83%	4.53%
2011	-4.75%	0.71%	6.22%
2012	-3.88%	0.46%	5.83%
2013	-4.27%	-0.39%	2.49%
2014	-3.32%	-0.13%	4.02%
2015	-5.01%	-0.90%	3.92%
2016	-3.65%	0.97%	3.08%
2017	-5.50%	0.55%	3.57%

Total Excess Margin Ratio

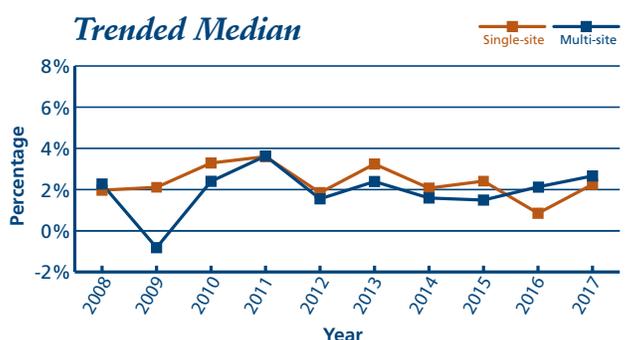
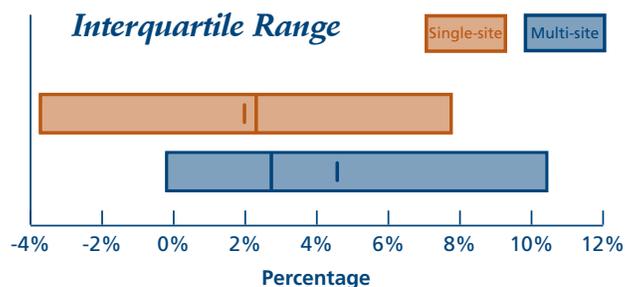
$$\frac{\text{Total Excess of Revenues over Expenses}}{\text{Total Operating Revenues and Net Nonoperating Gains and Losses}}$$

The Total Excess Margin (TEM) ratio includes both operating and nonoperating sources of revenue and gains. To promote consistency and comparability, the TEM ratio includes unrestricted contributions, realized gains/losses on unrestricted investments or derivatives, and net assets released from restrictions for PP&E in both the numerator and denominator. **Unrealized gains/losses should be excluded from the computation of all profitability ratios.**

This ratio is most sensitive to the argument put forward by many not-for-profit providers that, because many have unique and reliable access to charitable donations as an ongoing source of support, charitable donations should be included in measuring their ability to generate surpluses. Some providers classify contributions in operating revenues if they believe their contributions are ongoing, major, or central to the operation of the provider. Others classify contributions as nonoperating revenue. This latter presentation can be used to emphasize to potential donors that resident revenue does not fully cover expenses.

A value greater than zero for the TEM ratio is essential for a provider to achieve positive net assets, to maintain a favorable balance sheet, and to provide adequate contingency funds for unforeseen financial needs.

The TEM ratio for both single-site and multi-site providers presents a more complete picture of financial performance than the other profitability ratios. The gap between the Operating Margin (OM) ratio and the TEM ratio is primarily due to the inclusion of unrestricted contributions, realized gains and losses, and net assets released from restrictions for PP&E in the calculation of the latter ratio. Concerns about a provider's OM ratio may be mitigated when the TEM is evaluated depending on the provider's performance in these areas.



This ratio was impacted for CCRCs that were required to adopt ASU No. 2012-01. These CCRCs experienced a decrease in annual amortization revenue as a result of reclassifying refundable entrance fee balances from deferred revenues to a refundable entrance fee liability. The timing of the adoption of ASU No. 2012-01 by CCRCs across the United States impacted the comparability of this ratio in the last several years.

Year	Single-site Providers Quartiles		
	25th%	50th%	75th%
2008	-3.31%	1.97%	6.86%
2009	-2.79%	2.11%	6.59%
2010	-2.52%	3.29%	6.84%
2011	-1.63%	3.60%	7.42%
2012	-1.49%	1.85%	7.38%
2013	-1.38%	3.24%	8.47%
2014	-5.22%	2.07%	7.65%
2015	-3.26%	2.41%	7.46%
2016	-6.33%	0.85%	6.01%
2017	-3.65%	2.25%	7.72%

Year	Multi-site Providers Quartiles		
	25th%	50th%	75th%
2008	-5.89%	2.27%	7.57%
2009	-6.85%	-0.82%	2.93%
2010	-1.57%	2.40%	5.99%
2011	-2.08%	3.63%	7.27%
2012	-3.84%	1.55%	4.48%
2013	-0.70%	2.39%	4.68%
2014	-1.91%	1.59%	8.93%
2015	-3.69%	1.49%	8.60%
2016	-2.59%	2.13%	6.66%
2017	-0.12%	2.66%	10.36%



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