Financial Ratios & Trend Analysis

OF CARF-ACCREDITED CONTINUING CARE RETIREMENT COMMUNITIES

2023

A JOINT PROJECT OF CARF, ZIEGLER, AND BAKER TILLY

carf INTERNATIONAL

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Your feedback is very important to us and the publication team would like to solicit your feedback related to the 2023 edition of *Financial Ratios & Trend Analysis of CARF-Accredited Continuing Care Retirement Communities*. Suggestions for changes in terminology or other clarifications for ratio calculations are received through the online survey. Please complete the online survey at: **www.surveymonkey.com/s/RatiosPublicationFeedback**.

Printed in the United States of America.

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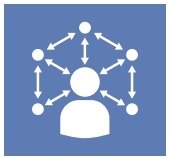
AccredITation Matters in Senior Living

The accreditation seal is a sign of a life plan community's commitment to continuously improving service quality. It is more than a certificate that hangs on a wall. It represents a commitment to residents (persons-served), their loved ones (families), and team members (workforce) that an organization aspires to excellence and the highest quality, highest value programs and services. The CARF Aspire standards assist communities in reaping all of the benefits of a successful quality framework.

Accredited organizations demonstrate their proficiency in business practices and program and service excellence in a variety of ways. CARF Aspire standards position providers to:

Promote the health and safety of residents and staff

Accredited CCRCs implement comprehensive health and safety measures that are consistent with the unique needs of their residents, ensuring that all relevant stakeholders receive on-going training and education.



Focus on individual needs

A person-centered philosophy guides service delivery and is demonstrated by leadership and personnel.

Assure fiscal accountability and preparedness

Lenders and payers (whether a third-party funder, referral agency, insurance company, or governmental regulator) as well as residents and their families, all look for CARF-accredited CCRCs as these organizations demonstrate accountability and risk management.

Implement continuous quality improvement

Meaningful changes are made and driven by feedback gathered from stakeholders, data elements collected, and the testing of emergency protocols-all as part of an overall commitment to performance improvement.

Foster a culture of transparency

Communities foster open communication with personnel, residents, and families, encouraging mutual exchange of ideas and information with a commitment to sharing relevant, accurate performance information.

Stakeholders recognize the value of an independent accreditation. Regulators, insurers, lenders, health networks, and consumers frequently look for accreditation as a signal that an organization has sought an independent review. Accreditation offers assurance that an organization applies a comprehensive, on-going commitment, engages all members of the community in assessing and measuring the impact of their efforts, and upholds a philosophy of high performance.

AccredITation Matters Webinar Series

Check out CARF's AccredITation Matters webinar series for more information, ideas and tips on communicating this important achievement and utilizing your accreditation story to enhance engagement efforts.

- **A Leadership Conversation on Quality and Organizational Success (60 minutes)**
- **Marketing the Value of CARF Accreditation (60 minutes)**
- **Insights from the Newly Updated Consumer Guide to Life Plan Communities (80 minutes)**

Consumer Guide to Life Plan Communities: Quality and Financial Viability

www.carf.org/Consumer-Guide-to-LPCs.

CARF International's Aging Services department has long published an in-depth guide designed to assist individuals in understanding the complexities involved in selecting a continuing care retirement community (CCRC), or Life Plan Community (LPC). The guide covers important factors to consider, including short- and long-term financial viability. In the fall of 2022 the guide received an honorable mention from Ragan's PR Daily Awards and was included as a resource in "**Is a CCRC Right for You?**" (Gerstner, Lisa, Kiplinger, Nov. 18, 2022).

A Message from the CARF Financial Advisory Panel Chair

In 2022, we celebrated the 30th edition of the Financial Ratios & Trend Analysis. As we embark on the fourth decade of the publication, we are introspective about the changes and trends the senior living industry has seen and the experience we have all been through the last few years. What will the decade ahead look like? How will Continuing Care Retirement Communities (CCRCs)/Life Plan Communities (LPCs) continue to innovate to meet the needs of future residents? How will we balance the desire of our current consumers while planning and preparing for a more diverse and increasing number of older persons? And, will the post-COVID world produce financial metric results which are fundamentally different from the past?

The 2023 edition does not have all of the answers to these questions. However, it does provide some clues as to how CCRC/LPCs are beginning to emerge from the challenges of the last few years. The executive summary highlights some of these trends which include record-setting declines in bottom-line margins and weakness in debt service coverage. We also note most median liquidity ratios remain at healthy levels despite these historic lows. We are heartened that organizations have continued commitments to reinvest in their campuses and that most core, controllable operating metrics are showing improvement from the previous year.

The ratios presented in the 2023 publication capture fiscal years ranging from March 31, 2022 to December 31, 2022. In 2021 and 2022, many CCRCs received federal, state, and local COVID-19 relief funding (i.e., FEMA, ERC, PRF and PPP). The accounting treatment and timing of recognition may vary depending on the individual facts and circumstances of each entity. Therefore, CARF has excluded these funds from certain ratio calculations for comparability purposes. For more detail, please see "COVID-19 Funding" on page 15.

The publication is used by organizations (both accredited and unaccredited) and stakeholders to gauge overall financial performance, track individual performance, and draw attention to changes and trends impacting the industry. Therefore, we continue to take a long view by including 27 years of ratio data in the publication.

For the second year in a row, CARF invited a select number of formerly accredited multi-site communities to participate in this year's financial ratio analysis. We appreciate these organizations, all with a past commitment to accreditation and previously included in the ratio trends sample, who are helping to boost the sample size of the multi-site (MS) data which has been in decline over the last 10+ years. Many of the same multi-sites participating last year are included in this year's sample allowing us to maintain the sample size and enhance validity of the data. The MS sample changed slightly with the addition of a few communities not included in last year's sample (86% of the sample participants are the same as previous publications). In addition to MS data, these same organizations contributed data for five communities that benchmark as single-sites (SS) (according to their debt structure). For the first time this year, this small sample has been added to the single-site data (93% of the SS data sample remains the same as last year).

The ratios presented in the 2023 publication capture fiscal years ranging from March 31, 2022 to December 31, 2022. Comparative (single- and multi-site) data for 17 separate financial ratios is presented by contract type and quartile rankings. Fitch credit rating categories provide a broader basis for comparison.

CCRCs/LPCs are encouraged to routinely calculate ratios and use the information as part of the internal review process. Calculating trends for your organization from one period to another is important to assessing financial health. These financial health assessments may be conducted in a variety of ways. Comparing actual to budgeted performance, evaluating trends, and utilizing financial ratios are all important components of performance appraisal. The ratios can be used as leading indicators to provide valuable information as organizations strategically plan their future.

A Message from the CARF Financial Advisory Panel Chair *continued*

Another successful practice supported by financial ratio data involves sharing financial performance results with key stakeholders to provide updates regarding the financial health of your organization. A primary advantage of this publication is that calculations are consistently applied against all participating organizations. This allows for apples-to-apples comparisons to be made. Comparing results to those of similar organizations, or looking at trends over multiple periods, helps to identify areas of strength as well as areas for improvement.

CARF regularly reviews the validity and relevance of the financial ratios and definitions that have been applied over the years. The Financial Advisory Panel reviews the CARF financial ratio calculations and makes suggestions for alignment with industry standards and banking practices that make the ratio data meaningful to both providers and financial institutions.

We hope you find the 2023 edition of Financial Ratios & Trend Analysis helpful. Feedback drives future publication changes so we invite you to take a few minutes to respond to the five questions in our feedback survey: **www.surveymonkey.com/s/RatiosPublicationFeedback**.

CARF Financial Advisory Panel

The Financial Advisory Panel (FAP) is an advisory group to CARF. It includes consumer representation, and professional representation from CCRCs/LPCs and the finance and consulting industries. FAP members provide insights and expertise on current trends in not-for-profit and for-profit senior living.

Current Financial Advisory Panel Members:

- James Bodine, **Herbert J. Sims & Co., Inc.**
- Jeffrey Boland, **RKL, LLP**
- Todd Boslau, **Presbyterian SeniorCare Network**
- Amy Castleberry, **Ziegler**
- Patrick Heavens, **Baker Tilly US, LLP**
- John Jenkins, **Frasier Meadows**
- Scott Kersh, **St. Catherine's Village**
- Mary Morton, **Moorings Park**
- Timothy Myers, **Baptist Senior Family**
- David Shaw, **A.V. Powell & Associates, LLC**
- Alan B. Wells, **Eventus Strategic Partners**

Timothy Myers
President & CEO, Baptist Senior Family
Chair, CARF Financial Advisory Panel

Executive Summary

The movement of median ratios in this year's publication underscores the difference between the ratio inputs that senior living management teams can and cannot control. For the 2023 publication reflecting 2022 fiscal year ends, organizations were able to improve or hold steady controllable, core operating ratios. However, the steep losses in both stock and bond portfolios in 2022 led to record-setting declines in total bottom-line margins, as well as weakness in debt service coverage ratios and liquidity.

The median Net Operating Margin-Adjusted Ratio (NOM-A), which includes net entrance fee revenue in addition to core profitability, improved for both single- and multi-site providers for the second consecutive year. The median NOM-A for single-site providers improved to 19.57% from 18.47% while the median NOM-A for multi-site organizations rose to 18.27% from 16.33%. The NOM-A improvements occurred at all quartiles except for the top multi-site quartile, indicating widespread improvement. Reports from management indicate that easing of staffing pressures, monthly fee increases and occupancy gains boosted core profitability.

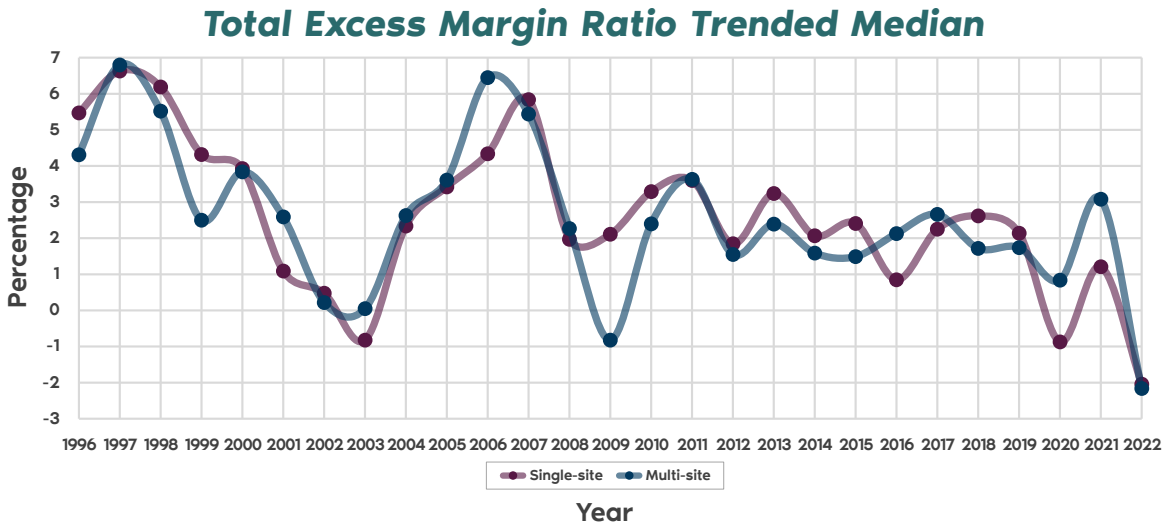
In contrast, despite improvements in core operations, the bottom-line profitability measure of Total Excess Margin Ratio (TEM) weakened significantly for both single- and multi-site organizations, reversing last year's turnaround. The median TEM for single-site organizations fell to -2.04% from 1.21% the prior year. The median TEM for multi-site organizations dropped to -2.16% from 3.08% the prior year. These levels represent the weakest bottom-line profitability median ratios in the history of the publication.

The pressure on bottom-line profitability also affected the median Debt Service Coverage Ratio (DSC), a key measure often tied to lending requirements. For single-site organizations, the median DSC fell to 2.30 from 2.83 the prior year. While last year's 2.83 was the second highest level in publication history, this year's 2.30 is on the lower side of historical levels. The median DSC for multi-site providers dropped to 1.91 from 2.46 the prior year and marks the lowest median DSC for multi-site organizations in the publication's history.

Not surprisingly, deterioration in investment portfolios also pushed down liquidity levels in senior living organizations. Both provider types entered the 2022 fiscal year with historically high liquidity, yet severe declines in both equity and bond portfolios significantly reduced available cash and investments. Despite the declines, however, most median liquidity ratios remain at healthy levels.

The single-site median Days Cash on Hand Ratio (DCH) fell sharply to 419 days from 547 days the prior year. This level remains strong, however, as the single-site median DCH first topped 400 only as recently as 2019. The multi-site median weakened to a more modest 308 days from 352 days the prior year.

On a positive note, organizations renewed their commitment to campus reinvestment and growth in 2022. The median Average Age of Community ratio improved significantly for both single- and multi-site providers; and, the median Capital Expenditures as a Percentage of Depreciation Ratio showed solid capital spending for both provider types as well.



Ratio Summary

	2022 Median*	
	Single-site	Multi-site**
Sample Size	**76**	**22**
Margin (Profitability) Ratios		
Net Operating Margin Ratio	1.98%	0.44%
Net Operating Margin–Adjusted Ratio	19.57%	18.27%
Operating Ratio	101.46%	105.13%
Operating Margin Ratio	-4.17%	-3.51%
Total Excess Margin Ratio	-2.04%	-2.16%
Liquidity Ratios		
Days in Accounts Receivable Ratio	15	19
Days Cash on Hand Ratio	419	308
Cushion Ratio (x)	10.54	5.31
Capital Structure Ratios		
Debt Service Coverage Ratio (x)	2.30	1.91
Debt Service Coverage–Revenue Basis Ratio (x)	0.66	0.56
Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio	10.07%	9.42%
Unrestricted Cash and Investments to Long-Term Debt Ratio	55.70%	39.04%
Long-Term Debt as a Percentage of Total Capital Ratio	80.17%	88.83%
Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio	54.14%	62.61%
Long-Term Debt to Total Assets Ratio	37.42%	38.95%
Average Age of Community Ratio (Years)	12.28	11.46
Capital Expenditures as a Percentage of Depreciation Ratio	105%	113%

*50th Percentile

**Starting in 2022, a select number of formerly accredited Multi-Site Life Plan Communities were invited to participate by submitting data for Ratio Trends. This increased the sample size for MS (86% of the sample remains the same). In 2023, five CCRCs from these formerly accredited multi-sites that are not part of the larger multi-site's obligated group were added to the single-site data. The single-site population remains 93% the same with these additions.

Section 1
Introduction

Uses and Limitations of this Publication

Background

The purpose of this publication is to provide in summary form for the past 27 years (1996 through 2022) the financial ratio quartiles of organizations (hereafter the terms CCRC or LPC are used interchangeably throughout) that were accredited by CARF as of December 2022. 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, operating challenges, and regulatory and accounting changes.

The group of organizations included in this report consists of 76 single-site providers and 22 multi-site providers. This is the second year that the publication team sought to increase multi-site provider participation by inviting formerly accredited providers to participate. The sample of multi-site providers is slightly changed with 86% of the population sample remaining the same (14% of the sample did not participate in the 2022 publication). A small number of CCRCs from these formerly accredited multi-sites are not part of the larger multi-site's obligated group and therefore were added to the single-site data. The single-site population remains 93% the same with these additions.

The intent of this report is to:

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

This report marks the 31st 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. Data have been collected and the ratios calculated and analyzed by representatives from CARF, 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.

A trimmed mean is presented along with the median for comparison in the interquartile range graphs. The trimmed mean helps eliminate the influence of outliers or data points on the tails that may unfairly affect the traditional mean.

The Benefits of Financial Ratios

Financial ratios are valuable tools of analysis. Ratios are:

- Useful for benchmarking and strategic financial planning.
- A beneficial tool in analyzing a provider's financial strengths and weaknesses.
- Useful 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.
- Beneficial as they provide comparisons among providers regardless of the actual dollar amounts for the underlying data.

The Limitations of Financial Ratios

Financial ratios also have limitatons. Specifically:

- Ratios are not an exclusive tool to be used in isolation.
- The interpretation of an individual CCRC's ratios may differ due to variations in the CCRC's service line components (i.e., independent living, assisted living, and skilled nursing).

Ratios are often characterized as having "best" values. Yet, specific circumstances often require substantial exceptions to these standard interpretations. 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.

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 pertaining to either 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, a mature community would be expected to have a relatively favorable (low) Long-Term Debt to Total Assets Ratio (LTD-TA), whereas a start-up organization would be expected to have a relatively unfavorable (high) LTD-TA.

Similarly, a high Long-Term Debt as a Percentage of Total Capital Ratio (LTDC) 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 159 senior living providers, the majority of which are life plan communities (LPCs), have their debt rated–97 are single-site providers and 62 are multi-site providers. Two organizations have debt rated by more than one rating agency. Within CARF's accredited population, 45 CCRCs/LPCs 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 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
- Child and Youth Services
- Employment and Community Services
- Medical Rehabilitation
- Opioid Treatment Programs
- Vision Rehabilitation Services

CARF currently accredits more than 67,000 programs and services at 30,000-plus locations. More than 15 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, and Asia.

In 2003, CARF acquired the Continuing Care Accreditation Commission (CCAC). The accreditation process for CCRCs is supported by CARF's Aging Services Customer Service Unit. CARF-accredited CCRCs are located in 25 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, national boutique investment bank, capital markets and proprietary investments firm. It has a unique focus on healthcare, senior living and education sectors, as well as general municipal and structured finance. Headquartered in Chicago with regional and branch offices throughout the U.S., Ziegler provides its clients with capital raising, strategic advisory services, fixed income sales, underwriting and trading, as well as Ziegler Credit, Surveillance and Analytics.

Baker Tilly US, LLP (Baker Tilly)

Baker Tilly US, LLP (Baker Tilly) is a leading advisory, tax, and assurance firm whose specialized professionals guide clients through an ever-changing business world, helping them win now and anticipate tomorrow. Headquartered in Chicago, Baker Tilly and its affiliated entities have operations in North America, South America, Europe, Asia, and Australia. Baker Tilly is an independent member of Baker Tilly International, a worldwide network of independent accounting and business advisory firms in 145 territories, with more than 41,000 professionals. The combined worldwide revenue of independent member firms is $4.7 billion.

Baker Tilly's team of Value Architects™ has a vast array of financial, operational, and strategic experience covering the full spectrum of issues confronting CCRCs, skilled nursing facilities, assisted living centers, and other senior living organizations. Baker Tilly's team helps senior services providers move their business forward through solutions beyond audit and tax, including:

- Strategic planning
- Transaction due diligence
- Development advisory
- Clinical advisory
- Operational assessments
- Market research and analysis
- Financial planning and feasibility studies
- Project financing
- Value-based care navigation
- Regulatory compliance
- Real estate advisory
- Digital transformation
- IT and cybersecurity
- CFO advisory and client accounting services

Development of the Database

The tables in this report present data collected from the 1996 through 2022 fiscal year audited financial statements of the single-site and multi-site providers accredited as of December 2022. Additionally, for the second time a small number of formerly accredited multi-site providers were invited to participate and be included in the multi-site sample. The sample size for multi-site providers slightly changes the population, although 86% of the sample remains the same. A small number of CCRCs not included in the obligated groups of these formerly accredited multi-sites were included with the single-site data. This slightly changes the single-site sample with 93% of the population remaining the same.

The trended median graphs in this report present data collected from 1996 through 2022 fiscal year end. For organizations that were accredited for the first time during their 2022 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 unrestricted and restricted cash and investments, investment earnings, and contributions without donor restrictions, 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 memory care, 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 a CCRC.

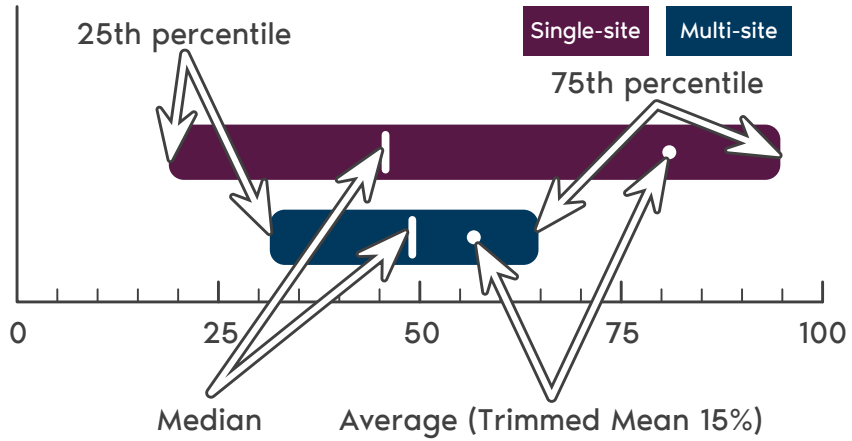
Types of Financial Ratios

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.

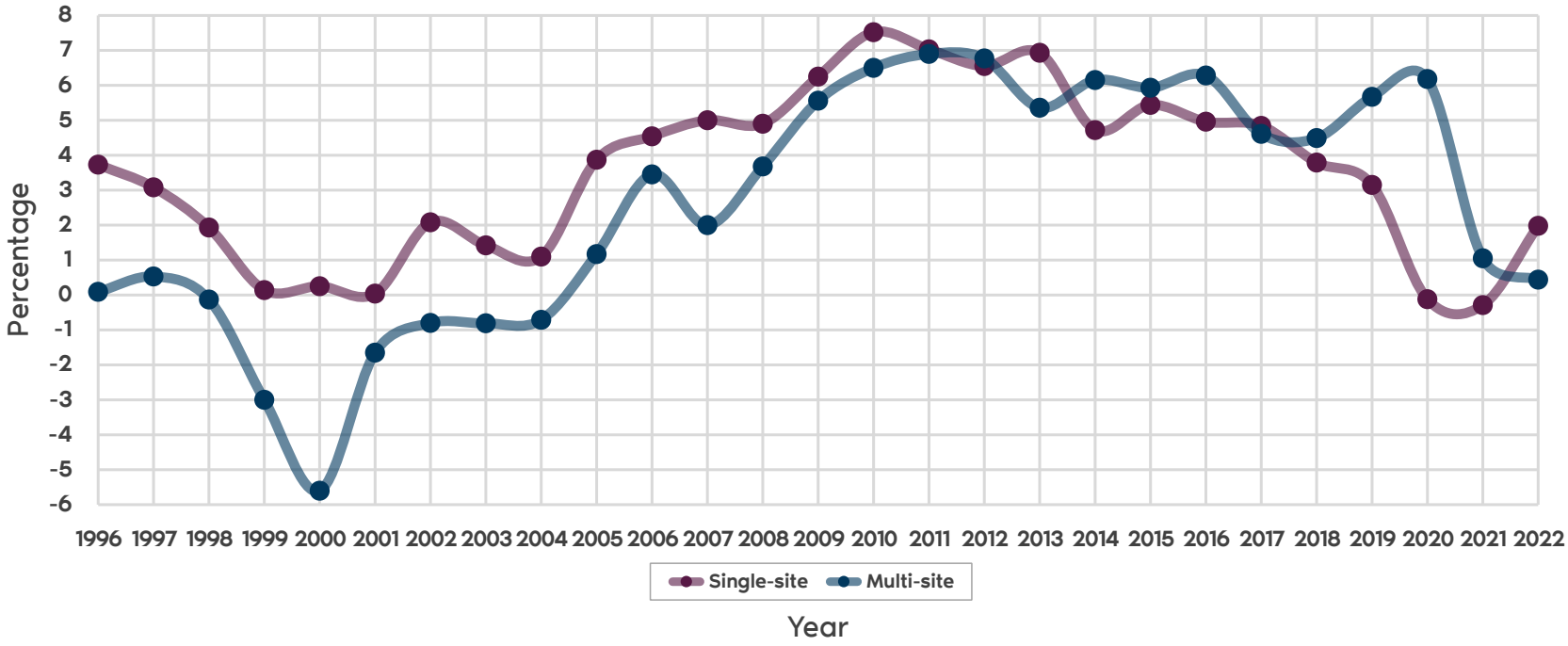
Each ratio is defined and the formula (i.e., what is included in the numerator and what is included in the denominator) is provided. This edition highlights 27 years worth of data. Bar graphs illustrate single- and multi-site populations' interquartile range (from 25th to 75th percentiles). Trended median graphs and tables summarizing the results of the quartile analysis for each year of the study are provided for all ratios. Note that some ratios, such as the Capital Expenditures as a Percentage of Depreciation Ratio, were added later. In those cases, the trended data goes back only as far as the publication history of the ratio.

Sample Ratio Charts

Interquartile Range (25th to 75th percentiles)



Trended Median



What's New and What's Coming?

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The FASB 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 was effective for public entities with fiscal years beginning after December 15, 2018 and was effective for nonpublic entities with fiscal years beginning after December 15, 2021, with early adoption permitted. The differences between those CCRCs that have adopted ASU No. 2016-02 and those that have not did not have a significant impact on the consistency and comparability of the 2022 ratios.

COVID-19 Funding

In response to economic uncertainties resulting from the spread of COVID-19, many CCRCs received federal, state, and local funding, including, but not limited to, Federal Emergency Management Agency grants (FEMA), Employee Retention Credits (ERC), Paycheck Protection Program (PPP) loans and distributions from the Department of Health and Human Services.

When accounting for PPP loans, not-for-profit entities could elect one of two accounting policies:

- FASB ASC 958-605, Not-for-Profit Entities – Revenue Recognition (conditional contribution model)
- FASB ASC 470, Debt (debt model)

The timing and recognition of the PPP loans into income may vary depending on accounting policy elections, timing of loan forgiveness, and other loan eligibility criteria considerations.

Coronavirus Aid, Relief and Economic Security (CARES) Provider Relief Funding (PRF) and other state and local funding were generally accounted for by entities in accordance with ASB ASC 958-605, Not-for-Profit Entities – Revenue Recognition (conditional contribution model). Support is measured and recognized when barriers are substantially met, which occurs when the entity complies with the terms and conditions related to the purpose of the grant rather than those that are administrative in nature. In accordance with the terms and conditions, entities could apply the funding against eligible expenses and lost revenues. The timing and recognition of the PRF and other state and local funding into income may vary depending on timing of the receipt of funds and the application of other funding sources against lost revenues and eligible expenses.

The accounting treatment and timing of recognition may vary depending on the individual facts and circumstances of each entity. As a result, COVID-19 Relief Income (i.e., FEMA, ERC, PRF and PPP) is excluded from certain ratio calculations. Additionally debt incurred from PPP loans are excluded from ratios. However, the cash received from these programs is included in ratios where cash balances are incorporated, for example, DCH.

Other Current FASB Projects

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

Section 2

Margin (Profitability) Ratios

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

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 auditing 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 organizations was 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 (excluding COVID-19 relief funding) and realized investment gains to cover operating expenses.

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.

Findings

For the 2023 publication (fiscal years ending in 2022), profitability ratios for single-site organizations exhibited widespread improvement in core operations, while multi-site organizations profitability medians continued to decline for the most part. Both single-and multi-site organizations struggled with overall profitability ratios–reflecting challenges in non-operating income largely out of management's control. As mentioned earlier in the publication, none of the profitability measures include income from COVID-19 relief funding (i.e., FEMA, ERC, PRF, and PPP). However, these profitability ratios do include the continued added expenses from COVID efforts.

The median Net Operating Margin Ratio (NOM), the measure of profitability in core operations, improved for single-site organizations to 1.98% from -0.29%. The NOM for single-site organizations also improved at the top and bottom quartiles, as well, reflecting broad-based improvement in core operating profitability. In contrast, the median NOM for multi-site organizations declined to 0.44% from 1.05% the prior year.

The median Net Operating Margin-Adjusted Ratio (NOM-A), which includes net entrance fee revenue in addition to core profitability, improved for both single- and multi-site providers. The median NOM-A for single-site providers improved to 19.57% from 18.47% while the median NOM-A for multi-site organizations rose to 18.27% from 16.33%. The NOM-A for single-site organizations improved at each quartile, while the NOM-A for multi-site organizations improved at the median and weakest quartile, dropping slightly among the highest-performing quartile. These improvements likely reflect continued gains in independent living occupancy post-pandemic. The combined average occupancy rate for independent living units increased to 89.86% from 89.32% for 2022 fiscal years.

The median Operating Ratio (OR), a measure of profitability on a cash-basis that includes interest/dividend income, interest expense, and net assets released for operation, held steady for single-site organizations at 101.46%, despite the single-site improvement in core profitability. The multi-site provider median weakened (increased) to 105.13% from 102.10%, the weakest level in the history of the publication. In 2022 many organizations faced cuts in interest and dividends due to weakened investment portfolios along with higher interest expense from any exposure to variable rate debt.

The median Operating Margin Ratio (OM) improved for both single- and multi-site organizations. The single-site provider OM median improved to -4.17% from -5.54%, while the median multi-site provider OM rose to -3.51% from -4.27%. Median Operating Margin Ratios have remained negative for single- and multi-site providers for the fourth and fifth consecutive year, respectively.

Finally, the median Total Excess Margin Ratio (TEM) weakened significantly for both single- and multi-site organizations, reversing last year's turnaround. The median TEM for single-site organizations fell to -2.04% from 1.21% the prior year. The median TEM for multi-site organizations dropped to -2.16% from 3.08% the prior year. Just as strong investment gains in 2021 likely played a role in boosting the median TEMs last year, the weak investment markets in 2022 likely weighed down medians this year.

Net Operating Margin Ratio

For providers looking for ratios from which to benchmark operational performance, only this ratio and the Net Operating Margin–Adjusted Ratio (NOM-A) 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 Ratio (NOM) 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.

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 who rely on entrance fee proceeds (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.

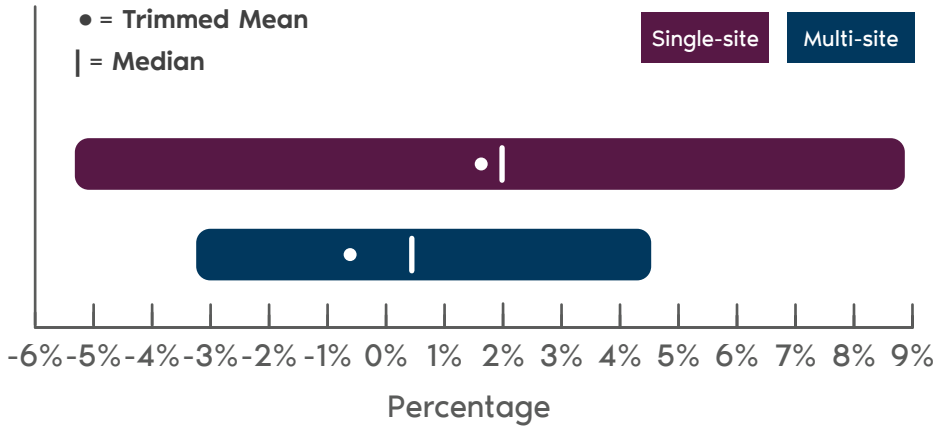
$$\frac{\text{Resident Revenue}^* - \text{Resident Expense}^{**}}{\text{Resident Revenue}}$$

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

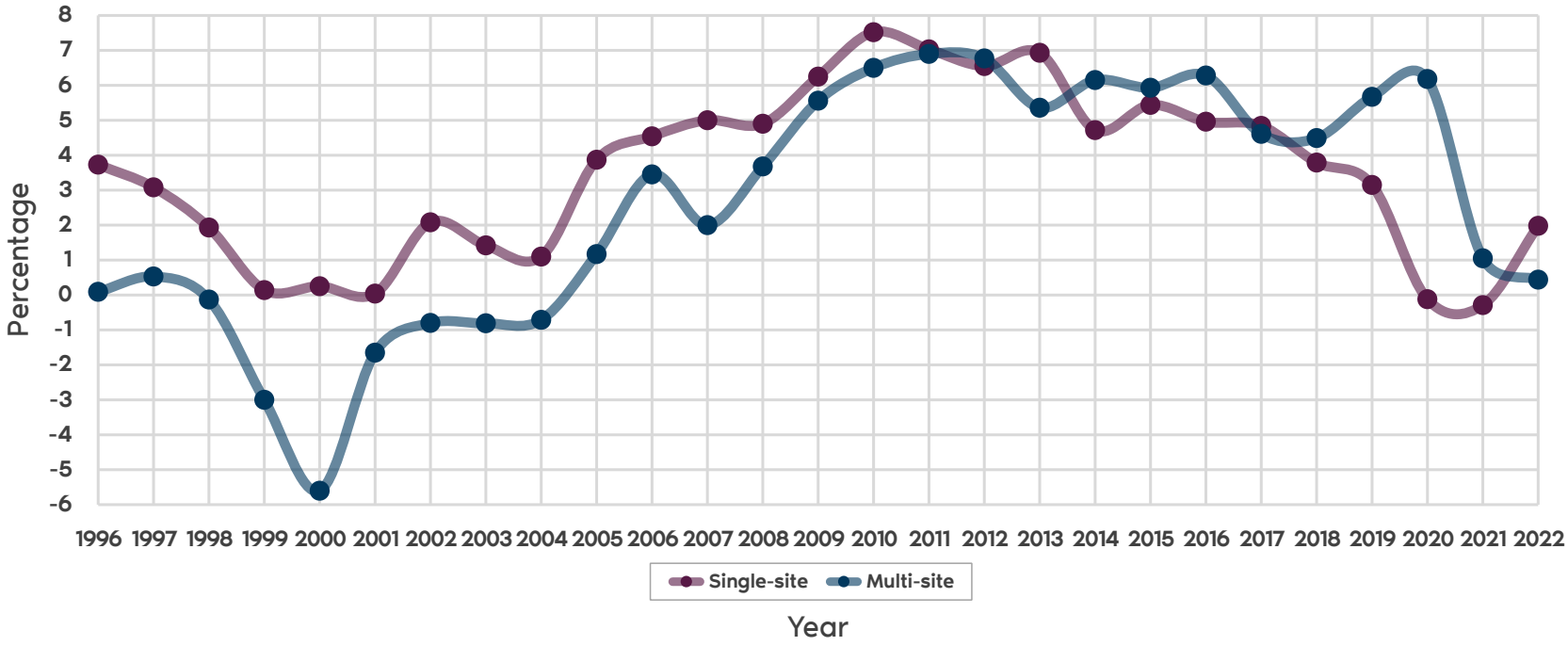
*** Resident Expense = Total Operating Expense, excluding interest expense, depreciation, amortization, and income taxes*

Net Operating Margin Ratio *continued*

Interquartile Range



Trended Median



Net Operating Margin Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	-7.68%	**3.73%**	10.47%
1997	-7.69	**3.08**	8.99
1998	-6.78	**1.93**	8.48
1999	-8.82	**0.14**	6.81
2000	-8.43	**0.25**	8.51
2001	-9.42	**0.04**	6.95
2002	-7.29	**2.08**	7.33
2003	-5.01	**1.42**	8.87
2004	-5.16	**1.10**	7.99
2005	-1.68	**3.87**	10.43
2006	-2.09	**4.54**	9.85
2007	-1.27	**5.00**	10.35
2008	-1.59	**4.90**	9.80
2009	-0.23	**6.25**	12.26
2010	0.69	**7.52**	12.20
2011	1.4	**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
2018	-1.83	**3.79**	9.88
2019	-1.91	**3.15**	8.61
2020	-4.41	**-0.12**	8.48
2021	-5.50	**-0.29**	8.19
2022	-5.32	**1.98**	8.87

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	-9.74%	**0.09%**	6.45%
1997	-11.75	**0.53**	9.89
1998	-4.67	**-0.13**	12.3
1999	-6.51	**-3.00**	7.36
2000	-9.37	**-5.60**	6.34
2001	-8.37	**-1.65**	6.65
2002	-6.29	**-0.80**	5.81
2003	-6.69	**-0.81**	6.54
2004	-5.00	**-0.71**	7.16
2005	-3.63	**1.17**	9.84
2006	-2.37	**3.45**	9.31
2007	-2.17	**2.00**	10.85
2008	-3.22	**3.68**	12.12
2009	-0.71	**5.56**	12.11
2010	1.22	**6.50**	12.3
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
2018	-1.11	**4.49**	15.49
2019	1.42	**5.67**	12.41
2020	-5.75	**6.18**	11.39
2021	-4.21	**1.05**	6.05
2022	-3.25	**0.44**	4.53

Net Operating Margin–Adjusted Ratio

The Net Operating Margin Ratio (NOM) is adjusted in the computation of the NOM-Adjusted Ratio (NOM-A) 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.

As a result of the variations created by CCRCs that are in the fill-up stage, 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." This is also consistent with current industry practice.

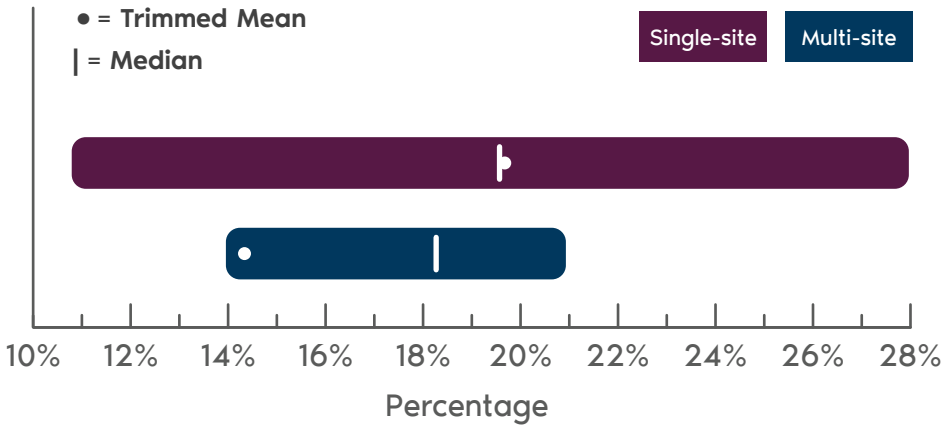
$$\frac{\text{Resident Revenue}^* + \text{Net Proceeds from Entrance Fees} - \text{Resident Expense}^{**}}{\text{Resident Revenue} + \text{Net Proceeds from Entrance Fees}}$$

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

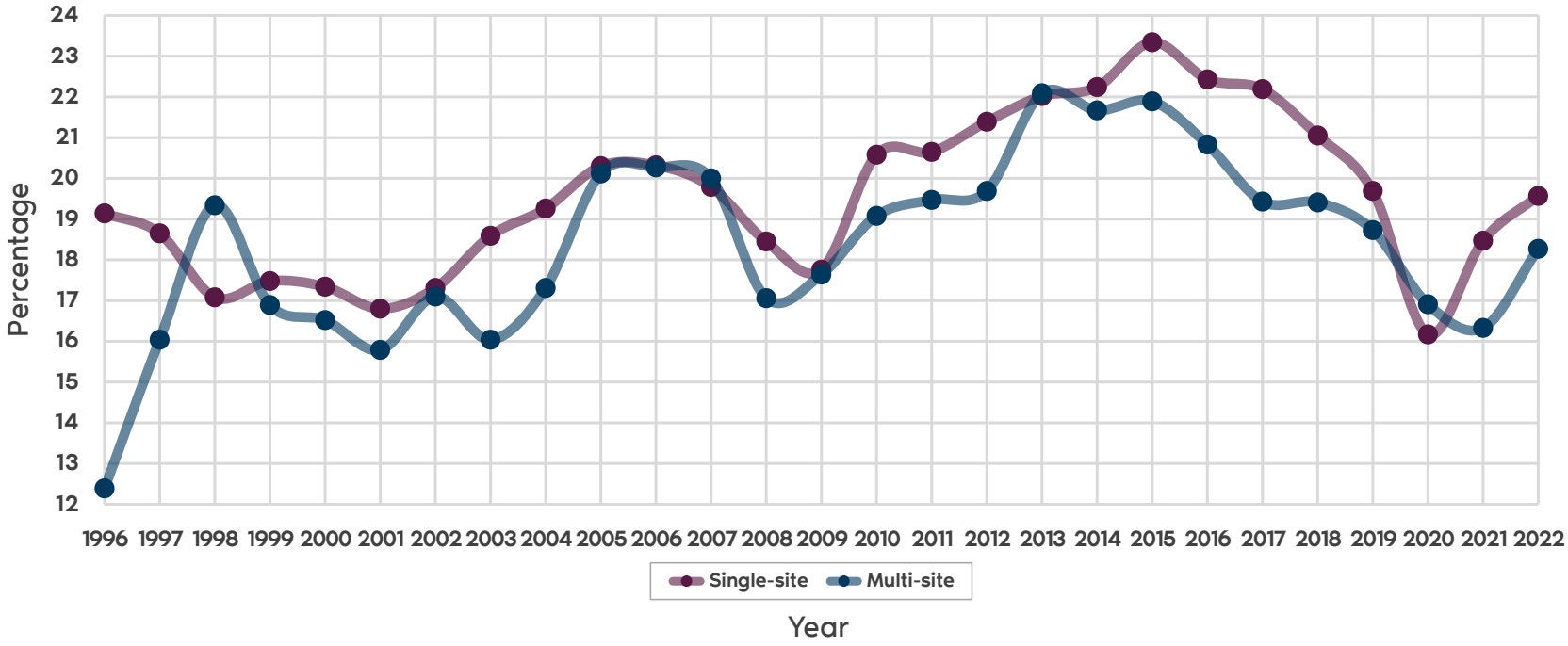
*** Resident Expense = Total Operating Expense, excluding interest expense, depreciation, amortization, and income taxes*

Net Operating Margin–Adjusted Ratio *continued*

Interquartile Range



Trended Median



Net Operating Margin–Adjusted Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	11.44%	**19.14%**	27.29%
1997	11.79	**18.65**	25.32
1998	10.13	**17.08**	24.97
1999	8.82	**17.48**	26.57
2000	9.14	**17.34**	25.80
2001	8.22	**16.80**	26.70
2002	11.17	**17.31**	24.03
2003	11.15	**18.59**	25.32
2004	10.35	**19.26**	28.78
2005	11.34	**20.30**	30.07
2006	12.61	**20.32**	26.56
2007	13.96	**19.79**	28.03
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
2018	14.40	**21.05**	27.58
2019	15.52	**19.69**	26.44
2020	8.08	**16.17**	24.34
2021	9.92	**18.47**	25.92
2022	10.78	**19.57**	27.96

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	5.42%	**12.39%**	21.87%
1997	7.41	**16.04**	23.41
1998	11.51	**19.34**	24.76
1999	7.24	**16.89**	21.84
2000	9.84	**16.52**	20.33
2001	9.31	**15.79**	21.10
2002	9.57	**17.10**	22.55
2003	12.18	**16.04**	21.06
2004	12.61	**17.31**	23.75
2005	14.90	**20.12**	26.86
2006	12.53	**20.27**	25.64
2007	14.52	**20.00**	23.78
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
2018	11.62	**19.41**	25.19
2019	9.48	**18.73**	27.00
2020	12.08	**16.91**	21.82
2021	9.60	**16.33**	22.37
2022	13.95	**18.27**	20.93

Operating Ratio

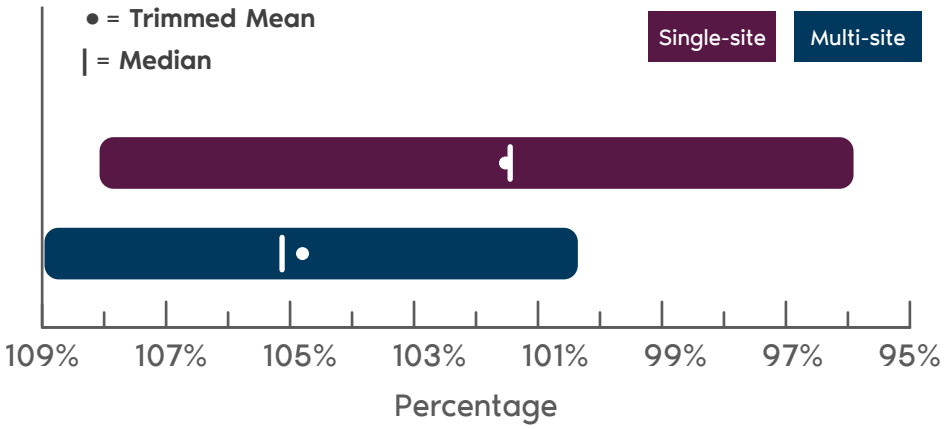
The Operating Ratio (OR) measures whether current year cash operating revenues are sufficient to cover current year cash operating expenses. The set of items considered in the OR differs from the Net Operating Margin Ratio (NOM) only by the inclusion of Interest/Dividend Income, Interest Expense, and Net Assets Released for Operations. Thus, like the NOM and Net Operating Margin-Adjusted Ratio (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 Ratio (OM).

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.

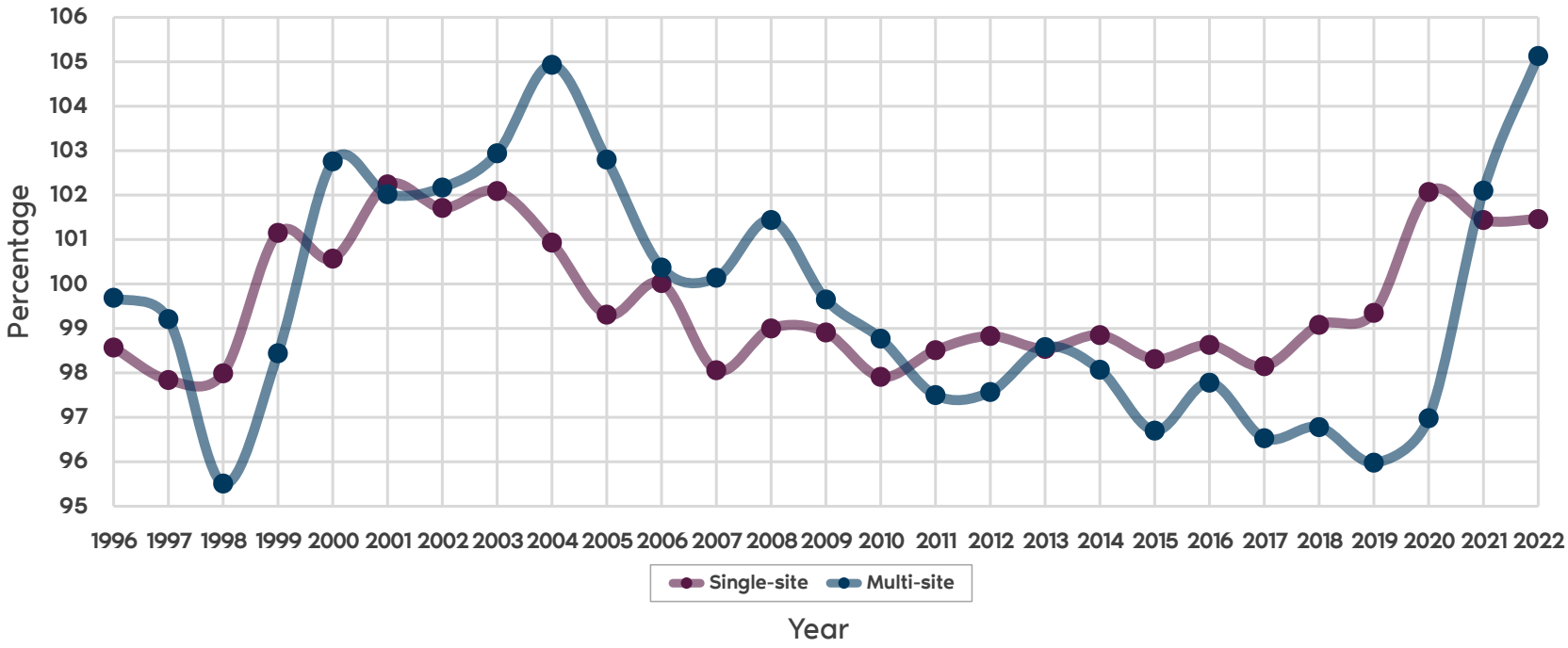
Many factors must be considered when evaluating the OR. These factors include, but are not limited to, contract type, price structure (balance between entrance fees and monthly service fees), and entrance fee refund provisions. New CCRCs in particular will often experience ratios in excess of 100 percent 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.

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

Interquartile Range



Trended Median



Operating Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	104.38%	**98.57%**	93.45%
1997	104.69	**97.84**	91.33
1998	105.71	**97.99**	90.91
1999	108.00	**101.15**	92.44
2000	107.54	**100.57**	95.12
2001	108.86	**102.24**	96.34
2002	108.29	**101.71**	96.74
2003	107.87	**102.09**	96.60
2004	108.42	**100.93**	95.42
2005	105.39	**99.31**	93.90
2006	104.77	**100.02**	94.11
2007	104.39	**98.06**	92.80
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
2018	104.64	**99.08**	93.07
2019	105.10	**99.35**	93.40
2020	109.41	**102.07**	96.04
2021	108.51	**101.44**	93.77
2022	108.08	**101.46**	95.91

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	110.14%	**99.69%**	94.55%
1997	105.95	**99.21**	92.65
1998	103.15	**95.51**	90.73
1999	103.13	**98.44**	92.98
2000	110.69	**102.76**	97.19
2001	111.63	**102.02**	97.41
2002	108.47	**102.17**	97.56
2003	111.29	**102.94**	97.81
2004	109.95	**104.93**	96.62
2005	107.74	**102.80**	94.79
2006	105.17	**100.37**	94.68
2007	104.46	**100.14**	93.09
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
2018	105.72	**96.78**	89.19
2019	102.77	**95.98**	91.10
2020	109.76	**96.98**	89.14
2021	107.98	**102.10**	98.92
2022	108.98	**105.13**	100.36

Operating Margin Ratio

The Operating Margin Ratio (OM) 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 Ratio (TEM) to be a better indicator of a provider's overall financial performance.

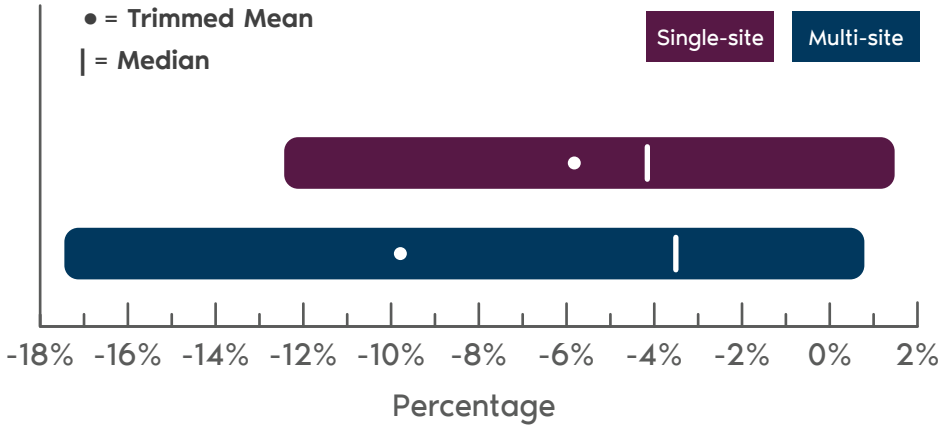
For purposes of calculating the OM ratio, we have excluded the impact of any changes in future service obligation reflected on the Statement of Operations. Typically, credit analysts do not consider the effects of this line item in their analysis of operating profitability because this actuarial computation 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.

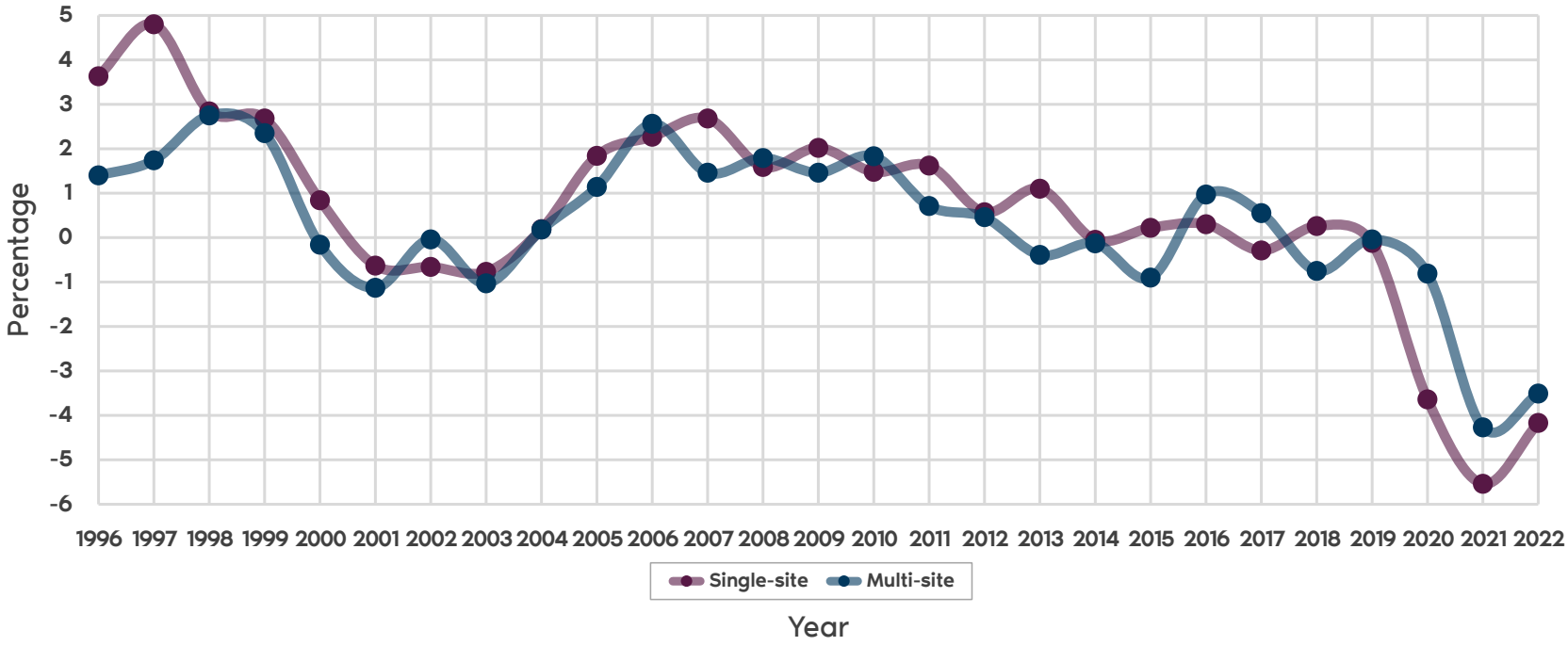
$$\frac{\text{Income or Loss from Operations}}{\text{Total Operating Revenues}}$$

Operating Margin Ratio *continued*

Interquartile Range



Trended Median



Operating Margin Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	-0.06%	**3.63%**	6.51%
1997	0.57	**4.80**	8.50
1998	-2.01	**2.84**	8.75
1999	-3.08	**2.68**	6.48
2000	-3.48	**0.84**	4.98
2001	-5.62	**-0.63**	3.17
2002	-5.39	**-0.66**	2.62
2003	-6.18	**-0.77**	3.45
2004	-4.81	**0.19**	3.63
2005	-3.04	**1.84**	5.70
2006	-1.89	**2.27**	6.76
2007	-1.43	**2.68**	6.62
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
2018	-5.18	**0.26**	4.75
2019	-5.53	**-0.12**	3.33
2020	-10.02	**-3.64**	3.25
2021	-9.14	**-5.54**	1.52
2022	-12.45	**-4.17**	1.48

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	-2.85%	**1.40%**	2.42%
1997	-1.31	**1.74**	5.30
1998	-0.75	**2.75**	6.87
1999	-1.07	**2.35**	5.06
2000	-6.30	**-0.16**	7.12
2001	-5.84	**-1.13**	3.95
2002	-2.40	**-0.04**	3.77
2003	-3.67	**-1.03**	1.42
2004	-3.92	**0.18**	2.48
2005	-2.46	**1.14**	3.58
2006	-1.90	**2.56**	4.61
2007	-1.34	**1.46**	4.48
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
2018	-6.15	**-0.75**	4.67
2019	-3.09	**-0.04**	6.20
2020	-5.83	**-0.81**	4.98
2021	-11.16	**-4.27**	0.85
2022	-17.48	**-3.51**	0.79

Total Excess Margin Ratio

The Total Excess Margin Ratio (TEM) includes both operating and nonoperating sources of revenue and gains. To promote consistency and comparability, the TEM ratio includes contributions without donor restrictions, realized gains/losses on investments without donor restrictions or derivatives, and net assets released from restrictions for PP&E in both the numerator and denominator. Unrealized gains/losses on investments and derivatives 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.

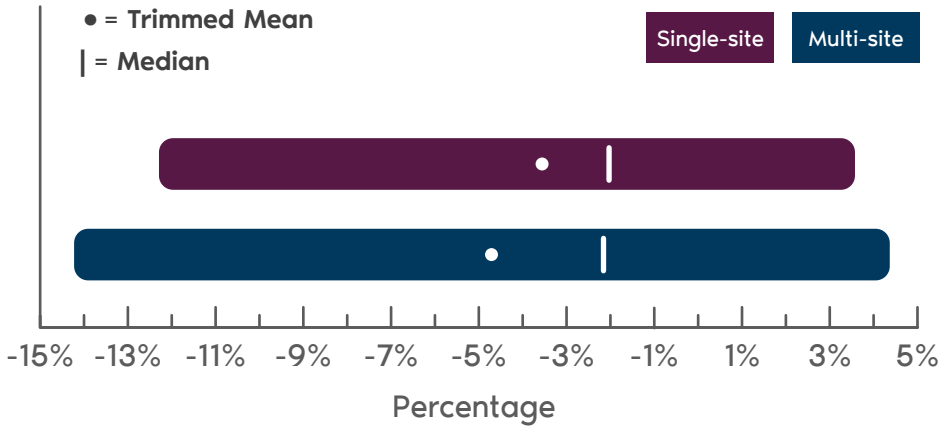
A value greater than zero for the TEM ratio is essential for a provider to achieve positive net assets, to maintain a favorable balance sheet, and to provide adequate contingency funds for unforeseen financial needs.

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 Ratio (OM) and the TEM ratio is primarily due to the inclusion of contributions without donor restrictions, realized gains and losses on investments, 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.

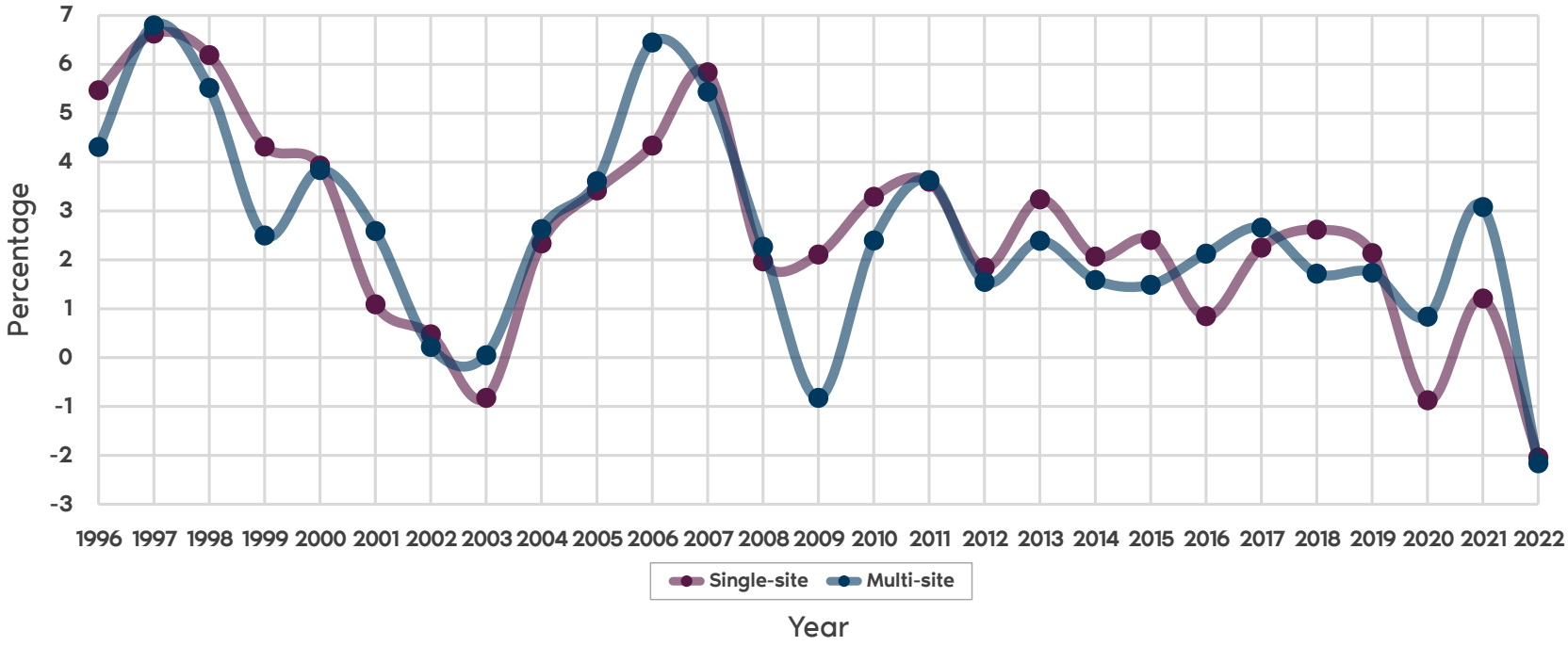
$$\frac{\text{Total Excess of Revenues over Expenses}}{\text{Total Operating Revenues and Net-Nonoperating Gains and Losses}}$$

Total Excess Margin Ratio *continued*

Interquartile Range



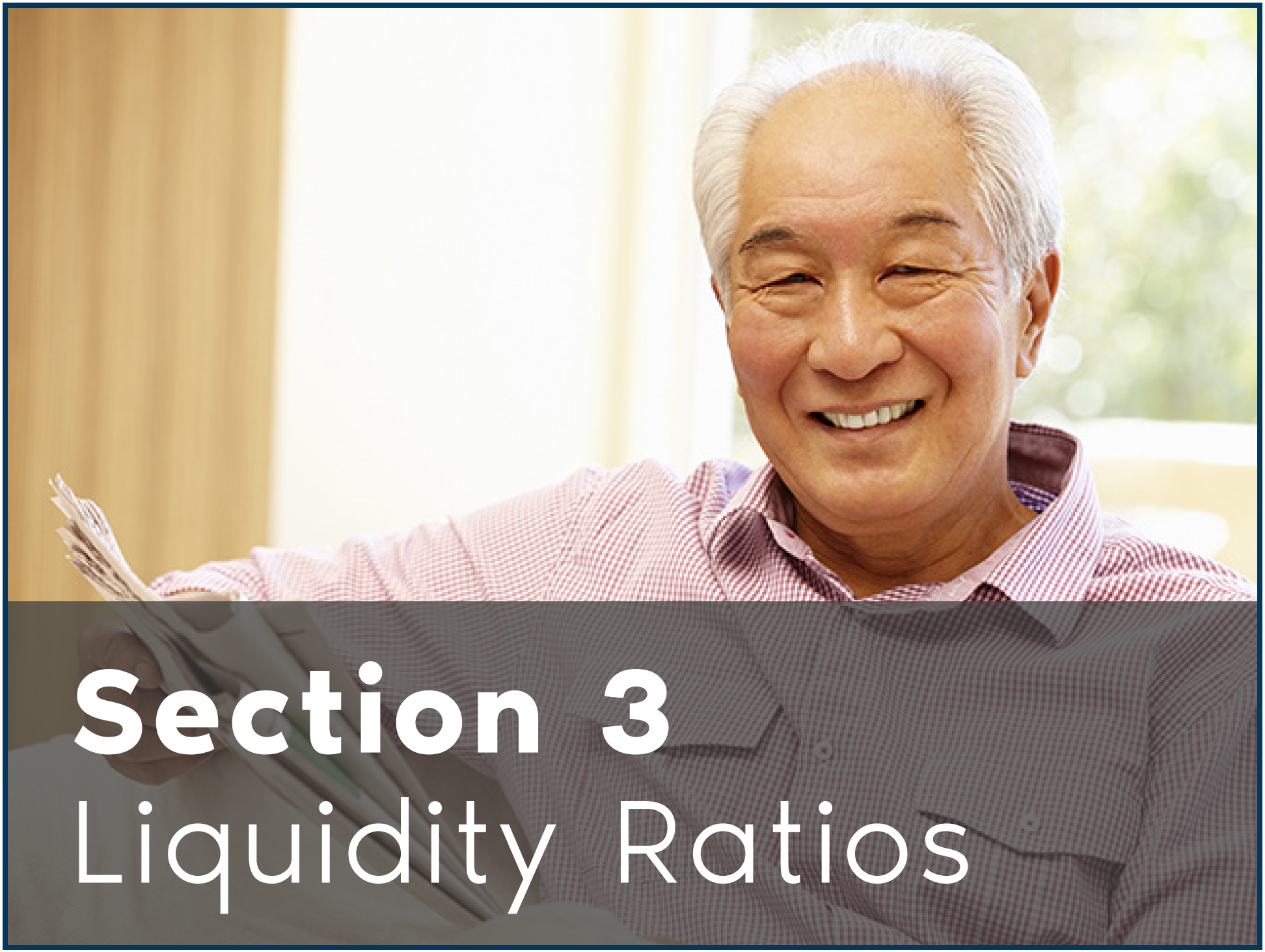
Trended Median



Total Excess Margin Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	2.08%	**5.47%**	8.65%
1997	2.96	**6.63**	10.68
1998	1.71	**6.19**	10.97
1999	0.35	**4.32**	8.50
2000	-0.40	**3.93**	8.32
2001	-2.35	**1.09**	5.98
2002	-3.84	**0.48**	4.35
2003	-4.74	**-0.82**	3.84
2004	-2.18	**2.34**	5.64
2005	-0.33	**3.42**	7.59
2006	0.84	**4.34**	8.89
2007	1.25	**5.84**	9.08
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
2018	-3.29	**2.62**	8.49
2019	-3.40	**2.14**	5.35
2020	-8.92	**-0.87**	5.41
2021	-4.51	**1.21**	7.06
2022	-12.29	**-2.04**	3.57

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	1.47%	**4.31%**	9.45%
1997	2.10	**6.80**	9.67
1998	2.01	**5.52**	9.51
1999	0.00	**2.50**	10.32
2000	-0.05	**3.84**	9.43
2001	-0.02	**2.59**	5.62
2002	-4.22	**0.22**	4.42
2003	-3.09	**0.05**	4.39
2004	0.17	**2.63**	5.90
2005	0.13	**3.61**	6.43
2006	0.59	**6.45**	9.85
2007	1.02	**5.44**	10.45
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
2018	-0.91	**1.72**	6.79
2019	-2.90	**1.74**	8.42
2020	-2.71	**0.84**	5.00
2021	-4.47	**3.08**	7.72
2022	-14.23	**-2.16**	4.37



Section 3
Liquidity Ratios

Overview and Findings

Overview

Liquidity ratios are intended to measure a provider's ability to meet the short-term (one year or less) cash needs of its ongoing operations. As is true of any business, a CCRC needs to ensure that it has sufficient cash, or investments readily convertible to cash, to meet its payroll, pay for goods and services, fund current debt service payments, and provide for essential maintenance and repairs.

An intent of the CCRC accreditation process is that financially sound organizations maintain adequate unrestricted cash and investment reserves, or have access to third-party cash/reserves, to fund any unforeseen operating cash shortfalls and to meet the commitments of serving their residents and other persons.

The three liquidity ratios that are the most common means of measuring the ability of senior living organizations to meet their liquidity needs include:

- Days in Accounts Receivable Ratio (DAR)
- Days Cash on Hand Ratio (DCH)
- Cushion Ratio (CUSH)

Often cash and investments have been set aside by board action as assets limited as to use. For purposes of the ratio calculations within this document, all board-designated funds were considered unrestricted and all donor-restricted funds were considered restricted. When unrestricted funds are used in a liquidity ratio, all such funds, whether classified as current or noncurrent, are included in the calculation.

Because this is an area that causes confusion, the publication includes an explanatory discussion in Appendix A clarifying the determination and use of cash and investments in the ratio calculations.

Findings

Liquidity measures weakened dramatically for both single- and multi-site organizations for nearly all ratios and at almost every quartile for the 2023 publication (2022 fiscal year). Both provider types entered the 2022 fiscal year with historically high liquidity, yet severe declines in both equity and bond portfolios significantly reduced available cash and investments in many cases. Despite the declines, however, most median liquidity ratios remain at healthy levels.

The single-site median Days Cash on Hand Ratio (DCH) fell sharply to 419 days from 547 days the prior year. This level remains strong, however, as the single-site median DCH first topped 400 only as recently as 2019. The multi-site median weakened to a more modest 308 days from 352 days the prior year. Average unrestricted cash and investments for multi-site providers slipped 3.0% to roughly $127 million in 2022. Average unrestricted cash and investments for single-site providers fell by 7.7% to approximately $44 million.

The median Cushion Ratio (CUSH), a measure of unrestricted cash and investments as a multiple of annual debt service, declined for single-site providers, falling to 10.54 from 13.22 the prior year. Like the DCH median, this level remains healthy for single site providers when compared with pre-2020 medians. For multi-site organizations, the median CUSH ratio dropped to 5.31 from 7.35, marking the lowest level since 1996.

Finally, the median Days in Accounts Receivable Ratio (DAR) held steady at 15 days for single-site providers and improved to 19 days from 20 days for multi-site providers. These results are relatively favorable when compared to longer-term trends.

Days in Accounts Receivable Ratio

The Days in Accounts Receivable Ratio (DAR) measures the average number of days accounts receivable remain outstanding. The calculation compares the total amount in accounts receivable (net of allowances for uncollectible accounts) to average daily operating revenues received from residents of independent living, personal care, assisted living, and nursing units. Third-party settlements are excluded from the numerator of this calculation; net assets released from restriction for operations and amortization of entrance fees are excluded from the denominator.

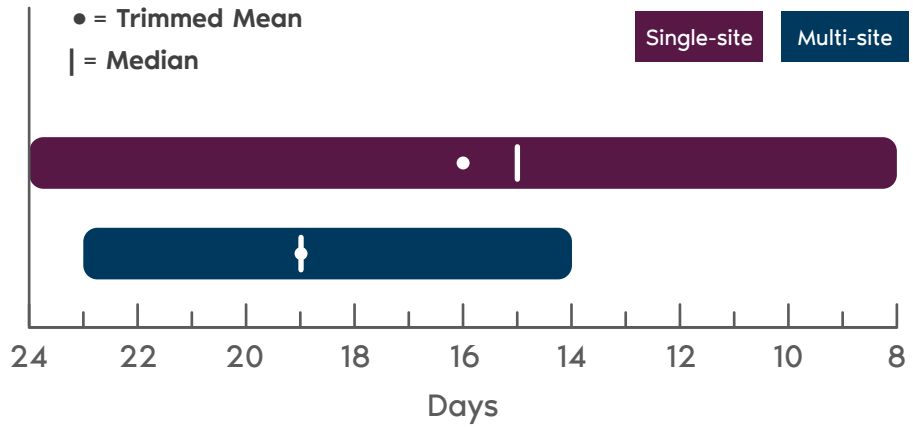
The CARF accreditation long-term financial planning intent states that "effective management of accounts receivable ensures a steady stream of cash that can be invested to earn additional income for the organization." A key component of accounts receivable management is understanding how receivables will change depending on the payer type. Amounts billed to third parties, such as government or other third-party payers, generally will be paid on a much slower basis than amounts billed to residents. In fact, the payer mix of a provider, along with the configuration of healthcare units as a percentage of the provider's total units, dramatically affects the value of this ratio. Generally, a value of 30 days or less is desired, although for providers with a low level of government or other third-party reimbursement, values may be less than ten days because most CCRCs bill private-pay residents at the beginning of the month and receive payment before the close of the monthly accounting period.

For providers with significant reliance on third-party reimbursement, values generally will exceed 30 days. The higher the percentage of the resident population that is private pay, the lower this value should be. It is important to note that the timeliness of Medicaid payments varies from state to state. Therefore, a CCRC's DAR ratio may vary significantly depending on the magnitude of third-party payments, regardless of management's efforts. Management may want to track the DAR ratio separately for residential and healthcare services; the former usually are private payers, and the latter often are third-party payers.

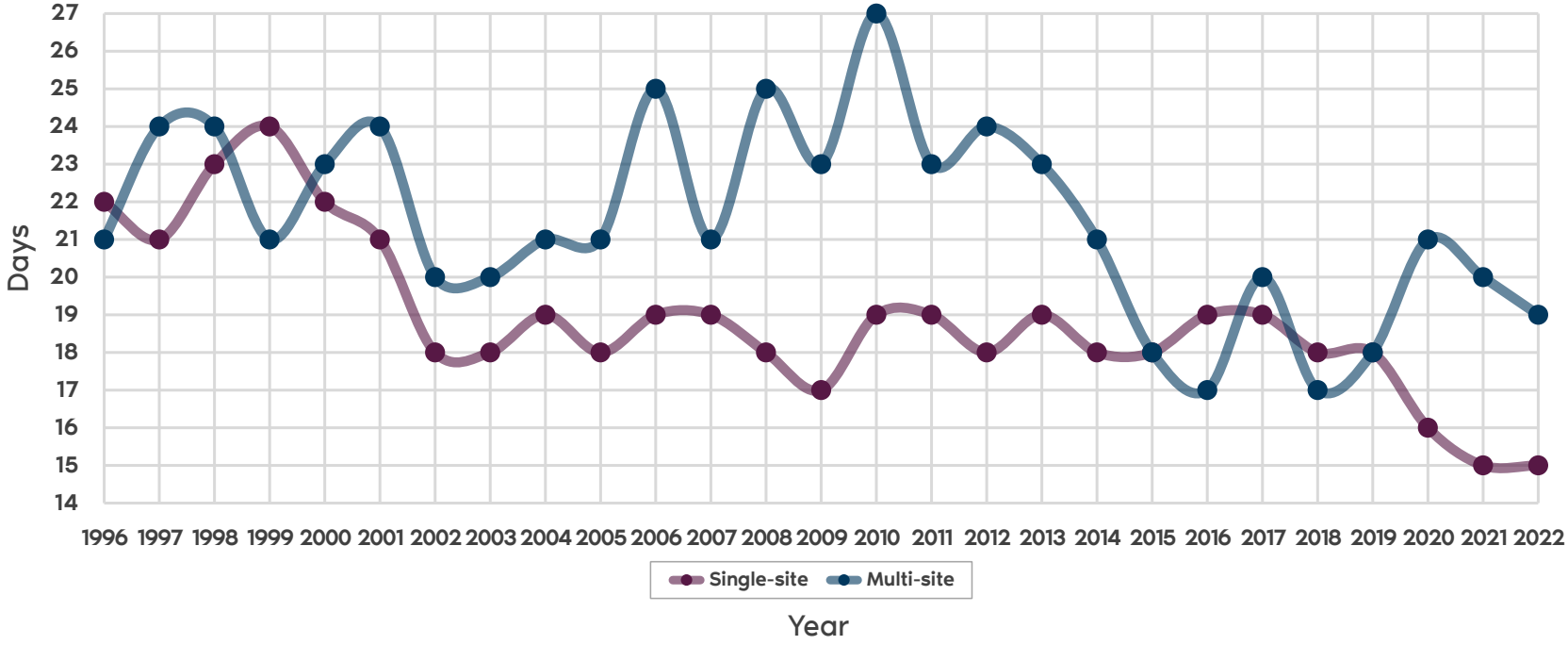
$$\frac{\text{Net Accounts Receivable}}{\text{Residential and Healthcare Revenues}/365}$$

Days in Accounts Receivable Ratio *continued*

Interquartile Range



Trended Median



Days in Accounts Receivable Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	29	**22**	11
1997	34	**21**	15
1998	33	**23**	14
1999	34	**24**	13
2000	32	**22**	14
2001	31	**21**	12
2002	28	**18**	11
2003	29	**18**	11
2004	28	**19**	10
2005	30	**18**	11
2006	31	**19**	12
2007	29	**19**	11
2008	30	**18**	10
2009	28	**17**	10
2010	29	**19**	11
2011	27	**19**	11
2012	28	**18**	9
2013	27	**19**	10
2014	28	**18**	10
2015	27	**18**	10
2016	28	**19**	9
2017	25	**19**	10
2018	25	**18**	9
2019	26	**18**	9
2020	23	**16**	9
2021	25	**15**	8
2022	24	**15**	8

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	30	**21**	13
1997	34	**24**	18
1998	33	**24**	15
1999	30	**21**	19
2000	32	**23**	14
2001	33	**24**	15
2002	26	**20**	13
2003	26	**20**	13
2004	25	**21**	15
2005	26	**21**	16
2006	30	**25**	16
2007	28	**21**	16
2008	29	**25**	18
2009	30	**23**	17
2010	34	**27**	20
2011	34	**23**	17
2012	31	**24**	16
2013	34	**23**	15
2014	30	**21**	13
2015	26	**18**	12
2016	25	**17**	14
2017	25	**20**	14
2018	29	**17**	12
2019	31	**18**	14
2020	26	**21**	13
2021	26	**20**	14
2022	23	**19**	14

Days Cash on Hand Ratio

The Days Cash on Hand Ratio (DCH) measures the number of days of cash operating expenses a provider could cover with its unrestricted cash, cash equivalents, and marketable securities on hand. Board-designated funds should be included in the numerator, whereas funds that are either trustee-held or donor-restricted should be excluded. This treatment of these balances is the same whether the assets are classified as current or noncurrent. Please refer to Appendices A and B for additional information regarding accounts included in this ratio.

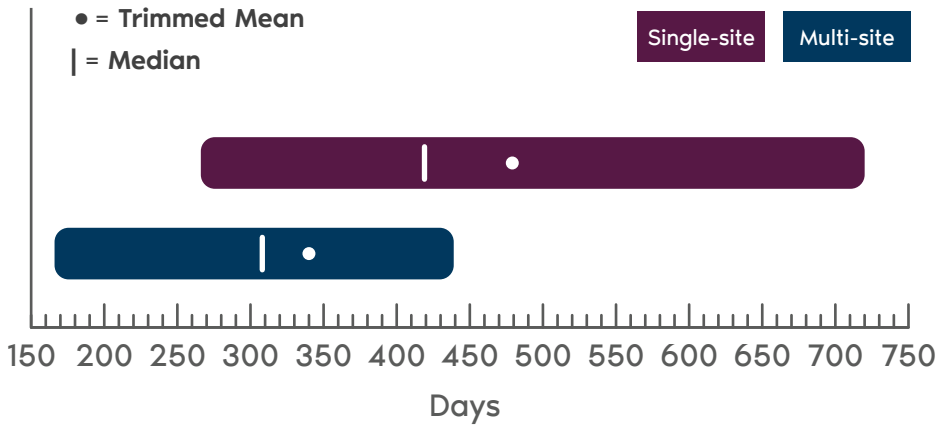
Regardless of contract type or ownership type (for-profit or not-for-profit), it is essential that organizations have access to liquidity, either through cash on hand or via a third-party. Third-party sources of liquidity may include a parent or affiliate organization's legal guarantee to fund operating shortfalls, a parent or affiliate organization's history of funding operating shortfalls without a guarantee (moral obligation), foundations, annual subsidies, annual appropriation, and owner/limited partners.

Net entrance fee receipts, to the extent they are used to build reserves, can have a significant impact on a provider's DCH. The performance of the equities market in any given year also can have a significant influence on the DCH ratio.

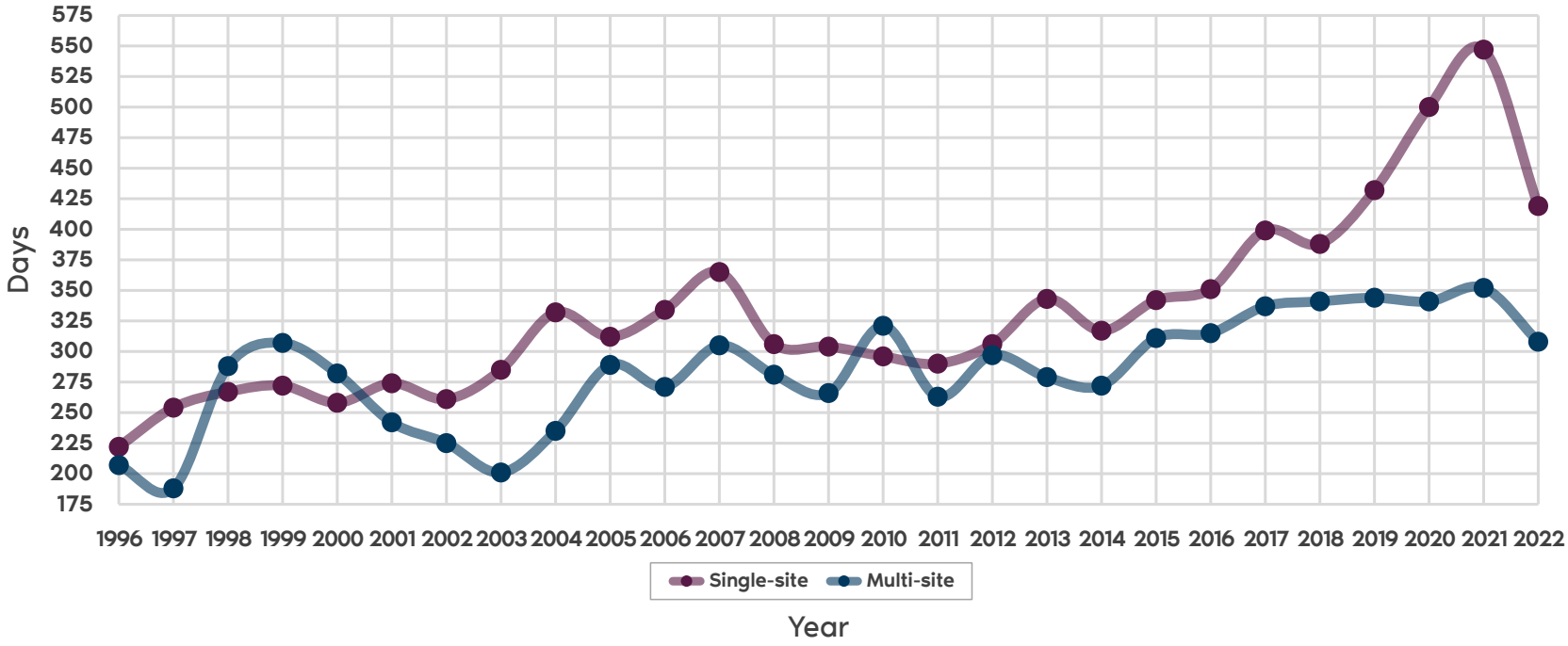
$$\frac{\text{Unrestricted Current Cash and Investments} + \text{Unrestricted Noncurrent Cash and Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

Days Cash on Hand Ratio *continued*

Interquartile Range



Trended Median



Days Cash on Hand Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	129	**222**	378
1997	143	**254**	414
1998	142	**267**	430
1999	140	**272**	469
2000	147	**258**	478
2001	170	**274**	438
2002	157	**261**	394
2003	171	**285**	424
2004	199	**332**	490
2005	177	**312**	493
2006	197	**334**	528
2007	224	**365**	529
2008	188	**306**	470
2009	176	**304**	492
2010	179	**296**	524
2011	181	**290**	517
2012	184	**306**	511
2013	180	**343**	549
2014	172	**317**	556
2015	196	**342**	579
2016	181	**351**	609
2017	188	**399**	641
2018	200	**388**	650
2019	225	**432**	654
2020	260	**500**	746
2021	372	**547**	805
2022	266	**419**	720

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	126	**207**	287
1997	115	**188**	307
1998	169	**288**	375
1999	141	**307**	389
2000	178	**282**	414
2001	174	**242**	319
2002	153	**225**	332
2003	154	**201**	306
2004	152	**235**	344
2005	213	**289**	392
2006	206	**271**	403
2007	238	**305**	476
2008	181	**281**	411
2009	204	**266**	338
2010	239	**321**	380
2011	201	**263**	365
2012	182	**297**	396
2013	182	**279**	402
2014	173	**272**	418
2015	205	**311**	460
2016	193	**315**	428
2017	232	**337**	538
2018	200	**341**	506
2019	242	**344**	510
2020	221	**341**	602
2021	218	**352**	571
2022	166	**308**	439

Cushion Ratio

The Cushion Ratio (CUSH) measures the provider's cash position in relation to its annual debt obligation. This ratio is calculated using annual debt service (the current year's capitalized interest cost plus interest expense and scheduled principal payments) in the denominator as annual debt service is obtainable from a provider's audited financial statements. This is similar to the approach used for the Debt Service Coverage Ratio (DSC). The numerator of this ratio includes unrestricted cash and investments, both current and noncurrent. All board-designated funds (including those set aside for capital improvements, replacements, etc.) also are included in the numerator.

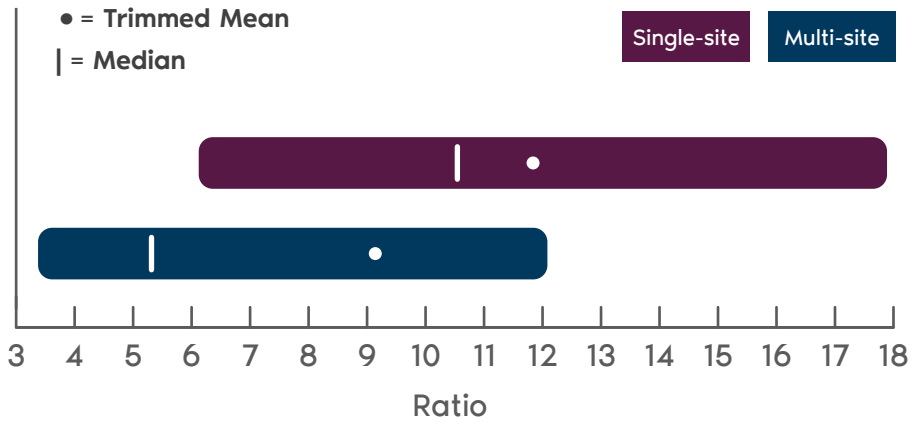
Because this ratio is computed on the basis of current annual debt service payments rather than the maximum annual debt service, the ratios may vary each year as principal payments and interest payments vary, particularly if a provider has refinanced or has no scheduled principal payments in the current year. In the event a provider refinanced, it may be difficult to obtain a "normal" annual principal payment from the provider's audited financial statements. In these situations, the "normal" principal payments used in this ratio calculation may be estimated using information in the CCRC's financial statements (e.g., the prior year current maturities of long-term debt). In the event a provider had no principal payments in one or more of the years, the provider's CUSH ratio was excluded from the median computation for the missing year(s).

Typically, mature organizations would be expected to have greater cash reserves than newer organizations and, therefore, a stronger CUSH ratio. A provider's debt structure also plays an important role in its CUSH ratio. Tax-exempt financings often have level debt service over 25- to 35-year periods.

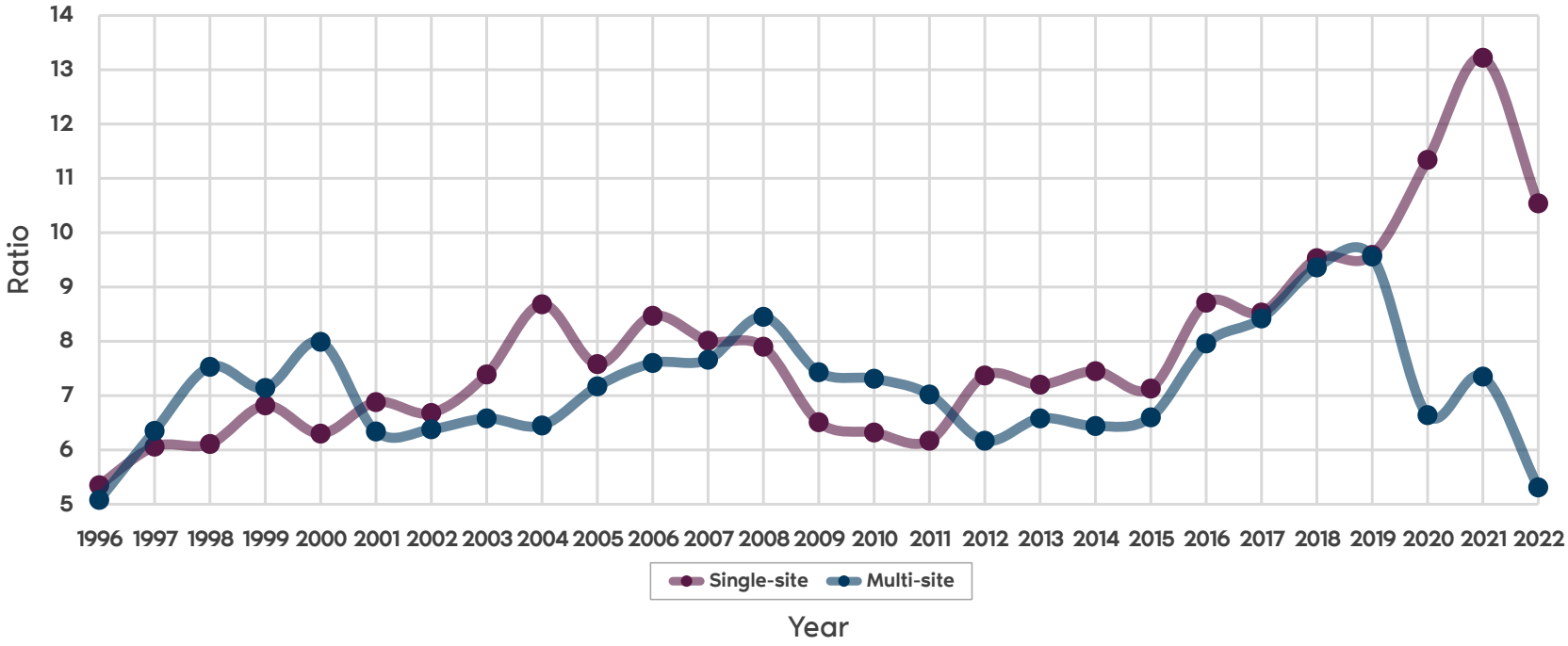
In addition, this ratio could weaken for a period of time if providers added independent living units (ILUs) through the use of temporary debt (fixed rate or variable rate). As the CCRC retires a large portion of debt with proceeds from initial entrance fees, the added payments would appear as current annual debt service and could lower the CUSH ratio by increasing the denominator.

$$\frac{\text{Unrestricted Current Cash and Investments} + \text{Unrestricted Noncurrent Cash and Investments}}{\text{Annual Debt Service}}$$

Interquartile Range



Trended Median



Cushion Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	1.73	**5.35**	10.54
1997	2.58	**6.06**	12.82
1998	2.40	**6.11**	15.38
1999	3.07	**6.82**	12.96
2000	3.07	**6.30**	11.73
2001	3.58	**6.88**	11.62
2002	3.54	**6.68**	10.68
2003	3.69	**7.39**	12.20
2004	4.15	**8.68**	14.10
2005	3.52	**7.58**	12.08
2006	3.90	**8.47**	12.51
2007	4.28	**8.01**	13.32
2008	3.49	**7.90**	13.57
2009	2.91	**6.51**	13.58
2010	2.99	**6.32**	14.39
2011	2.63	**6.17**	11.11
2012	3.37	**7.37**	12.66
2013	3.41	**7.20**	13.46
2014	3.41	**7.45**	13.24
2015	3.73	**7.13**	13.52
2016	4.01	**8.71**	14.94
2017	5.59	**8.53**	15.77
2018	5.34	**9.53**	15.82
2019	5.03	**9.59**	16.82
2020	5.51	**11.34**	20.88
2021	7.54	**13.22**	23.57
2022	6.12	**10.54**	17.89

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	2.88	**5.08**	9.63
1997	3.01	**6.35**	10.85
1998	5.33	**7.53**	10.19
1999	4.34	**7.14**	15.44
2000	4.42	**7.99**	13.55
2001	3.94	**6.34**	10.14
2002	4.69	**6.38**	12.40
2003	3.71	**6.58**	12.53
2004	3.62	**6.45**	14.02
2005	5.10	**7.17**	12.57
2006	5.08	**7.60**	12.10
2007	5.54	**7.66**	12.82
2008	4.19	**8.45**	15.28
2009	4.51	**7.43**	14.88
2010	4.86	**7.31**	10.19
2011	4.15	**7.02**	11.66
2012	4.26	**6.17**	10.58
2013	4.26	**6.58**	13.17
2014	3.29	**6.44**	12.79
2015	3.06	**6.60**	13.48
2016	3.25	**7.96**	13.20
2017	4.07	**8.42**	16.01
2018	4.16	**9.36**	13.32
2019	4.58	**9.56**	14.32
2020	4.76	**6.64**	14.30
2021	5.36	**7.35**	14.89
2022	3.37	**5.31**	12.08

Section 4
Capital Structure Ratios

Overview

Capital structure ratios primarily focus on a provider's balance sheet strengths and weaknesses. These ratios are useful in assessing the long-term solvency of a provider. The capital structure ratios measure the relative amount of debt a provider has undertaken. A high percentage of debt relative to assets or equity is an important indication of risk in the CCRC industry because high leverage typically means high debt repayment obligations and therefore high annual debt service payments. One of the capital structure ratios, the Debt Service Coverage Ratio (DSC), incorporates a measure of annual cash flow and provides an important quantification of the link between annual operating performance and a provider's debt obligations.

One intent of the CARF accreditation process is that an organization effectively manages its balance sheet. Effective asset/liability management is key to an organization's long-term survival. It ensures that funds are available to meet strategic objectives; to replace, renovate, or expand current facilities; and to meet the contractual obligations of residents and persons served.

The capital structure ratios presented in this chapter are tools to measure the balance sheet strength of senior living provider organizations. Most organizations choose a subset of the nine ratios by which to measure the strength of their capital structure:

- Debt Service Coverage Ratio (DSC)
- Debt Service Coverage–Revenue Basis Ratio (DSC-R)
- Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio (DS-TR)
- Unrestricted Cash and Investments to Long-Term Debt Ratio (CD)
- Long-Term Debt as a Percentage of Total Capital Ratio (LTDC)
- Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio (LTDC-A)
- Long-Term Debt to Total Assets Ratio (LTD-TA)
- Average Age of Community Ratio (AGE)
- Capital Expenditures as a Percentage of Depreciation Ratio (CED)

As discussed here, the ratios incorporating current annual debt service as a component of their calculation would be affected during years in which interest cost is capitalized. To adjust for such occurrences, when capitalized interest for a given year is provided in the audited financial statements, that amount is added to interest expense in the current year.

Findings

The median capital structure ratios for the 2023 publication (2022 fiscal years) showed a significant weakening for both single- and multi-site providers at nearly all ratio medians at almost every quartile. These findings are not surprising, given the overall weakness in both profitability and liquidity measures.

For single-site organizations, the median Debt Service Coverage Ratio (DSC) fell to 2.30 from 2.83 the prior year. While last year's 2.83 was the second highest level in publication history, this year's 2.30 is on the lower side of historical levels. The median DSC for multi-site providers dropped to 1.91 from 2.46 the prior year and marks the lowest median DSC for multi-site organizations in the publication's history.

The median Debt Service Coverage-Revenue Basis Ratio (DSC-R), which excludes cash flow from turnover entrance fees, fell to 0.66 from 0.92 for single-site organizations and declined to 0.56 from 1.10 for multi-site providers. Median DSC-R are lowest reported since 2004 for single-site providers and 2003 for multi-site providers.

The median Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio (DS-TR) weakened (increased) for single-site providers to 10.07% from 9.59% the prior year. The median DS-TR for multi-site organizations also weakened to 9.42% from 9.20%. Both median ratios are generally in line with prior medians from the last several years.

The median Unrestricted Cash and Investments to Long-Term Debt Ratio (CD) weakened significantly for both single- and multi-site organizations. This is consistent with the declines in the median DCH ratio and median TEM ratio. The median single-site CD ratio dropped to 55.70% from 83.39%. Last year's 83.39% median marked a new high for the median ratio while this year's 55.70% is the lowest median since 2011. For multi- site providers, the median CD ratio fell to 39.04 from 47.50%, which is a new low for this median ratio.

The debt-to-capital ratios generally weakened for both single- and multi-site organizations. The median Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio (LTDC-A) softened to 54.14% from 53.27% for single-site providers and is in line with recent years. The median multi-site LTDC-A ratio weakened to 62.61 from 58.76%, and is the highest leverage median since 2009.

Finally, both single- and multi-site organizations reported improvement in the capital structure ratios related to investment in property, plant and equipment. Single-site providers experienced a slight improvement in the median Average Age of Community Ratio (AGE), which declined to 12.28 from 12.98 the prior year. The median multi-site AGE improved to 11.46 from 11.91 the prior year. The median Capital Expenditures as a Percentage of Depreciation Ratio (CED) compares purchases of property, plant, and equipment to depreciation expense. The median CED for single-site organizations improved to 105% from 102% the prior year. The median CED for multi- site organizations weakened to 113% from 143%; however, both medians indicate significant capital investment.

Debt Service Coverage Ratio

Credit analysts and lenders generally consider the Debt Service Coverage Ratio (DSC), combined with the Unrestricted Cash and Investments to Long-Term Debt Ratio (CD) and Days Cash on Hand Ratio (DCH), to be the most important ratio for evaluating a provider's short- and long-term financial viability. The DSC ratio reflects a provider's ability to fund annual debt service with cash flow from net cash revenues and net entrance fees.

This ratio is calculated using annual debt service (the current year's capitalized interest cost plus interest expense and scheduled principal payments) in the denominator as annual debt service is obtainable from a provider's audited financial statements. However, lenders may require that maximum annual debt service (MADS) be used in the denominator. Accordingly, the results included in this report may vary from a lender's calculation of the DSC ratio. For CCRCs with level annual debt service requirements, the difference between annual debt service and MADS will be insignificant.

Most debt obligations require CCRCs to maintain a DSC ratio of at least 1.20 times. Over time, most financial analysts look for the DSC ratio to grow to between 1.50 and 2.00 times.

Because the DSC ratios are computed on the basis of current annual debt service payments, the ratios may vary each year as principal payments and interest payments vary, particularly if a provider has refinanced or has no scheduled principal payments in the current year. In the event a provider refinanced, it may be difficult to obtain a "normal" annual principal payment from the provider's audited financial statements. In these situations, the "normal" principal payments used in the DSC ratio calculation may be estimated using information in the CCRCs financial statements (i.e. the prior year current maturities of long-term debt). In the event a provider had no principal payments in one or more of the years, the provider's DSC ratio was excluded from the median computation for the missing year(s).

A high DSC ratio may be reflective of a low level of annual debt service. This circumstance may or may not be a sign of financial strength. For this reason, it is often necessary to analyze the DSC ratio in combination with other information and ratios to evaluate the adequacy of annual cash flows for achieving the financial goals of the organization. Further, the DSC ratio is influenced to a certain degree by contract type, price structure (balance between entrance fees and monthly service fees), and entrance fee refund provisions.

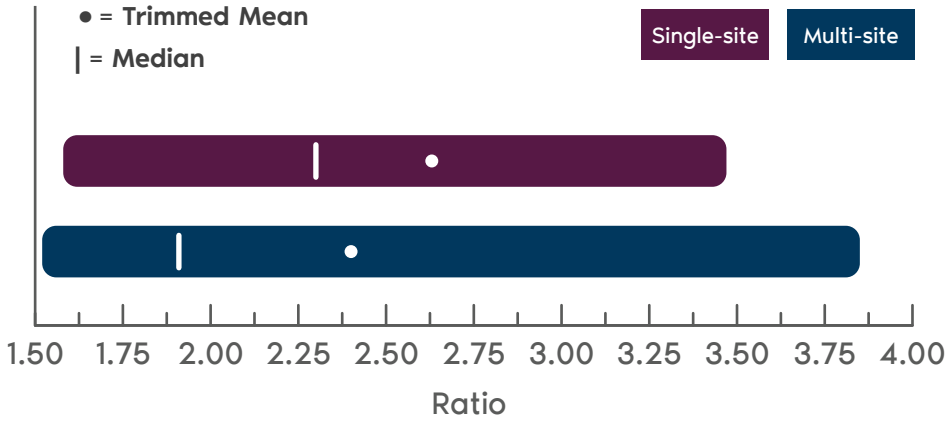
Readers should note that, beginning in 2016, initial entrance fees relating to the first resident of an independent living unit are excluded from "net proceeds from entrance fees" to be consistent with industry practice. Covenant calculation methodologies in lender documents typically exclude entrance fees from these first-generation units from the debt service calculations. This is because all or a portion of those entrance fees are often used to immediately retire debt, and, more importantly, because these initial entrance fees are not a consistent element of ongoing operations.

It is important to note that debt service related to PPP loans is excluded from the denominator. However the treatment of PPP loan debt service will vary depending on an Organization's debt agreements with their lender. Additionally, while CARF excludes COVID-19 relief income (i.e., FEMA, ERC, PRF and PPP) from the numerator, many lenders permit the inclusion of COVID-19 relief funds within the numerator of the calculation. Both of these factors may result in significant differences between the CARF DSC ratio and a lender's required ratio.

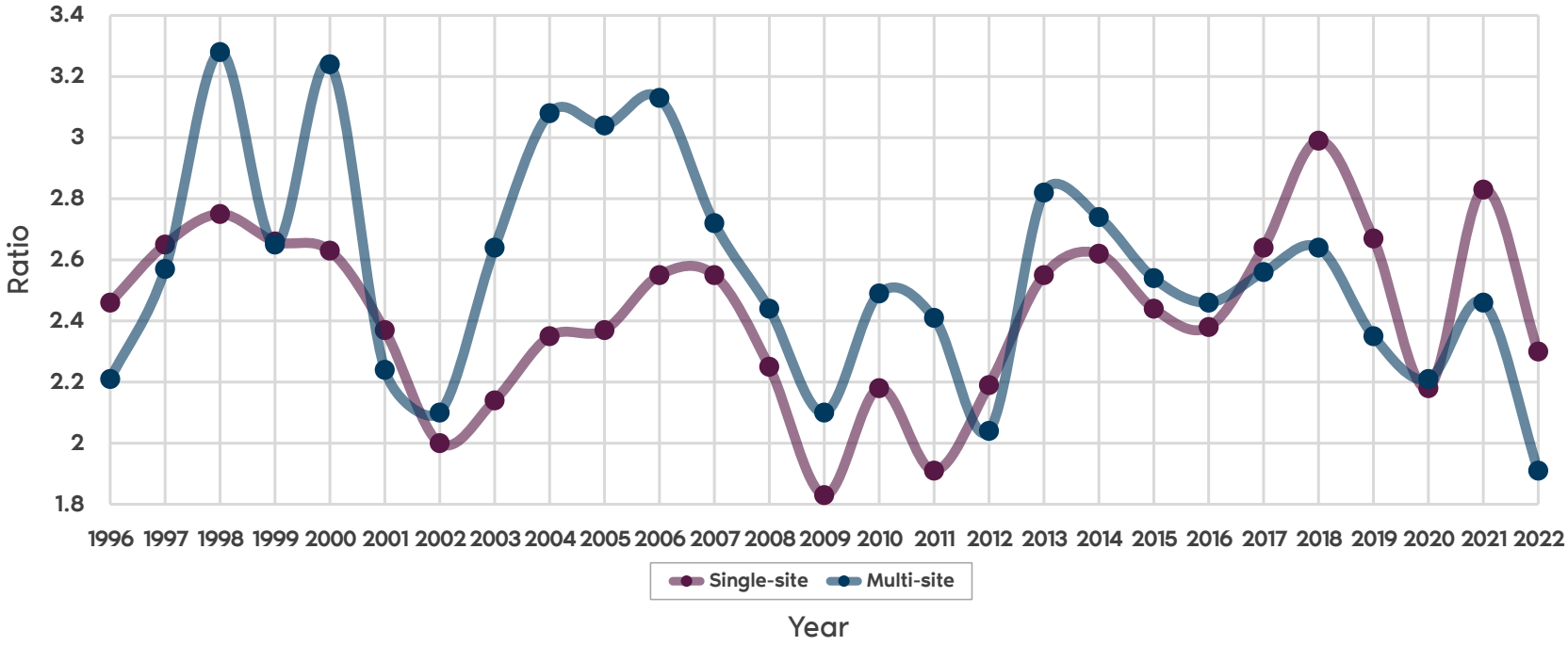
$$\frac{\begin{array}{l}\text{Total Excess of Revenues over Expenses} \\ + \text{ Interest, Depreciation, and Amortization Expenses} \\ - \text{ Amortization of Deferred Revenue} \\ + \text{ Net Proceeds from Entrance Fees}\end{array}}{\text{Annual Debt Service}}$$

Debt Service Coverage Ratio *continued*

Interquartile Range



Trended Median



Debt Service Coverage Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	1.54	**2.46**	4.02
1997	1.59	**2.65**	4.28
1998	1.55	**2.75**	4.77
1999	1.79	**2.66**	4.37
2000	1.71	**2.63**	3.83
2001	1.64	**2.37**	3.45
2002	1.53	**2.00**	3.06
2003	1.39	**2.14**	3.07
2004	1.57	**2.35**	3.98
2005	1.64	**2.37**	3.63
2006	1.74	**2.55**	3.75
2007	1.68	**2.55**	3.97
2008	1.32	**2.25**	3.85
2009	1.00	**1.83**	3.24
2010	1.32	**2.18**	3.58
2011	1.26	**1.91**	3.32
2012	1.60	**2.19**	3.44
2013	1.79	**2.55**	3.90
2014	1.78	**2.62**	3.78
2015	1.65	**2.44**	3.87
2016	1.79	**2.38**	3.41
2017	2.01	**2.64**	4.31
2018	1.95	**2.99**	4.18
2019	1.89	**2.67**	4.00
2020	1.33	**2.18**	3.46
2021	1.86	**2.83**	4.02
2022	1.58	**2.30**	3.47

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	1.40	**2.21**	2.82
1997	1.95	**2.57**	4.66
1998	2.91	**3.28**	4.36
1999	1.71	**2.65**	4.55
2000	1.81	**3.24**	4.77
2001	1.78	**2.24**	3.11
2002	1.47	**2.10**	3.12
2003	1.55	**2.64**	3.71
2004	2.10	**3.08**	4.49
2005	2.41	**3.04**	4.56
2006	2.27	**3.13**	4.01
2007	2.24	**2.72**	3.27
2008	1.55	**2.44**	4.01
2009	1.14	**2.10**	2.86
2010	1.50	**2.49**	3.51
2011	1.24	**2.41**	3.52
2012	1.46	**2.04**	3.64
2013	1.95	**2.82**	4.32
2014	2.17	**2.74**	3.38
2015	1.71	**2.54**	4.08
2016	1.59	**2.46**	4.00
2017	1.79	**2.56**	3.73
2018	1.62	**2.64**	3.75
2019	1.71	**2.35**	3.67
2020	1.50	**2.21**	3.78
2021	1.93	**2.46**	3.37
2022	1.52	**1.91**	3.85

Debt Service Coverage–Revenue Basis Ratio

The Debt Service Coverage–Revenue Basis Ratio (DSC-R) is a stringent measure of a CCRC's ability to meet its debt obligations through revenues alone. By excluding net proceeds from entrance fees from the numerator (they are included in the numerator for the DSC ratio), this ratio indicates a provider's ability to cover debt service exclusively from operating revenues and nonoperating sources. A low DSC-R ratio indicates that a provider relies heavily on entrance fees to meet ongoing annual operating expenses. A DSC-R ratio value of at least 0.75 is considered desirable by the credit community.

As with the DSC ratio, this ratio is calculated using annual debt service (the current year's capitalized interest cost plus interest expense and scheduled principal payments) in the denominator as annual debt service is obtainable from a provider's audited financial statements. Lenders do not typically require CCRCs to maintain a certain DSC-R ratio.

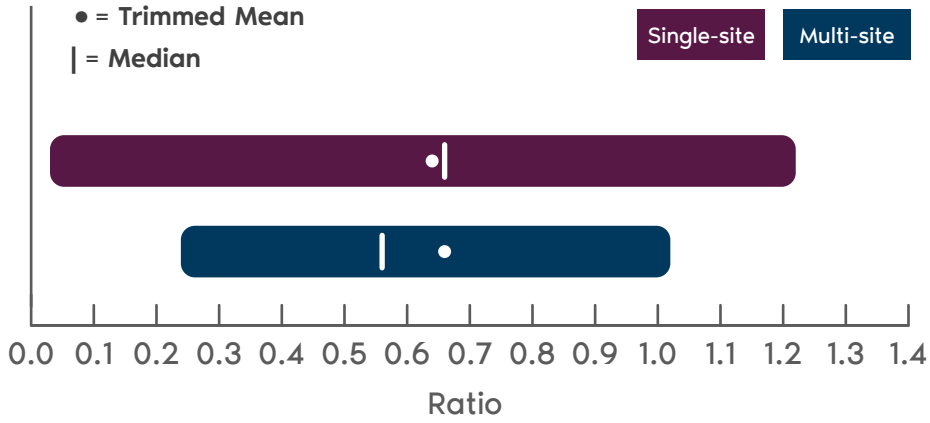
Some financial analysts argue that heavy reliance on entrance fees may leave a provider vulnerable to a slowdown in turnover or unanticipated competition in the service area. Further, as with the DSC ratio, this ratio is influenced to a certain degree by contract type and entrance fee plans and provisions (i.e., fees, refund provisions, etc.). For example, a provider that offers highly refundable entrance fee plans is obligated to refund a substantial portion of the entrance fee to residents. As a result, this type of provider should place less reliance on entrance fees for debt service coverage. Also, fee-for-service contracts typically require a lower entrance fee because future monthly service payments are anticipated to fully cover the future care needs of the residents. Generally, the weakest DSC-R ratios are exhibited by providers with Type A (extensive) contracts (see definition in Chapter 5).

Readers should recognize that most providers need to be sensitive to contract types, price structure (balance between entrance fees and monthly service fees), and entrance fee refund provisions in their market. If the market is accustomed to high entrance fees and low monthly fees, a provider may have neither the flexibility nor the desire to adjust its pricing structure.

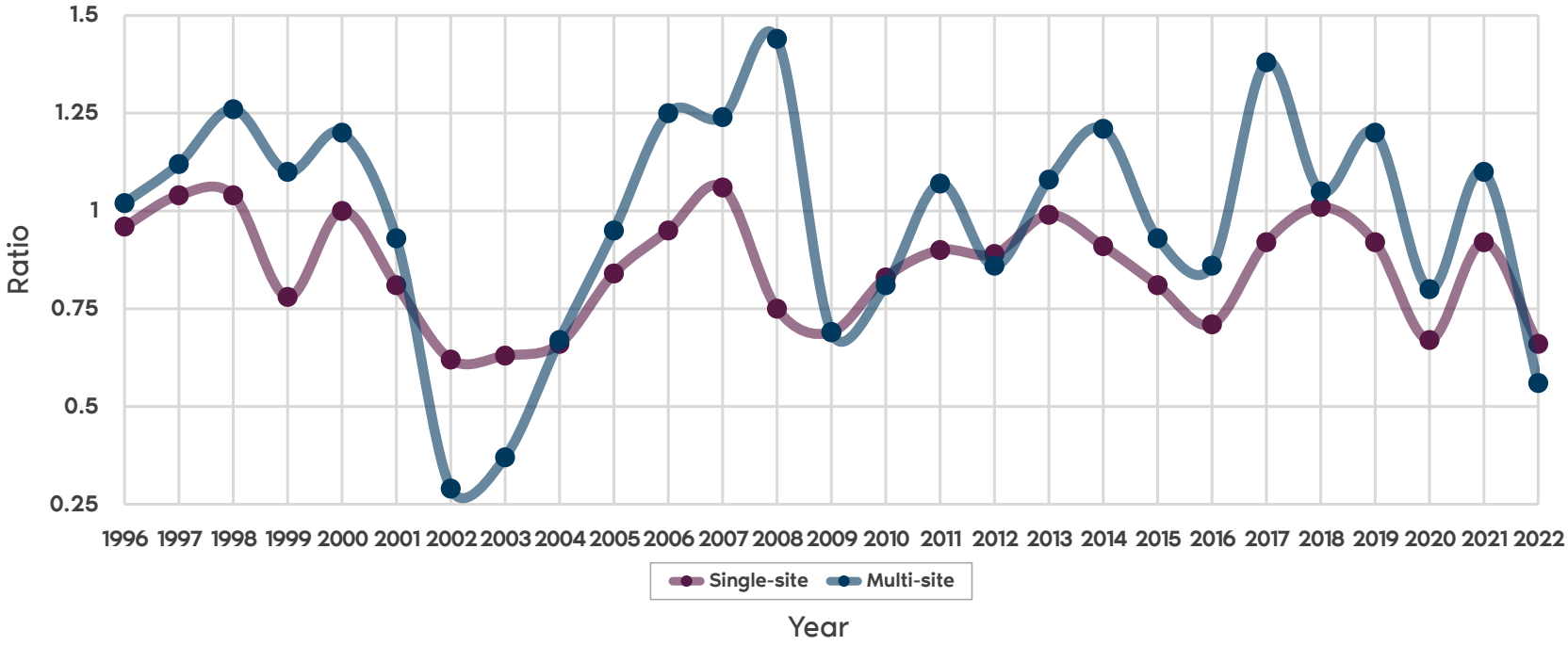
$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation and Amortization Expenses} - \text{Amortization of Deferred Revenue}}{\text{Annual Debt Service}}$$

Debt Service Coverage–Revenue Basis Ratio *continued*

Interquartile Range



Trended Median



Debt Service Coverage–Revenue Basis Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	0.26	**0.96**	1.80
1997	0.46	**1.04**	1.93
1998	0.44	**1.04**	2.18
1999	0.26	**0.78**	1.69
2000	0.42	**1.00**	1.64
2001	0.23	**0.81**	1.38
2002	0.05	**0.62**	1.20
2003	0.09	**0.63**	1.20
2004	0.17	**0.66**	1.14
2005	0.44	**0.84**	1.43
2006	0.52	**0.95**	1.43
2007	0.53	**1.06**	1.65
2008	0.21	**0.75**	1.45
2009	0.17	**0.69**	1.36
2010	0.39	**0.83**	1.55
2011	0.37	**0.90**	1.39
2012	0.45	**0.89**	1.39
2013	0.50	**0.99**	1.63
2014	0.36	**0.91**	1.42
2015	0.34	**0.81**	1.36
2016	0.27	**0.71**	1.17
2017	0.43	**0.92**	1.48
2018	0.58	**1.01**	1.89
2019	0.34	**0.92**	1.63
2020	0.18	**0.67**	1.31
2021	0.31	**0.92**	2.02
2022	0.03	**0.66**	1.22

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	0.21	**1.02**	1.62
1997	0.64	**1.12**	1.84
1998	0.92	**1.26**	2.05
1999	0.60	**1.10**	1.69
2000	0.15	**1.20**	1.96
2001	0.06	**0.93**	1.49
2002	-0.24	**0.29**	1.21
2003	-0.22	**0.37**	1.06
2004	0.05	**0.67**	1.44
2005	0.39	**0.95**	1.76
2006	0.87	**1.25**	2.05
2007	0.79	**1.24**	2.10
2008	0.18	**1.44**	1.90
2009	0.00	**0.69**	1.28
2010	0.26	**0.81**	1.58
2011	0.34	**1.07**	1.66
2012	0.40	**0.86**	1.37
2013	0.70	**1.08**	1.64
2014	0.79	**1.21**	1.83
2015	0.63	**0.93**	1.59
2016	0.35	**0.86**	1.64
2017	0.68	**1.38**	1.81
2018	0.37	**1.05**	2.06
2019	0.52	**1.20**	1.65
2020	0.20	**0.80**	1.69
2021	0.28	**1.10**	1.51
2022	0.24	**0.56**	1.02

Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio

This ratio indicates the percentage of all operating revenues and nonoperating gains and losses utilized for annual debt service. This ratio has similar uses and limitations as the Debt Service Coverage–Revenue Basis Ratio (DSC-R). CCRCs that are newly developed or undergoing significant renovation or expansion generally have financed construction with debt. Unoccupied units resulting from new construction, renovation, or expansion, coupled with additional debt, could cause a temporary deterioration in this ratio.

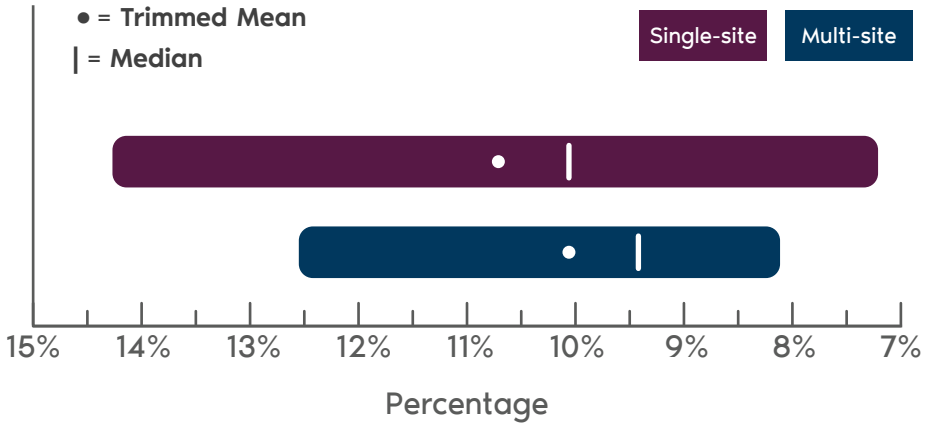
For new CCRCs still in start-up and without the benefit of operating revenues from full occupancy, debt service may exceed 30% of total operating revenues plus net nonoperating gains and losses. Credit capital markets generally prefer to see this ratio at 20% or below for mature organizations.

As with both the DSC ratio and DSC-R ratio, the Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio (DS-TR) will be affected by changes in current annual debt service, periods in which no principal payments were due, and market conditions that enable favorable gains.

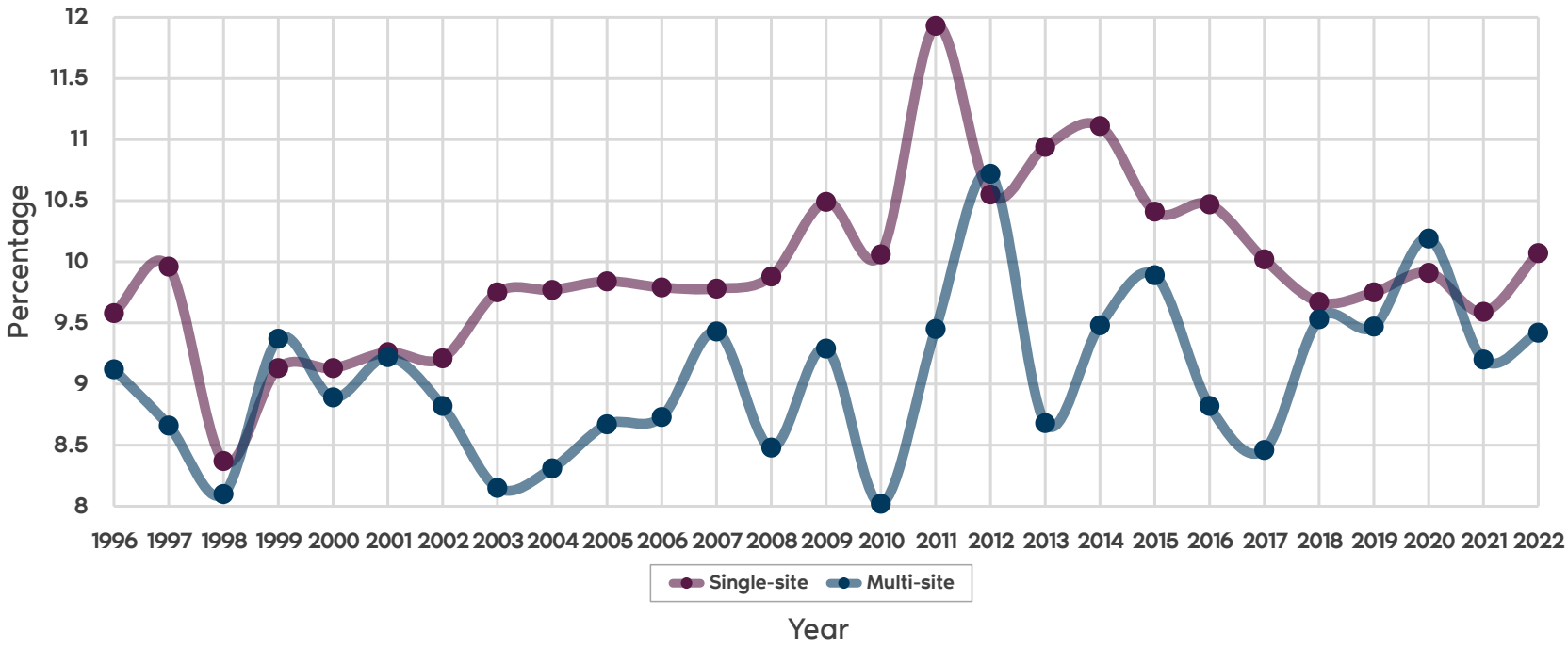
$$\frac{\text{Annual Debt Service}}{\text{Total Operating Revenues} + \text{Net Nonoperating Gains and Losses}}$$

Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio *continued*

Interquartile Range



Trended Median



Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	13.47%	**9.58%**	5.23%
1997	14.96	**9.96**	5.26
1998	12.47	**8.37**	4.54
1999	13.82	**9.13**	5.22
2000	13.96	**9.13**	5.51
2001	14.33	**9.26**	6.80
2002	15.34	**9.21**	6.65
2003	15.70	**9.75**	6.05
2004	16.19	**9.77**	6.49
2005	15.35	**9.84**	5.72
2006	14.36	**9.79**	6.11
2007	13.86	**9.78**	6.12
2008	15.47	**9.88**	5.72
2009	17.33	**10.49**	5.83
2010	16.75	**10.06**	6.25
2011	18.85	**11.93**	6.92
2012	15.64	**10.55**	7.05
2013	15.06	**10.94**	6.86
2014	14.11	**11.11**	6.52
2015	15.46	**10.41**	6.93
2016	15.33	**10.47**	6.61
2017	13.77	**10.02**	6.87
2018	12.61	**9.67**	5.92
2019	12.37	**9.75**	6.90
2020	12.64	**9.91**	6.72
2021	12.89	**9.59**	6.57
2022	14.27	**10.07**	7.21

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	12.79%	**9.12%**	6.52%
1997	11.25	**8.66**	5.68
1998	10.17	**8.10**	7.04
1999	10.79	**9.37**	5.19
2000	10.83	**8.89**	5.70
2001	11.04	**9.22**	7.19
2002	10.93	**8.82**	6.39
2003	11.68	**8.15**	6.32
2004	11.29	**8.31**	5.95
2005	10.82	**8.67**	6.70
2006	11.34	**8.73**	6.02
2007	11.89	**9.43**	6.31
2008	11.41	**8.48**	5.95
2009	10.44	**9.29**	6.27
2010	13.49	**8.02**	6.45
2011	11.25	**9.45**	0.70
2012	12.63	**10.72**	7.23
2013	13.21	**8.68**	5.37
2014	14.03	**9.48**	6.57
2015	13.92	**9.89**	6.16
2016	13.98	**8.82**	5.94
2017	11.41	**8.46**	6.21
2018	11.66	**9.53**	6.41
2019	11.50	**9.47**	6.55
2020	11.71	**10.19**	8.05
2021	12.16	**9.20**	6.99
2022	12.55	**9.42**	8.12

Unrestricted Cash and Investments to Long-Term Debt Ratio

The Unrestricted Cash and Investments to Long-Term Debt Ratio (CD) measures a provider's position in available cash and marketable securities in relation to its long-term debt, less current portion. This ratio is a measure of a provider's ability to withstand annual fluctuations in cash, either through weakened operating results or through little or no resident entrance fee receipts because of low turnover or higher refundability of entrance fee contracts. The numerator includes all cash and investments (excluding trustee-held funds) that are in any way available to retire debt or to pay operating expenses. Board-designated assets are included in the numerator; trustee-held funds and assets restricted by donors are excluded. This treatment of asset balances is the same whether the assets are classified as current or noncurrent. Please refer to the "Discussion of Unrestricted Cash & Investments" as well as Appendices A and B for additional information regarding accounts included in this ratio.

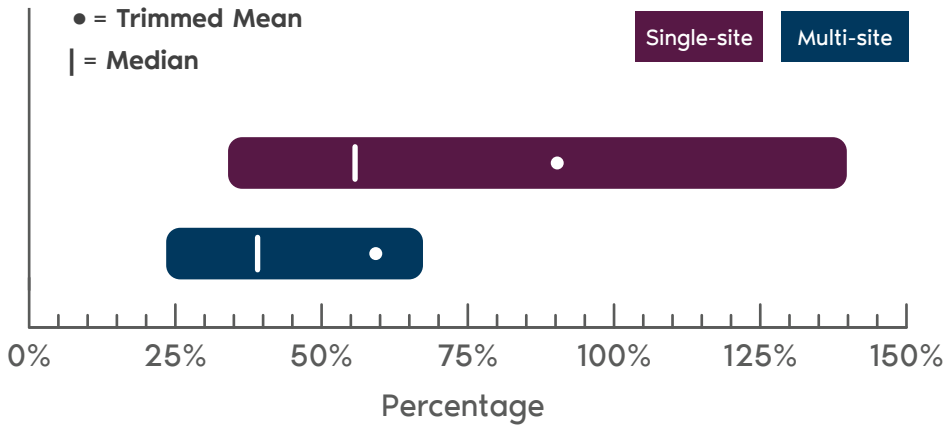
Credit analysts place a high degree of reliance on this ratio as an indicator of a provider's debt capacity. A ratio of unrestricted reserves in excess of 20% of long-term debt is desired. In many instances, bond financing documents incorporate an alternative ratio and calculation that include the debt service reserve fund in the numerator as cash, with the rationale that, although this fund is not generally considered "unrestricted," it is available to make debt service payments. Under this calculation, a ratio of cash to long-term-debt at or about 30% is desired. Although they view annual cash flow as the primary source of support for long-term debt, credit analysts also prefer to see adequate discretionary liquidity to hedge against potentially volatile annual cash flows. In addition to building cash reserves to support any existing debt or planned expenditure, providers should build cash reserves to offset their long-term healthcare liability.

The median multi-site ratio has been volatile over the past several years. This is likely due to the smaller sample size.

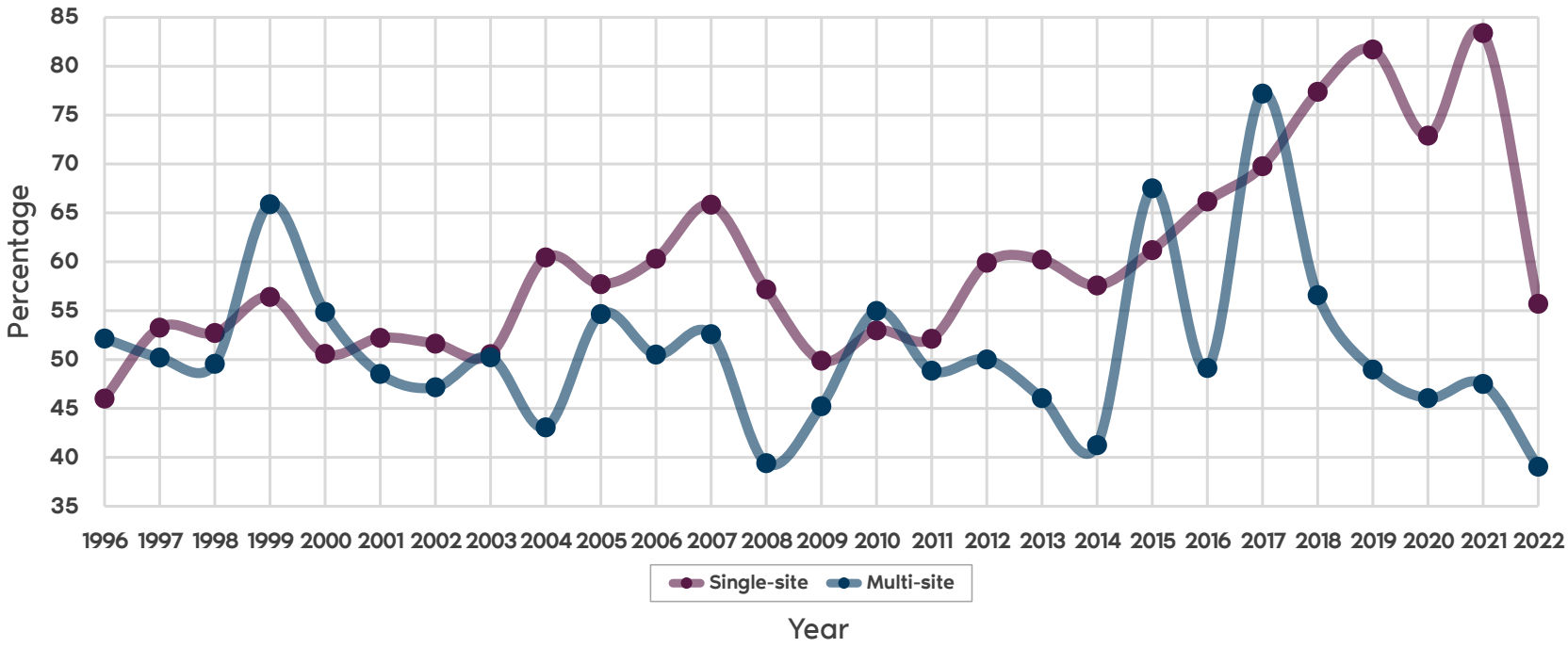
$$\frac{\text{Unrestricted Current Cash and Investments} + \text{Unrestricted Noncurrent Cash and Investments}}{\text{Long-Term Debt, less Current Portion}}$$

Unrestricted Cash and Investments to Long-Term Debt Ratio *continued*

Interquartile Range



Trended Median



Unrestricted Cash and Investments to Long-Term Debt Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	20.37%	**46.01%**	89.60%
1997	24.51	**53.26**	101.69
1998	28.51	**52.72**	103.26
1999	27.30	**56.40**	106.70
2000	23.57	**50.58**	99.12
2001	27.37	**52.22**	94.83
2002	27.78	**51.62**	89.42
2003	27.48	**50.55**	85.06
2004	33.39	**60.44**	102.06
2005	29.51	**57.71**	95.65
2006	31.56	**60.31**	96.16
2007	36.07	**65.84**	109.96
2008	27.21	**57.17**	89.59
2009	24.19	**49.89**	95.13
2010	26.63	**52.98**	91.54
2011	25.97	**52.12**	88.76
2012	30.03	**59.90**	101.88
2013	27.38	**60.21**	108.84
2014	29.68	**57.58**	111.67
2015	32.57	**61.19**	113.10
2016	34.36	**66.16**	129.81
2017	30.01	**69.77**	131.01
2018	29.75	**77.38**	148.08
2019	32.74	**81.71**	152.46
2020	32.03	**72.90**	176.93
2021	33.68	**83.39**	187.46
2022	34.02	**55.70**	139.81

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	24.50%	**52.15%**	78.13%
1997	27.77	**50.20**	88.73
1998	38.68	**49.56**	72.20
1999	20.44	**65.88**	113.88
2000	34.40	**54.86**	75.57
2001	31.37	**48.53**	76.81
2002	33.87	**47.16**	75.43
2003	29.65	**50.23**	95.90
2004	27.15	**43.06**	113.41
2005	36.05	**54.65**	100.66
2006	34.35	**50.51**	83.13
2007	32.58	**52.59**	80.36
2008	25.34	**39.40**	70.94
2009	35.74	**45.23**	68.71
2010	37.46	**54.97**	71.51
2011	38.61	**48.86**	76.67
2012	32.37	**50.01**	95.74
2013	30.81	**46.05**	89.01
2014	30.03	**41.24**	83.94
2015	28.58	**67.51**	77.89
2016	27.31	**49.13**	81.13
2017	29.63	**77.20**	117.70
2018	32.75	**56.58**	97.59
2019	32.56	**48.98**	107.50
2020	35.18	**46.05**	122.08
2021	39.20	**47.50**	75.63
2022	23.43	**39.04**	67.39

Long-Term Debt as a Percentage of Total Capital Ratio

The Long-Term Debt as a Percentage of Total Capital Ratio (LTDC) is a traditional measure of the extent to which a provider has relied on debt versus retained earnings and invested or donated capital. For CCRCs, values in excess of 100% (caused by net deficits) are not uncommon because of the reliance on cash from entrance fees, which are treated on the balance sheet as a liability rather than equity or an increase to net assets.

Low net assets or net deficits are particularly common in newer CCRCs. It is not uncommon to find new CCRCs with substantial cash and investment reserves collected from entrance fees but with net deficits because they have not yet earned the deferred revenue from entrance fees. Thus, the value of this ratio is not significant when considered alone. The ability to repay long-term debt is better understood when considered in conjunction with the Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio (LTDC-A). Other ratios such as the Unrestricted Cash and Investments to Long-Term Debt Ratio (CD) and Total Excess Margin Ratio (TEM) also help.

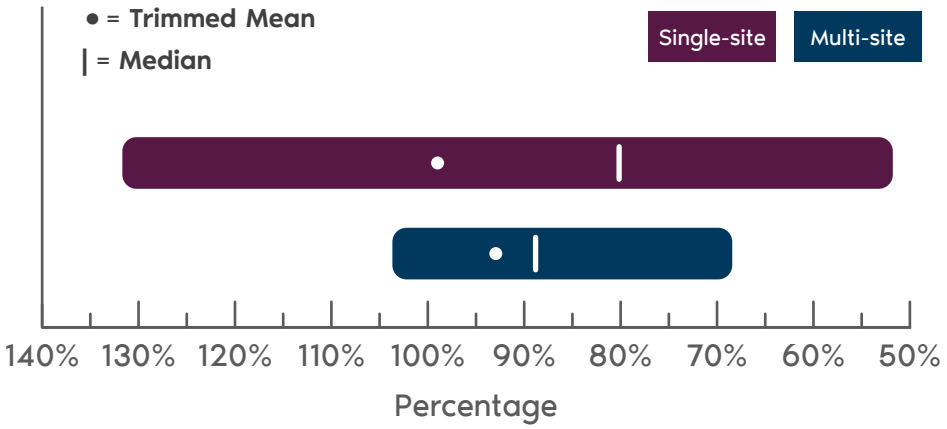
This ratio calculation indicates that much of the financial strength of accredited CCRCs is due to the positive relationship between debt and net assets without donor restrictions for these providers. Newer organizations may not be able to reach these levels until a number of years have passed and they have had the opportunity to reduce debt levels and increase net assets from improved operational efficiencies and amortization of deferred revenue from entrance fees. Organizations, such as those in the accredited group, that have managed their financial performance over many years to achieve these positive ratios can expect to receive favorable credit consideration.

This ratio is not computed by the rating agencies. Many view the LTDC as a stepping stone to the LTDC-A ratio, a financial ratio used by Fitch, S&P, and investors alike.

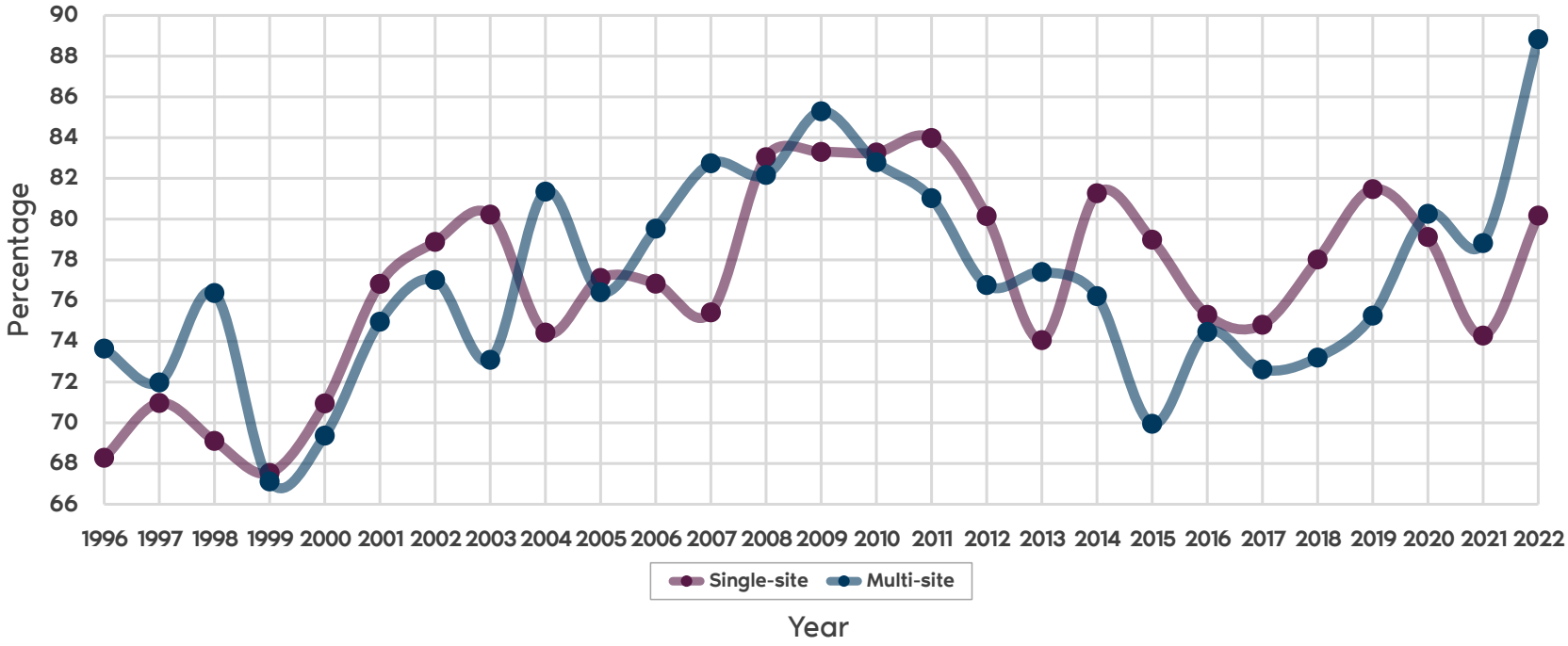
$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Long-Term Debt, less Current Portion} + \text{Net Assets without Donor Restrictions}}$$

Long-Term Debt as a Percentage of Total Capital Ratio *continued*

Interquartile Range



Trended Median



Long-Term Debt as a Percentage of Total Capital Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	96.18%	**68.28%**	34.16%
1997	97.29	**70.97**	47.53
1998	97.92	**69.11**	47.37
1999	91.33	**67.54**	46.42
2000	96.01	**70.95**	46.43
2001	109.05	**76.82**	49.44
2002	108.78	**78.88**	54.72
2003	109.65	**80.22**	55.02
2004	100.49	**74.43**	52.17
2005	102.15	**77.11**	52.91
2006	100.36	**76.83**	52.79
2007	101.44	**75.42**	50.90
2008	113.63	**83.04**	60.68
2009	114.51	**83.30**	57.29
2010	113.06	**83.27**	55.63
2011	116.12	**83.98**	53.29
2012	118.56	**80.15**	52.15
2013	110.72	**74.06**	43.50
2014	125.52	**81.27**	45.72
2015	121.66	**78.99**	39.14
2016	119.37	**75.30**	34.78
2017	114.06	**74.81**	46.62
2018	107.59	**78.02**	47.12
2019	117.08	**81.47**	49.57
2020	109.86	**79.12**	48.75
2021	120.87	**74.28**	45.03
2022	131.71	**80.17**	51.75

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	91.90%	**73.64%**	40.00%
1997	91.37	**71.98**	52.11
1998	91.36	**76.37**	52.14
1999	91.94	**67.12**	48.50
2000	82.89	**69.37**	51.60
2001	87.71	**74.96**	53.90
2002	91.49	**77.01**	54.16
2003	94.40	**73.09**	56.28
2004	96.65	**81.35**	55.05
2005	88.42	**76.41**	55.15
2006	91.00	**79.53**	60.96
2007	94.19	**82.74**	60.97
2008	105.75	**82.17**	60.24
2009	108.76	**85.29**	72.41
2010	100.14	**82.79**	61.59
2011	96.54	**81.03**	56.90
2012	99.26	**76.76**	53.01
2013	102.91	**77.40**	59.05
2014	98.10	**76.22**	52.40
2015	100.65	**69.95**	49.53
2016	103.84	**74.46**	54.60
2017	106.83	**72.62**	44.71
2018	108.56	**73.20**	46.19
2019	94.44	**75.26**	45.27
2020	106.78	**80.26**	46.32
2021	103.19	**78.82**	61.60
2022	103.69	**88.83**	68.43

Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio

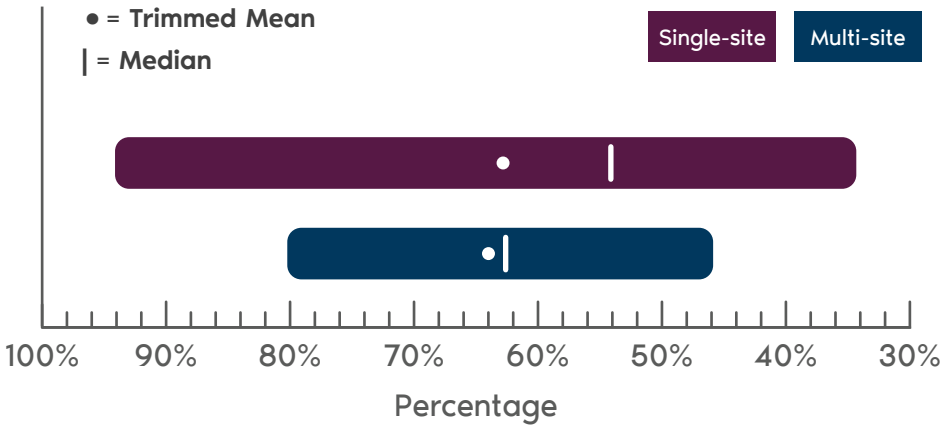
This ratio is similar to the Long-Term Debt as a Percentage of Total Capital Ratio (LTDC), except that it adds deferred revenue from the nonrefundable portion of entrance fees to the denominator. Deferred revenue from the nonrefundable portion of entrance fees is added in recognition that this account balance represents cash paid to the community that is often used for capital improvements and/or retained as cash reserves. Thus, it functions as "quasi-equity." A low value for this ratio indicates a stronger equity base.

Also, as noted earlier, when CCRCs within a multi-site provider are accredited, it is possible that financial statements of the multi-site provider may include significant non-entrance fee producing assets (e.g., affordable housing, home healthcare companies) or non-senior living entities. A single-site CCRC's purpose is traditionally focused on senior living. If this single-site, single-purpose CCRC offers predominantly rental or refundable entrance fees, it is less likely to have other resources to balance this lack of "quasi-equity."

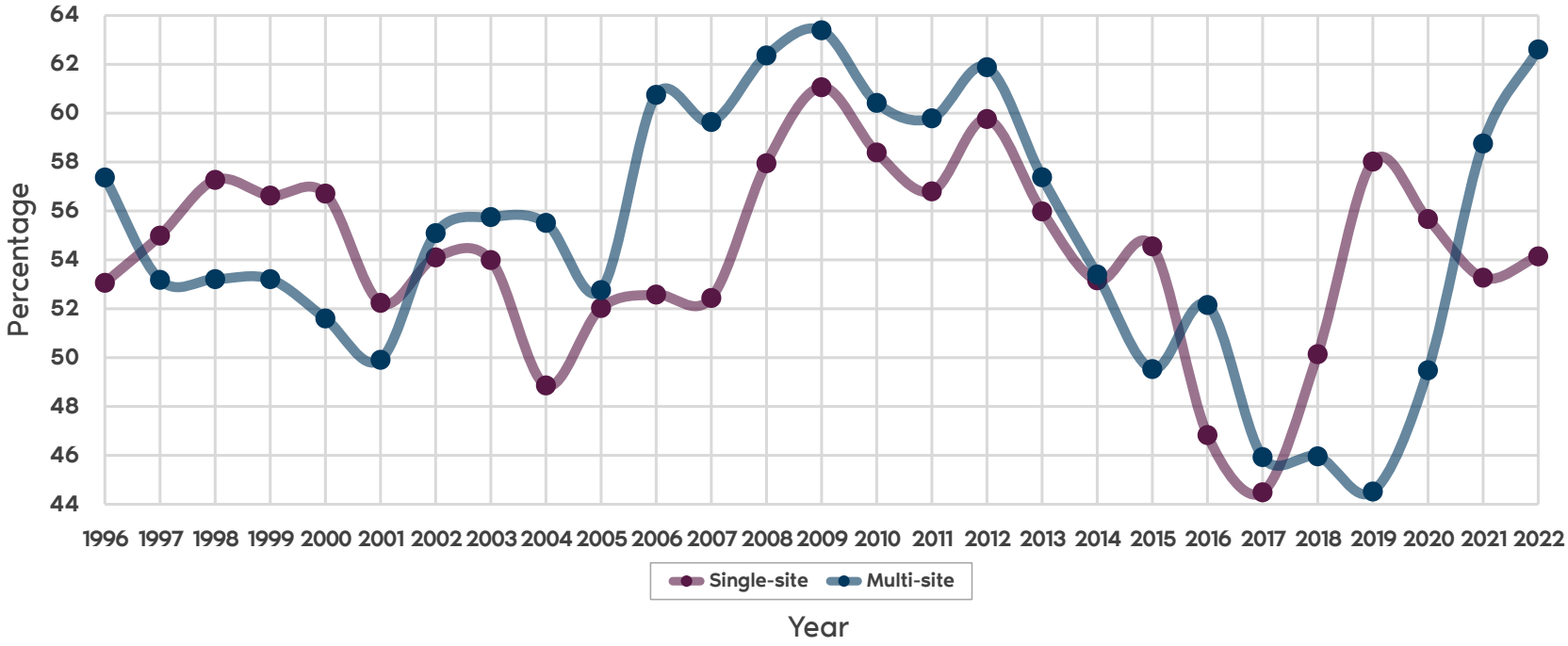
$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Long-Term Debt, less Current Portion} + \text{Net Assets without Donor Restrictions} + \text{Deferred Revenue from Entrance Fees (Nonrefundable Entrance Fees Only)}}$$

Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio *continued*

Interquartile Range



Trended Median



Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	76.78%	**53.06%**	24.42%
1997	76.15	**54.99**	34.04
1998	79.00	**57.27**	36.75
1999	79.47	**56.63**	35.56
2000	80.56	**56.71**	35.76
2001	76.36	**52.24**	33.41
2002	81.27	**54.10**	39.25
2003	79.00	**53.99**	38.07
2004	71.06	**48.86**	33.20
2005	71.05	**52.03**	36.81
2006	69.49	**52.58**	35.53
2007	73.31	**52.44**	36.33
2008	81.74	**57.95**	40.31
2009	85.14	**61.06**	39.24
2010	89.87	**58.39**	37.81
2011	85.51	**56.80**	38.08
2012	82.71	**59.76**	35.90
2013	88.26	**55.98**	27.22
2014	89.59	**53.16**	31.06
2015	96.68	**54.55**	29.84
2016	83.82	**46.83**	23.88
2017	89.35	**44.49**	29.57
2018	84.44	**50.14**	29.67
2019	100.20	**58.02**	31.73
2020	90.78	**55.67**	33.59
2021	87.66	**53.27**	31.61
2022	94.10	**54.14**	34.31

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	77.62%	**57.37%**	32.20%
1997	67.38	**53.18**	34.19
1998	72.46	**53.21**	41.11
1999	64.58	**53.21**	37.48
2000	64.90	**51.60**	46.09
2001	61.55	**49.91**	37.72
2002	71.49	**55.09**	42.54
2003	74.99	**55.75**	41.17
2004	72.36	**55.51**	41.53
2005	69.95	**52.76**	39.84
2006	74.05	**60.75**	44.65
2007	73.43	**59.64**	51.65
2008	77.18	**62.36**	49.63
2009	73.98	**63.39**	53.87
2010	74.67	**60.42**	45.78
2011	71.24	**59.79**	49.23
2012	76.88	**61.88**	38.77
2013	74.00	**57.38**	37.61
2014	78.58	**53.40**	44.61
2015	71.50	**49.53**	38.43
2016	81.05	**52.15**	43.95
2017	83.41	**45.93**	37.08
2018	82.34	**45.96**	39.21
2019	70.84	**44.52**	38.25
2020	78.96	**49.48**	35.40
2021	76.86	**58.76**	45.19
2022	80.23	**62.61**	45.86

Long-Term Debt to Total Assets Ratio

The Long-Term Debt to Total Assets Ratio (LTD-TA) relates an organization's indebtedness to total assets. This ratio has the attributes of a liquidity ratio, as its value is highly sensitive to the market values of investments. Notwithstanding, a provider with a higher percentage for this ratio is considered to have a weaker capital structure than a provider with a lower percentage.

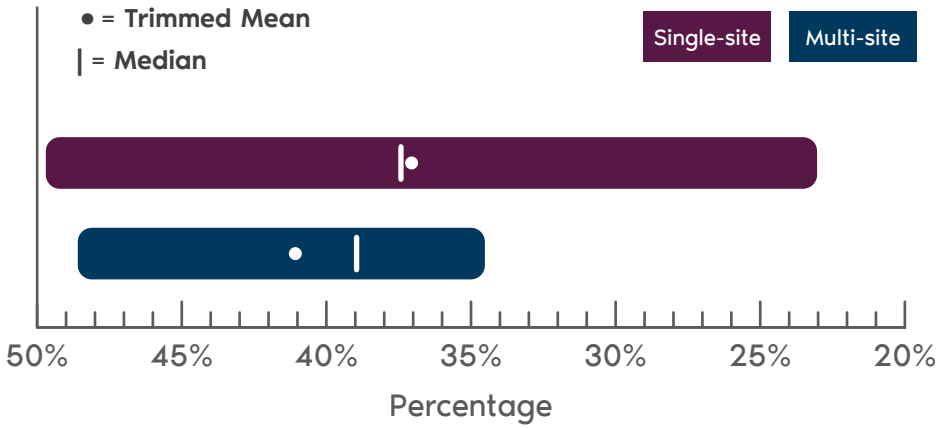
Start-up organizations would be expected to have relatively high LTD-TA. Unless mature organizations have recently undergone significant expansions and/or renovations, they would be expected to have relatively lower LTD-TA.

Although not-for-profit organizations sometimes choose to use their cash to finance expansions and/or repositioning, typically organizations conclude that this type of strategy (reducing cash reserves) may ultimately result in a weaker financial position despite the higher leveraging that more debt produces.

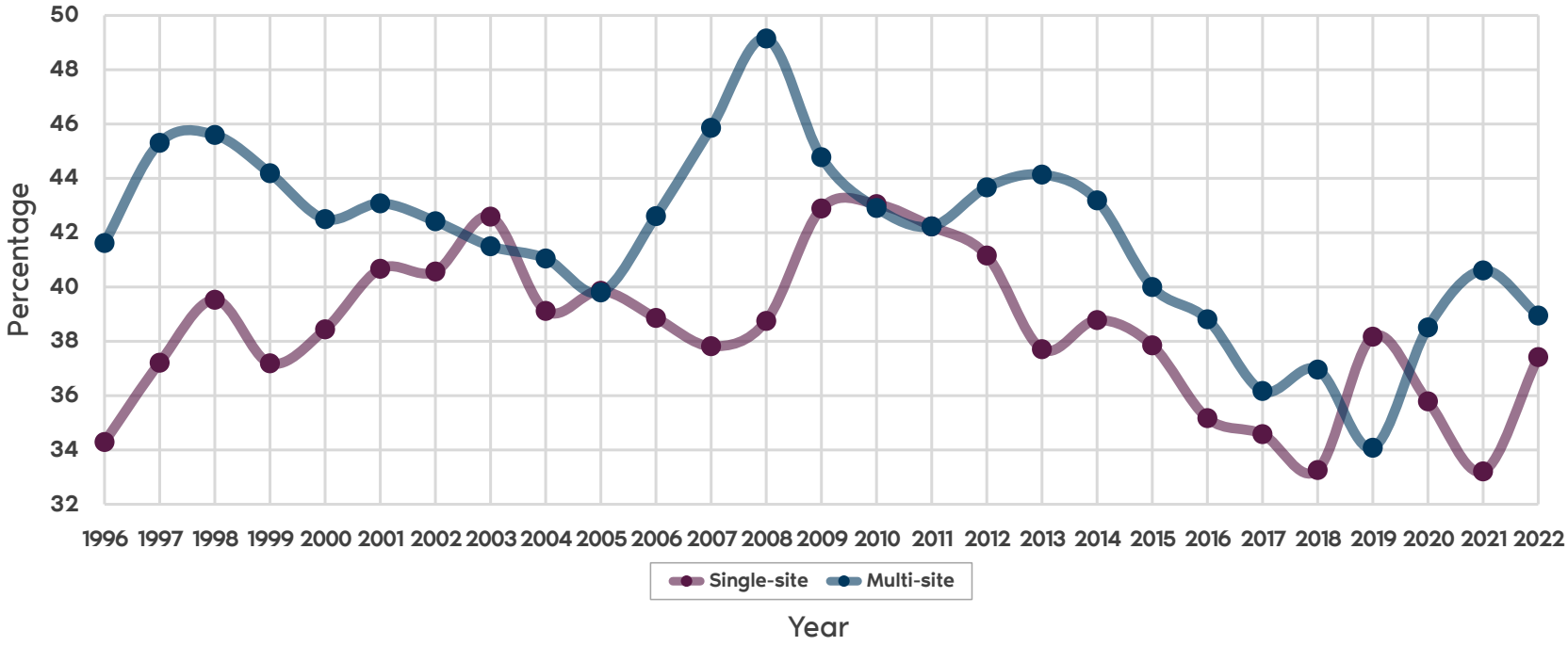
$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

Long-Term Debt to Total Assets Ratio *continued*

Interquartile Range



Trended Median



Long-Term Debt to Total Assets Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	51.79%	**34.29%**	19.25%
1997	50.10	**37.21**	22.76
1998	50.63	**39.53**	22.98
1999	54.56	**37.19**	24.77
2000	56.51	**38.44**	24.55
2001	53.78	**40.67**	25.22
2002	56.57	**40.57**	25.81
2003	56.60	**42.59**	28.14
2004	53.75	**39.12**	23.74
2005	53.30	**39.86**	27.47
2006	51.73	**38.86**	26.50
2007	52.20	**37.82**	26.13
2008	52.66	**38.75**	29.59
2009	54.21	**42.89**	28.75
2010	53.16	**43.05**	30.17
2011	52.29	**42.23**	28.67
2012	50.12	**41.16**	27.22
2013	50.80	**37.71**	23.90
2014	49.47	**38.78**	25.67
2015	49.55	**37.85**	24.75
2016	48.36	**35.17**	22.15
2017	49.53	**34.58**	24.07
2018	48.54	**33.26**	24.16
2019	49.37	**38.17**	24.33
2020	49.82	**35.79**	24.17
2021	49.00	**33.21**	21.88
2022	49.70	**37.42**	23.04

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	51.61%	**41.62%**	24.04%
1997	49.70	**45.31**	28.42
1998	51.43	**45.60**	36.64
1999	48.90	**44.19**	28.44
2000	47.13	**42.50**	32.12
2001	48.34	**43.08**	31.70
2002	48.49	**42.42**	30.13
2003	49.61	**41.50**	28.72
2004	48.76	**41.05**	31.67
2005	47.52	**39.80**	29.17
2006	54.70	**42.61**	33.69
2007	53.92	**45.86**	37.03
2008	55.61	**49.15**	34.50
2009	51.35	**44.78**	35.17
2010	49.03	**42.91**	30.73
2011	48.17	**42.23**	28.92
2012	51.21	**43.67**	25.89
2013	49.46	**44.14**	27.79
2014	52.36	**43.19**	29.88
2015	54.77	**40.00**	28.34
2016	52.69	**38.81**	33.03
2017	47.16	**36.17**	24.51
2018	48.38	**36.96**	26.41
2019	48.13	**34.08**	24.76
2020	44.40	**38.51**	24.28
2021	47.49	**40.61**	34.05
2022	48.60	**38.95**	34.52

Average Age of Community Ratio

As facilities age, the ongoing marketability of the community typically depends on maintaining the physical plant. In addition to routine maintenance and upkeep, most organizations must show evidence of a commitment to renewal through renovation and/or replacement of their buildings and grounds. This commitment is most easily measured through a calculation called Average Age of Community Ratio (AGE). This ratio estimates the number of years of depreciation that have already been realized for a facility by dividing accumulated depreciation by annual depreciation expense. A steadily increasing value for the AGE ratio is an indication that resources are not being used to significantly renovate a community. It also may be an indication that significant expenditures soon may be required to keep the community viable. An important caveat of the calculation is that significant expansion can drop a community's age without renovating existing, aging areas of the community. Providers that do a significant renovation or modernization effort will see a reduction in this ratio for their campuses. Many providers combine depreciation and amortization when reporting these expenses on the statement of activities. The AGE ratio should be calculated using depreciation expense only. Organizations are urged to separate depreciation and amortization expenses on the statement of operations.

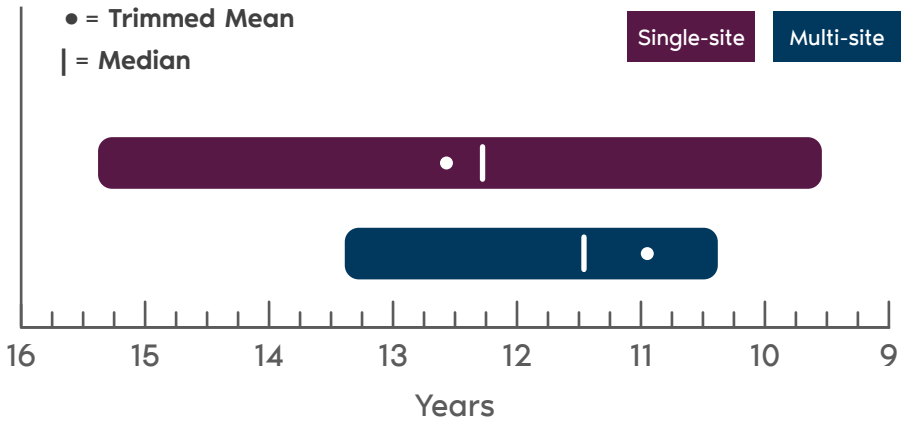
Further, it is important for CCRCs to ensure that their property and equipment detail includes only assets that are still "in service." If a CCRC has a significant balance of fully depreciated assets that are no longer "in service" included in the property and equipment detail, the accumulated depreciation amount used to compute the AGE ratio will not be accurate.

This situation will result in a higher AGE ratio. For this reason, CCRCs should implement policies to ensure the ongoing accuracy of their property and equipment detail.

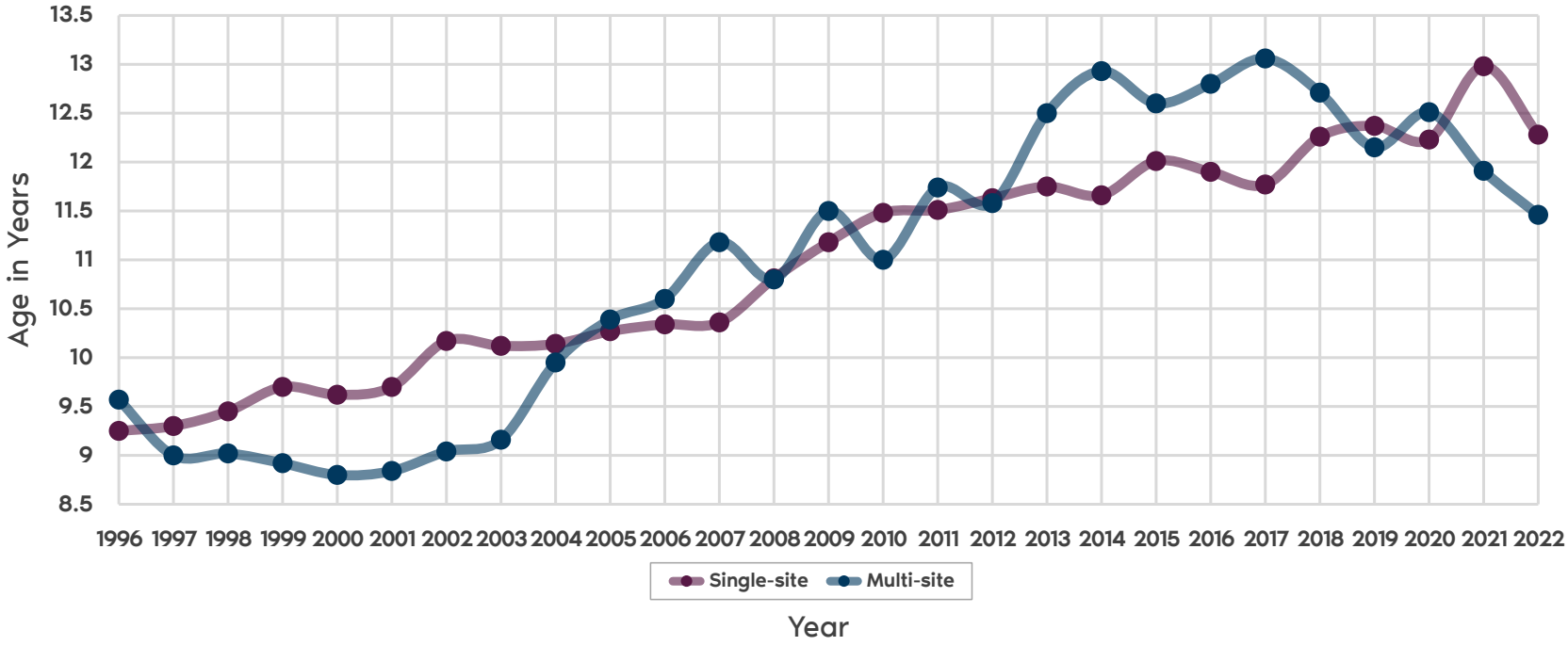
$$\frac{\text{Accumulated Depreciation}}{\text{Annual Depreciation Expense}}$$

Average Age of Community Ratio *continued*

Interquartile Range



Trended Median



Average Age of Community Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	10.94	**9.25**	6.54
1997	11.09	**9.30**	7.23
1998	11.45	**9.45**	7.64
1999	11.80	**9.70**	7.90
2000	11.37	**9.62**	7.57
2001	11.75	**9.70**	7.96
2002	12.11	**10.17**	7.98
2003	11.92	**10.12**	8.24
2004	12.19	**10.14**	8.07
2005	12.15	**10.27**	7.78
2006	12.21	**10.34**	7.89
2007	12.36	**10.36**	8.07
2008	12.64	**10.81**	7.99
2009	13.04	**11.18**	8.24
2010	13.47	**11.48**	8.61
2011	13.70	**11.51**	9.10
2012	14.11	**11.63**	9.17
2013	14.29	**11.75**	9.45
2014	14.49	**11.66**	9.47
2015	14.82	**12.01**	9.77
2016	14.25	**11.90**	9.67
2017	13.62	**11.77**	10.31
2018	14.14	**12.26**	10.44
2019	14.25	**12.37**	10.09
2020	14.96	**12.23**	10.16
2021	15.84	**12.98**	10.11
2022	15.38	**12.28**	9.54

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
1996	11.25	**9.57**	8.11
1997	10.40	**9.00**	7.96
1998	10.47	**9.02**	7.29
1999	10.65	**8.92**	7.47
2000	10.40	**8.80**	7.92
2001	10.68	**8.84**	8.18
2002	10.53	**9.04**	7.94
2003	11.21	**9.16**	8.19
2004	12.26	**9.95**	8.76
2005	11.97	**10.39**	9.00
2006	11.90	**10.60**	9.20
2007	12.78	**11.18**	8.95
2008	12.47	**10.80**	8.97
2009	12.37	**11.50**	9.64
2010	12.43	**11.00**	9.36
2011	13.14	**11.74**	9.99
2012	14.64	**11.58**	9.96
2013	15.16	**12.50**	10.35
2014	14.31	**12.93**	11.21
2015	15.29	**12.60**	11.52
2016	15.32	**12.80**	11.18
2017	15.22	**13.06**	11.43
2018	15.99	**12.71**	10.68
2019	14.81	**12.15**	9.73
2020	14.49	**12.51**	10.39
2021	13.64	**11.91**	10.50
2022	13.39	**11.46**	10.38

Capital Expenditures as a Percentage of Depreciation Ratio

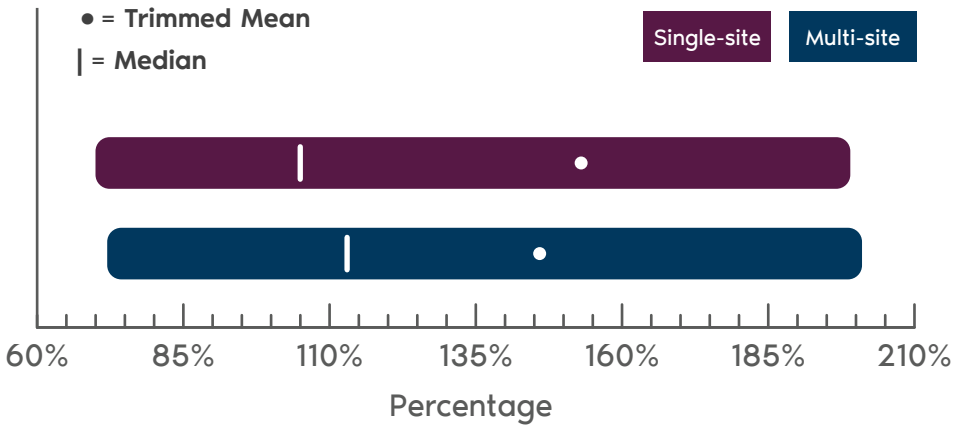
The Capital Expenditures as a Percentage of Depreciation Ratio (CED) was added to the publication in 2010. This ratio is computed by dividing annual property, plant, and equipment purchases by annual depreciation expense. When studied in tandem with the Average Age of Community Ratio (AGE), this ratio offers senior living providers a tool for understanding the sufficiency of their annual reinvestment in their physical plant.

It is particularly important to study the CED ratio over time. It is not uncommon to see cycles, generally of 7 to 10 years. A particularly high value in one year may compensate for having postponed necessary expenditures from previous years. Alternatively, a high value may signal a major one-time purchase, such as the acquisition of new technology or renovations, so trending the value of this ratio will be subject to these variations. Individual providers may find it a valuable tool for monitoring the commitment of capital to renewal and replacement.

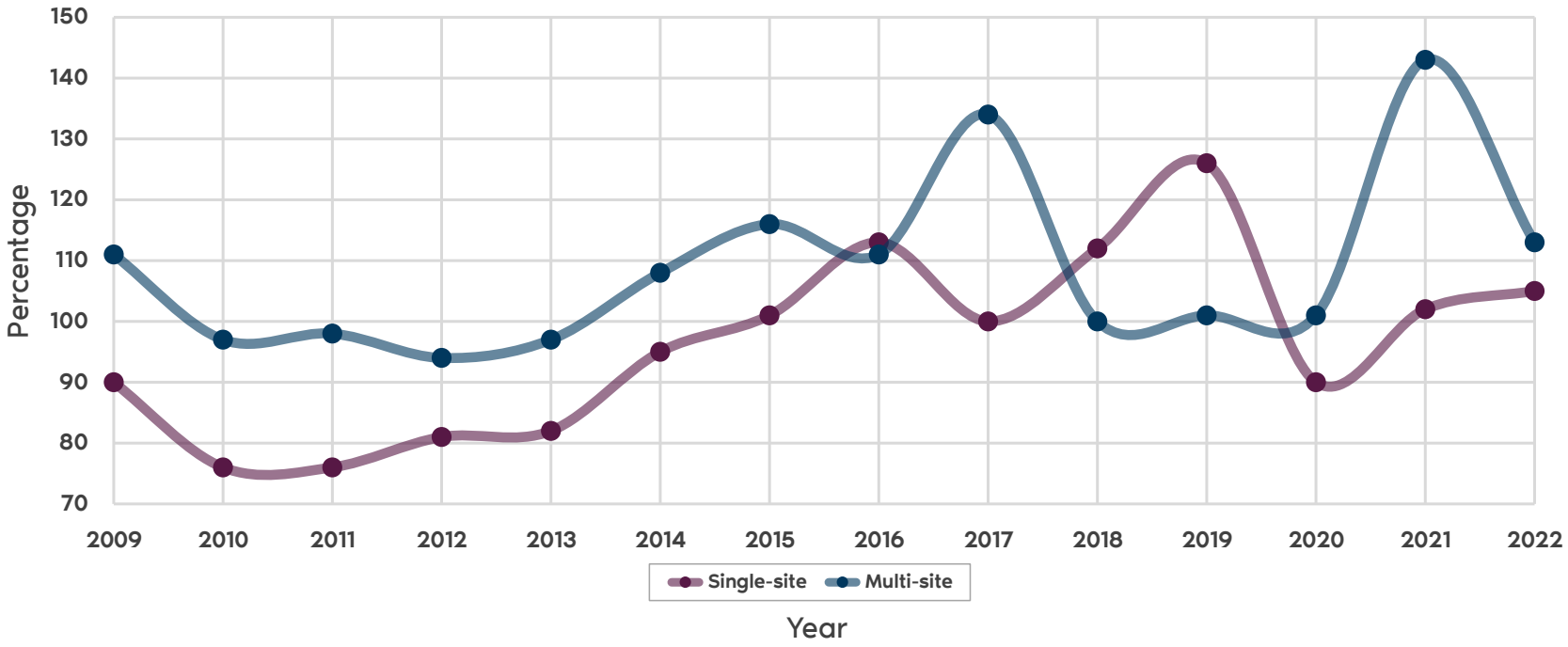
$$\frac{\text{Purchases of Property, Plant, and Equipment}}{\text{Depreciation Expense}}$$

Capital Expenditures as a Percentage of Depreciation Ratio *continued*

Interquartile Range



Trended Median



Capital Expenditures as a Percentage of Depreciation Ratio *continued*

Single-site Providers Quartiles			
Year	25th%	50th%	75th%
2009	47%	**90%**	180%
2010	43	**76**	126
2011	50	**76**	136
2012	48	**81**	134
2013	50	**82**	153
2014	55	**95**	171
2015	56	**101**	196
2016	60	**113**	193
2017	56	**100**	217
2018	65	**112**	250
2019	72	**126**	252
2020	53	**90**	191
2021	58	**102**	197
2022	70	**105**	199

Multi-site Providers Quartiles			
Year	25th%	50th%	75th%
2009	66%	**111%**	200%
2010	51	**97**	144
2011	65	**98**	147
2012	67	**94**	127
2013	61	**97**	164
2014	83	**108**	175
2015	86	**116**	187
2016	76	**111**	219
2017	71	**134**	193
2018	73	**100**	202
2019	74	**101**	164
2020	47	**101**	193
2021	63	**143**	211
2022	72	**113**	201

Section 5
Contract Type Ratios

Overview

Many CARF-accredited CCRCs offer more than one contract type. For purposes of producing this report, organizations have been assigned to a contract type based on the predominant contract type signed by residents of their community. In this case, predominant is defined as a contract with the largest sum/total number of contracts for all levels of care in an organization.

A number of communities offer rental, per diem, or equity contracts, but these contracts were the predominant contract type for fewer than five communities. As a result, ratios for rental or equity contract types are not included in the listing. Ratios from organizations with no predominant contract type have been excluded from this analysis.

Organizations provide information about residents by contract type as part of their accreditation process and on an ongoing basis through their annual financial reporting.

Types of contracts offered to residents at CCRCs may affect certain ratios. Generally, accredited CCRCs offer one or more of the following contract types:

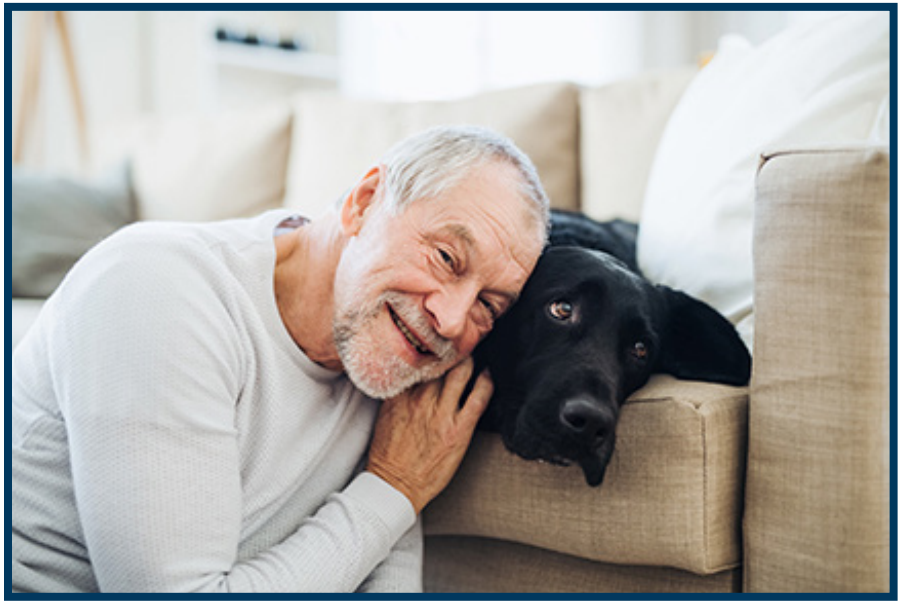
- **Type A (Lifecare) Agreement:** An entrance fee contract that includes housing, residential services, amenities, and unlimited specific health-related services with little or no substantial increase in monthly payments, except to cover normal operating costs and inflation adjustments.
- **Type B (Lifecare Modified) Agreement:** An entrance fee contract that includes housing, residential services, amenities, and a specified amount of healthcare. After the specified amount of healthcare is used, persons served pay either a discounted rate or the full daily rates for required healthcare services.
- **Type C (Fee-for-Service) Agreement:** An entrance fee contract that includes housing, residential services, and amenities for fees stated in the resident agreement. Access to healthcare services is given priority, but it may be required at full fee-for-service rates.
- **Type D (Rental) Agreement:** Allows residents the opportunity to rent their housing and provides, but does not guarantee, access to healthcare services paid on a fee-for-service basis.
- **Equity Agreement:** These types of agreements involve the actual purchase of real estate or membership, including condominiums and cooperatives.

In addition, many CCRCs are able to admit residents from outside their communities directly into their assisted living or nursing facility.

- **Assisted Living Agreement:** Person served enters into an assisted living agreement and pays the per diem (an agreed-upon daily rate) or market rate for assisted living services.
- **Nursing Agreement:** Person served enters into a nursing agreement and pays the per diem (an agreed-upon daily rate) or market rate for skilled nursing services.

The ratios that follow are for entrance fee (Type A, B, or C) contracts only. For the 2023 publication year, 48% of communities indicated that Type A contracts were their predominant contract type while 27% indicated Type B and 23% identified Type C as the predominant contract type.

NOTE: Because the sample size of the multi-site organizations is small, only median values are provided. Readers are cautioned in the use of the data.



2022 Median Ratios Comparison By Contract Type

Rating agency computation of ratios may differ as well as its definition of single- and multi-site provider.

	Type A			Type B			Type C		
	Fitch	Single*	Multi*	Fitch	Single*	Multi*	Fitch	Single*	Multi*
Sample Size**	**58**	**40**	**7**	**49**	**20**	**6**	**40**	**15**	**8**
Margin (Profitability) Ratios									
Net Operating Margin Ratio (%)	1.3	0.85	-2.78	5.0	5.23	1.05	7.8	5.04	2.20
Net Operating Margin–Adjusted Ratio (%)	23.1	19.55	18.31	19.5	21.95	19.24	18.5	22.56	16.47
Operating Ratio (%)	103.8	104.37	105.90	101.3	99.25	103.24	96.3	99.71	105.96
Operating Margin Ratio (%)	N/C	-5.38	-0.66	N/C	-1.83	-9.01	N/C	-6.02	-14.78
Total Excess Margin Ratio (%)	-2.2	-1.09	1.64	-2.0	-1.85	-2.70	-2.4	-4.41	-10.78
Liquidity Ratios									
Days in Accounts Receivable Ratio	N/C	15	21	N/C	11	17	N/C	18	18
Days Cash on Hand Ratio	518.2	513	338	429.4	501	313	373.8	361	131
Cushion Ratio (x)	9.8	13.24	5.47	8.9	9.53	8.44	8.7	9.03	4.20
Capital Structure Ratios									
Debt Service Coverage Ratio (x)	2.1	2.42	2.35	2.2	2.26	2.05	2.3	2.36	1.51
Debt Service Coverage–Revenue Basis Ratio (x)	0.6	0.50	0.48	0.8	0.74	0.76	1.1	0.73	0.30
Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio (%)	13.1	9.66	9.63	11.9	10.55	11.34	11.0	10.21	9.46
Unrestricted Cash and Investments to Long-Term Debt Ratio (%)	64.8	85.07	33.39	51.3	51.98	45.54	52.1	51.03	42.54
Long-Term Debt as a Percentage of Total Capital Ratio (%)	N/C	78.87	83.99	N/C	88.17	85.09	N/C	54.35	95.78
Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio (%)	56.9	44.26	48.97	68.1	62.43	62.61	74.5	45.31	73.73
Long-Term Debt to Total Assets Ratio (%)	N/C	32.43	38.92	N/C	44.44	43.79	N/C	33.74	37.57
Average Age of Community Ratio (Years)	12.5	13.15	11.61	13.0	11.18	11.07	12.3	13.03	12.58
Capital Expenditures as a Percentage of Depreciation Ratio (%)	144.9	114	190	114.2	96	117	100.2	95	102

* Providers identified themselves by contract type by indicating which contract represented the predominant type of contract in effect in their community.

** Please refer to page 13 for a discussion of providers included in this report.

Fitch = Fitch rated single/multi, Single = Single-site data only, Multi = Multi-site data only, N/C = Not Computed

2022 Financial Ratios by Contract Type–Single-site Providers*

	Type A			Type B			Type C		
	25%	50%	75%	25%	50%	75%	25%	50%	75%
Sample Size**		40			20			15	
Margin (Profitability) Ratios									
Net Operating Margin Ratio (%)	-8.98	0.85	6.35	0.01	5.23	11.85	-1.54	5.04	9.35
Net Operating Margin–Adjusted Ratio (%)	13.25	19.55	27.80	10.78	21.95	29.84	11.53	22.56	25.38
Operating Ratio (%)	110.00	104.37	96.48	105.78	99.25	91.60	102.67	99.71	96.96
Operating Margin Ratio (%)	-13.80	-5.38	1.76	-4.84	-1.83	2.52	-13.51	-6.02	-2.88
Total Excess Margin Ratio (%)	-10.00	-1.09	3.95	-13.87	-1.85	4.28	-14.17	-4.41	1.58
Liquidity Ratios									
Days in Accounts Receivable Ratio	23	15	8	21	11	7	24	18	8
Days Cash on Hand Ratio	266	513	809	377	501	647	243	361	396
Cushion Ratio (x)	5.94	13.24	17.57	7.50	9.53	17.56	4.93	9.03	15.21
Capital Structure Ratios									
Debt Service Coverage Ratio (x)	1.84	2.42	3.71	1.42	2.26	3.28	1.44	2.36	3.07
Debt Service Coverage–Revenue Basis Ratio (x)	-0.06	0.50	0.92	0.02	0.74	1.54	0.54	0.73	1.14
Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio (%)	14.43	9.66	7.24	13.79	10.55	7.32	17.56	10.21	5.03
Unrestricted Cash and Investments to Long-Term Debt Ratio (%)	38.59	85.07	137.58	35.57	51.98	97.49	26.15	51.03	271.02
Long-Term Debt as a Percentage of Total Capital Ratio (%)	132.60	78.87	49.29	101.40	88.17	73.05	183.20	54.35	16.04
Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio (%)	83.50	44.26	34.91	90.28	62.43	50.44	113.94	45.31	24.10
Long-Term Debt to Total Assets Ratio (%)	48.40	32.43	25.23	57.50	44.44	33.35	47.59	33.74	14.35
Average Age of Community Ratio (Years)	15.30	13.15	9.85	15.39	11.18	9.41	16.73	13.03	10.08
Capital Expenditures as a Percentage of Depreciation Ratio (%)	78	114	239	59	96	228	60	95	128

* Providers identified themselves by contract type by indicating which contract represented the predominant type of contract in effect in their community.

** Please refer to page 13 for a discussion of providers included in this report.

Rating Agency Median Ratios Comparison

Rating agency computation of ratios may differ.

	Fitch Single/Multi				Single**	Multi**
	IG	A	BBB	BIG	Median*	Median*
Sample Size	**108**	**29**	**77**	**43**	**76**	**22**
Margin (Profitability) Ratios						
Net Operating Margin Ratio (%)	4.8	5.4	4.7	3.1	1.98	0.44
Net Operating Margin–Adjusted Ratio (%)	21.8	24.8	20.1	18.0	19.57	18.27
Operating Ratio (%)	98.5	95.3	99.3	103.9	101.46	105.13
Operating Margin Ratio (%)	N/C	N/C	N/C	N/C	-4.17	-3.51
Total Excess Margin Ratio (%)	-0.8	1.7	-0.7	-6.2	-2.04	-2.16
Liquidity Ratios						
Days in Accounts Receivable Ratio	N/C	N/C	N/C	N/C	15	19
Days Cash on Hand Ratio	505.4	713.4	457.2	320.3	419	308
Cushion Ratio (x)	11.0	19.4	9.7	5.0	10.54	5.31
Capital Structure Ratios						
Debt Service Coverage Ratio (x)	2.5	3.4	2.3	1.4	2.3	1.91
Debt Service Coverage–Revenue Basis Ratio (x)	0.9	1.2	0.8	0.6	0.66	0.56
Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio (%)	10.9	9.2	11.9	15.0	10.07	9.42
Unrestricted Cash and Investments to Long-Term Debt Ratio (%)	72.5	121.9	61.9	30.7	55.70	39.04
Long-Term Debt as a Percentage of Total Capital Ratio (%)	N/C	N/C	N/C	N/C	80.17	88.83
Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio (%)	56.2	43.1	57.6	83.7	54.14	62.61
Long-Term Debt to Total Assets Ratio (%)	N/C	N/C	N/C	N/C	37.42	38.95
Average Age of Community Ratio (Years)	13.0	12.5	13.0	11.7	12.28	11.46
Capital Expenditures as a Percentage of Depreciation Ratio (%)	125.7	128.8	127.1	110.7	105	113

*50th Percentile

**Starting in 2022, a select number of formerly accredited Multi-Site Life Plan Communities were invited to participate by submitting data for Ratio Trends. This increased the sample size for MS (86% of the sample remains the same). In 2023, five CCRCs from these formerly accredited multi-sites that are not part of the larger multi-site's obligated group were added to the single-site data. The single-site population remains 93% the same with these additions.

IG = Investment Grade; A and BBB are subcomponents of the Investment Grade category

BIG = Below Investment Grade, N/C = Not Computed

APPENDIX A

CARF Discussion of Unrestricted Cash & Investments

Over this publication's history, CARF has computed financial ratios by reviewing information available in an accredited organization's audited financial statements, reviewing methodologies employed by the capital markets, and receiving input from the Financial Advisory Panel regarding the composition of "unrestricted cash and investments." This information has been used to arrive at the CARF methodology for determining unrestricted cash and investments.

The debt capital market is made up of many constituents: borrowers, buyers of bonds (institutional buyers as well as retail buyers), investment banking firms, financial advisors, rating agencies, auditors, and others. For financial ratio computations, it is generally agreed by these constituents that funds available to pay current operating expenses are usually considered unrestricted cash and investments. Unrestricted cash and investments generally include all unrestricted operating cash and cash equivalents, unrestricted investments, and board-designated funds (even if the funds are restricted by the board for specific purposes, including capital expenditures). Unrestricted cash and investments generally exclude trustee-held funds (held by trustees in connection with long-term debt), assets restricted by donors, prospective resident deposits, and collateral for bank loans.

The current versus noncurrent classification of cash and investments on an entity's balance sheet does not affect the financial ratio computations as current and noncurrent amounts are combined.

It can be challenging to distinguish the various types of funds (unrestricted versus restricted) for financial ratio computations when analyzing an entity's balance sheet. Although the authoritative accounting guidance requires an entity to segregate cash or other assets received with a donor-imposed restriction that limits their use to long-term purposes (e.g., capital expenditures) from cash or other assets that are unrestricted and available for current use, this information may not be evident on the face of an entity's balance sheet, but should generally be available in the notes to the audited financial statements. Authoritative accounting guidance for not-for-profit health-care organizations also requires that the balance sheet account for two types of net assets (or equity): 1.) without donor restrictions; and, 2.) with donor restrictions. This net asset classification can also provide useful information related to the donor-restricted assets held by an entity to assist a financial analyst in arriving at an entity's unrestricted cash and investments for financial ratio computations.

Some funds that may be "unrestricted" for purposes of an entity's net asset classification may be subject to certain withdrawal restrictions by regulatory bodies, banks, and others. For example, various states have imposed operating reserve requirements whereby CCRCs are required to set funds aside in a separately maintained account and access to the funds will only be granted with state approval. In this case, the funds would be considered restricted for financial ratio computations. Another example would be a bank financing arrangement whereby the bank requires the CCRC to maintain collateral for the loan by establishing a cash or investment account with the bank. In this case, the funds would also be considered restricted for financial ratio computations.

Some questions that help to distinguish between unrestricted and restricted assets include:

- Is the board imposing the restriction on certain cash and investments? If so, the board can remove the restriction. Therefore, for ratio calculation purposes, board-restricted or board-designated funds are considered "unrestricted."
- Is the restriction on certain cash and investments imposed by donors? For ratio purposes, these funds are considered "restricted."
- Is the restriction on certain cash and investments imposed by bond or loan documents that would require outside action by a bond trustee only after getting bondholder approval or by a bank's loan committee? For ratio purposes, these funds are considered "restricted."
- Do regulatory bodies require approval from state authorities before funds can be utilized by the community? If so, for ratio purposes, these funds are considered "restricted."

In summary, because audited financial statements are not prepared consistently for all CARF-accredited communities, professional judgment is sometimes utilized when determining unrestricted cash and investments for purposes of financial ratio computations. Users of financial statements who perform ratio analysis generally will make conservative categorization decisions regardless of management's intent in the financial statement presentation. It would benefit every CCRC to be as clear as possible in their financial statement presentations as to the unrestricted versus restricted status of cash and investments.

CARF Definition of Unrestricted Cash & Investments

*Include**

- Operating cash and cash equivalents
- Investments without donor restrictions
- Board-restricted or designated assets
- State operating reserves (if not required to be maintained in a separate escrow account)
- The financial statements of foundations set up solely for the benefit of the operating entity generally should be consolidated with the operating entity. Accordingly, unrestricted cash and investments of these foundations would be included

*Exclude**

- Trustee-held funds (e.g., debt service reserve funds, or debt service reserves)
- Funds held for residents
- Prospective resident deposits
- Collateral for bank loans (if required to be held by and maintained at the bank whereby the organization has no access to the funds for operating purposes, similar to a debt service reserve fund)
- State operating reserves (if required to be held in separate escrow account)
- Cash and investments restricted by donors
- Any assets to the extent that there is not enough information to determine if any portions should be included

Rule of thumb: any funds that may be legally disbursed without outside cooperation to pay operating expenses (The board is not considered an outside entity.)	Rule of thumb: any funds requiring a long or difficult process to access

* Proper determination of these items typically requires examination of the notes to the financial statements and, at times, the documentation supporting the notes to the financial statements.

APPENDIX B

Benchmarking Against the CARF Ratios

For organizations to measure their financial strength against CARF-accredited CCRCs, it is imperative that the same methodology be used to calculate the financial ratios. This appendix will explore in greater depth the methodology used by CARF to calculate the financial ratios. As a companion tool to this publication, CARF produces an Excel spreadsheet, *Ratio Pro*, which is designed to calculate financial ratios according to the CARF methodology. *Ratio Pro* completion is required on an annual basis. Nonaccredited organizations can purchase *Ratio Pro* from the CARF online store at www.carf.org/catalog.

The **Ratio Definitions Matrix** (with the accompanying **Ratio Definitions Legend**) lists each CARF financial ratio on the horizontal axis, while the vertical axis lists the common audited financial statement accounts for accredited organizations (CARF Financial Ratios Chart of Accounts). In developing the CARF financial ratios, data are collected from each accredited organization's audited financial statements. Because accounts tracked on financial statements are not standardized within the industry, the account titles listed in the matrix are the more common names for these accounts.

Organizations need to map their audited financial statement accounts according to the formulas in the **Ratio Definitions Matrix** in order to successfully measure against the CARF benchmarks. To assist, the right hand column lists common issues encountered in calculating financial ratios according to CARF methodology.

COVID-19 Relief Income (i.e., FEMA, ERC, PRF and PPP) is excluded from the ratios. Additionally debt incurred from PPP loans are excluded from these ratios. However, the cash received from these programs is included in ratios where cash balances are incorporated, for example, DCH.

Common Issues:

- Unrealized investment/derivative gains or losses are not directly included in any of the ratios. However, the mark-to-market adjustments are reflected in investments and are therefore included in ratios where cash balances are incorporated, for example, Days Cash on Hand Ratio (DCH).
- Donor-restricted income and expenses are not included in any of the ratios. Restricted income is included only when the net assets are released and reflected on the statement of operations as net assets released for operations or property, plant, and equipment.
- Other than temporary declines in investments are considered unrealized losses and are not included in any of the ratios.
- Contributions without donor restrictions are only included in the Total Excess Margin Ratio (TEM). They are not included in the other margin/profitability ratios.
- Amortization of debt issuance costs and original issue discounts or premiums are excluded from interest expense.
- The Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio (LTDC-A) does not include deferred resident entrance fees that are contractually guaranteed to be refundable. CARF employs a more conservative approach in developing this benchmark by excluding contractually refundable fees.

For information regarding trustee-held cash and investments in unrestricted cash and investments, see Appendix A.

Ratio Definitions Legend

N	Designates codes included in the numerator of the ratio calculation
D	Designates codes included in the denominator of the ratio calculation
-	Before an "N" or "D" indicates the value should be multiplied by -1
N/D	Designates codes included in both the numerator and the denominator of the ratio calculation
NOM	Net Operating Margin Ratio
NOM-A	Net Operating Margin–Adjusted Ratio
OR	Operating Ratio
OM	Operating Margin Ratio
TEM	Total Excess Margin Ratio
DAR	Days in Accounts Receivable Ratio
DCH	Days Cash on Hand Ratio
CUSH	Cushion Ratio
DSC	Debt Service Coverage Ratio
DSC-R	Debt Service Coverage–Revenue Basis Ratio
DS-TR	Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio
CD	Unrestricted Cash and Investments to Long-Term Debt Ratio
LTDC	Long-Term Debt as a Percentage of Total Capital Ratio
LTDC-A	Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio
LTD-TA	Long-Term Debt to Total Assets Ratio
AGE	Average Age of Community Ratio
CED	Capital Expenditures as a Percentage of Depreciation Ratio

Days in Accounts Receivable Ratio

Sum of codes designated by "N"

DIVIDED BY

(Sum of codes designated by "D" divided by 365)

Days Cash on Hand Ratio

Sum of codes designated by "N"

DIVIDED BY

(Sum of codes designated by "D" divided by 365)

Ratio Definitions Matrix

	CARF	Margin (Profitability) Ratios					Liquidity Ratios			Capital Structure Ratios								
	Financial Ratios Chart of Accounts	NOM	NOM-A	OR	OM	TEM	DAR	DCH	CUSH	DSC	DSC-R	DS-TR	CD	LTDC	LTDC-A	LTD-TA	AGE	CED
Current Assets	**STATEMENT OF FINANCIAL POSITION/BALANCE SHEET**																	
	Current Cash and Investments – Unrestricted							N	N				N			D		
	Current Cash and Investments – Restricted															D		
	Patient/Resident Accounts Receivable						N									D		
	Other Accounts Receivable															D		
	Resident Deposits															D		
	Other Current Assets															D		
Noncurrent Assets	Noncurrent Cash and Investments – Unrestricted							N	N				N			D		
	Noncurrent Cash and Investments – Restricted															D		
	Property Plant and Equipment, Net															D		
	Accumulated Depreciation																N	
	Other Noncurrent Assets															D		
	Derivatives/Interest Rate Swap Asset															D		
Current Liabilities	Accounts Payable and Accrued Expenses																	
	Current Portion of Long-Term Debt																	
	Resident/Nonresident Deposits – Current																	
	Other Current Liabilities																	
Noncurrent Liabilities	Resident/Nonresident Deposits – Noncurrent																	
	Long-Term Debt, Less Current Portion/Capital Leases												D	N/D	N/D	N		
	Deferred Revenues – Refundable																	
	Deferred Revenues – Nonrefundable														D			
	Other Noncurrent Liabilities (COVID-19 funding)																	
	Derivative/Interest Rate Swap Liabilities																	
	Gift Annuities																	
Net Assets	Net Assets w/o Donor Restrictions/Stockholder's Equity													D	D			
	Net Assets with Donor Restrictions																	
Operating Revenues	**STATEMENT OF OPERATIONS/INCOME STATEMENT**																	
	Residential Revenue	N/D	N/D	D	N/D	N/D	D			N	N	D						
	Entrance Fee Amortization				N/D	N/D						D						
	Nursing Revenue	N/D	N/D	D	N/D	N/D	D			N	N	D						
	Assisted Living Revenue	N/D	N/D	D	N/D	N/D	D			N	N	D						
	Adult Day/Home Health Revenue	N/D	N/D	D	N/D	N/D	D			N	N	D						
	Management Fees	N/D	N/D	D	N/D	N/D				N	N	D						
	Investment Interest/Dividends			D	N/D	N/D				N	N	D						
	Other Operating Revenue	N/D	N/D	D	N/D	N/D				N	N	D						
	Net Assets Released from Restrictions for Operation			D	N/D	N/D				N	N	D						

* Other analysts view on a case-by-case basis, particularly if the transaction includes a non-cash item.
** Excludes initial entry fees

Ratio Definitions Matrix *continued*

	CARF	Margin (Profitability) Ratios					Liquidity Ratios			Capital Structure Ratios								
	Financial Ratios Chart of Accounts	NOM	NOM-A	OR	OM	TEM	DAR	DCH	CUSH	DSC	DSC-R	DS-TR	CD	LTDC	LTDC-A	LTD-TA	AGE	CED
Cost Center Operating Expenses	Nursing/Health Care	-N	-N	N	-N	-N		D		-N	-N							
	Dietary/Food Service	-N	-N	N	-N	-N		D		-N	-N							
	Social and Community Services	-N	-N	N	-N	-N		D		-N	-N							
	Recreation, Activities, and Transportation	-N	-N	N	-N	-N		D		-N	-N							
	Assisted Living and Personal Services	-N	-N	N	-N	-N		D		-N	-N							
	Housekeeping	-N	-N	N	-N	-N		D		-N	-N							
	Building and Maintenance	-N	-N	N	-N	-N		D		-N	-N							
	Administration/General	-N	-N	N	-N	-N		D		-N	-N							
	Marketing	-N	-N	N	-N	-N		D		-N	-N							
	Adult Day Care/Home Health	-N	-N	N	-N	-N		D		-N	-N							
	Other Operating Departments	-N	-N	N	-N	-N		D		-N	-N							
	Housing/Independent Living	-N	-N	N	-N	-N		D		-N	-N							
Cost Type Operating Expenses	Salaries and Benefits	-N	-N	N	-N	-N		D		-N	-N							
	Supplies	-N	-N	N	-N	-N		D		-N	-N							
	Contract Services	-N	-N	N	-N	-N		D		-N	-N							
	Building and Maintenance	-N	-N	N	-N	-N		D		-N	-N							
	Ancillary Health Services	-N	-N	N	-N	-N		D		-N	-N							
	Insurance	-N	-N	N	-N	-N		D		-N	-N							
	Other Operating Expenses	-N	-N	N	-N	-N		D		-N	-N							
Other Operating Expenses	Management Fees Expense	-N	-N	N	-N	-N		D		-N	-N							
	Interest Expense			N	-N	-N		D	D	D	D	N						
	Depreciation				-N	-N											D	D
	Amortization				-N	-N												
	Provision for Bad Debts	-N	-N	N	-N	-N				-N	-N							
Nonoperating Revenues/Expenses	Contribution/Donation Revenue					N/D				N	N	D						
	Gain (Loss) on Sale of Investments/Derivatives					N/D				N	N	D						
	Gain (Loss) on Sale of Other Assets*					N/D				N	N	D						
	Unrealized Gain (Loss) on Investments/Derivatives																	
	Other Nonoperating Revenue (Expenses)					N/D				N	N	D						
	Net Assets Released from Restriction for PP&E					N/D				N	N	D						
	Gain (Loss) on Extinguishment of Debt																	
	Extraordinary Items–COVID-19 Grants																	
	Change in Future Service Obligation																	
Cash Flow Items	**STATEMENT OF CASH FLOWS**																	
	Acquisition of Property and Equipment																	N
	Principal Payments								D	D	D	N						
	Short-Term Debt Payments																	
	Capitalized Interest								D	N/D	N/D	N						
	Entrance Fees Received**		N/D							N								
	Entrance Fees Refunded		-N/-D							-N								

* Other analysts view on a case-by-case basis, particularly if the transaction includes a non-cash item.
** Excludes initial entry fees

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2023

A JOINT PROJECT OF CARF, ZIEGLER, AND BAKER TILLY