FACT SHEET



# Guide to CCRC Financial Reports

The California Department of Social Services, Continuing Care Contracts Branch (CCCB), oversees Continuing Care Retirement Communities (CCRCs) and requires reports annually from CCRC providers. These reports covering a three year period are available on the CCCB website, http://www.calccrc.ca.gov/PG3358.htm. The reports are usually presented in the order following the Reporting Instructions and Forms, http://www.calccrc.ca.gov/PG1757.htm.

This Guide provides a description of the key reports and how to interpret the financial information. These reports are a valuable resource for prospective and present residents to check on the financial soundness of a CCRC provider.

**AUDITED FINANCIAL STATEMENTS**: Contains information on provider cash flow, income and expenses, reserves, assets and liabilities.

- Providers that own and operate other enterprises in addition to CCRCs must include audited statements of their total operations. Any provider that has a financial commitment from a parent organization must also submit the audited financial statements of that organization.
- If the provider is a non-profit entity, the Audited Financial Statement is used to complete the IRS 990 report. *(Refer to the Guide to Internal Revenue Service (IRS) Form 990, that explains how to obtain a copy of the provider's 990s for the past three years and TIPS on what to look for, e.g. salaries of executives.)*

**DISCLOSURE STATEMENT**: Information *on each facility* operated by the provider including: entry requirements; facility age and size; ownership; contract types; range of entrance fees; refund provisions; amenities and services; occupancy rate for independent units; history of average monthly fees and increases over a 4-year period; multi-level retirement communities, free-standing nursing homes and senior housing operated by the provider; and other financial information.

The Disclosure Statement must be provided to prospective residents before signing an agreement. Present residents also have a right to these reports. Some of the more important elements of the Disclosure Statement are:

- Net Income: Negative net income could be a sign that the community's financial house is not in order.
- Monthly Service Fee Increases. Presents average fee increases over a four (4) year period. Any high rate increases should be reviewed, e.g., over 5%.
- Four (4) financial ratios that are used to evaluate a provider's financial soundness. For each ratio, there is a description, tips on interpretation, and national historical data that indicates *median ratios* for both single-site and multi-facility providers. The ratios cover a period from 2000 to 2011 and are based on the 2012 report, Financial Ratios & Trend Analysis of CARF-CCAC Accredited Operations. No single ratio should be viewed in isolation but should be reviewed in combination with other ratios. Look for trends.

1. **Long-Term Debt to Total Assets Ratio**: Relates provider's indebtedness to total assets. Lower percentages are preferred indicating a stronger capital structure. *(Single-site = 37.82 to 43.05% and multi-site = 39.80 to 49.15%)*

2. **Operating Ratio:** Measures current cash operating revenues against cash operating expenses but includes interest income, interest expense, and net assets released for operations. Operating Ratios of less than 100% are preferred. *(Single-site = 98.06 to 102.24% and multi-site = 97.50 to 104.93%)*
3. **Debt Service Coverage:** Reflects provider's ability to fund annual interest and principal payments from cash revenue and entrance fees. Ratios of less than 1 indicate that there may be financial problems. *(Single-site = 1.83 to 2.63.05% and multi-site = 2.10 to 3.24%)*
4. **Days Cash on Hand:** States the number of days of cash available to cover operating expenses. More than 180 days is preferred. *(Single-site = 258 to 332 days and multi-site = 201 to 321 days)*

**KEY INDICATORS REPORT:** Presents a chart displaying fifteen (15) "indicators" that show a provider's financial condition and/or performance covering information from the past five years and projections for the coming five years.

The indicators cited are commonly used to evaluate a provider's financial soundness. For each indicator, there is a description, tips on interpretation, and national historical data that indicates *median ratios* for both single-site and multi-facility providers. The ratios cover a period from 2000 to 2011 and are based on the 2012 report, Financial Ratios & Trend Analysis of CARF-CCAC Accredited Operations. Note: The numbers correspond to the numbers on the chart.

1. **Occupancy Rates:** Provide information on the average annual occupancy rate based on all units including independent and assisted living, dementia care, and skilled nursing. Occupancy rates consistently below 90% should raise concern for the provider's long-term financial stability.
2. **Net Operating Margin:** Compares revenues and expenses from services to residents and excludes interest income, dividends, interest expense, depreciation, income taxes, entrance fees and contributions. Operating margins above 5% are preferred. *(Single-site = .04 to 7.52% and multi-site = .80 to 6.9%)*
3. **Net Operating Margin – Adjusted**: Same exclusions as Net Operating Margin but includes net proceeds from entrance fees. Adjusted Net Operating Margins above 15% are preferred. *(Single-site = 16.80 to 20.65% and multi-site = 16.04 to 20.27%)*
4. **Unrestricted Cash and Investments:** Represents provider's total cash and investments available to management to use with minimum approval. No restricted funds are counted.
5. **Days Cash on Hand:** Greater than 180 days is preferred.
6. **Deferred Revenue from Entrance Fees:** Total revenue from entrance fees deferred at the end of the provider's fiscal year.
7. **Net Annual Entrance Fee Proceeds:** The amount remaining from Entrance Fees received minus refunds.
8. **Unrestricted Net Assets:** Total assets less restricted assets.
9. **Annual Capital Asset Expenditures:** Amount spent on capital improve-ments during the fiscal year.
10. **Debt Service Coverage – Revenue Basis:** Measures provider's ability to meet its debt obligations through revenues alone. A ratio of .75% or more is considered desirable by lenders. *(Single-site = .31 to 7.52% and multi-site = .29 to 1.44%)*
11. **Debt Service Coverage:** Reflects provider's ability to fund annual debt service from cash revenues and entrance fees. *(Single-site = 1.83 to 2.63% and multi-site = 2.10 to 3.24%)*

12. **Annual Debt Service to Revenue:** Indicates the percentage of all operating revenues and non-operating gains and losses used for annual debt service. For new CCRCs or those expanding or engaging in major renovations ratios may be higher. *(Single-site = 9.13 to 11.93% and multi-site = 8.02to 9.45%)*

13. **Average Annual Effective Interest Rate:** Total annual interest expense on the long-term debt divided by the long-term debt.

14. **Unrestricted Cash & Investments to Long-Term Debt Ratio:** Measures available cash and marketable securities in relation to long-term debt, indicating provider's ability to withstand lower occupancy, lower entrance fees or higher than anticipated refunds. Unrestricted cash and investments of greater than 20% of long-term debt is desired. *(Single-site = 49.89 to 65.84% and multi-site = 43.06 to 54.97%)*

15. **Average Age of Facility Ratio:** Estimates the number of years of depreciation that have already been accumulated for a facility. Calculation of the ratio should use only depreciation expense, and not include amortization. Marketability depends on maintaining the physical plant and investing in upgrades, renovations, and replacements. A steadily increasing ratio indicates that resources are not being used to keep the facility up to date. *(Single-site = 9.62 to 11.51% and multi-site = 8.80 to 11.74%)*

**LIQUID RESERVES:** Providers must maintain liquid reserves to cover long-term debt service ("Debt Service Reserve") and 75 days required by law of operating expenses ("Operating Expense Reserve" - 180 days or more preferred). The provider does not have to restrict, place into escrow, or set aside the qualifying assets as its liquid reserves. These reserves are summarized in a report entitled "Annual Reserve Certification."

**REFUND RESERVE**: Providers with contracts that require the repayment of all or a portion of the entrance fee must establish and maintain a reserve fund covering the refundable portion. When reviewing the refund reserve, also check the current contract regarding the conditions and timetable for obtaining a refund, e.g., upon termination of the contract or death of the resident. If the refund is contingent upon the re-occupancy or resale of the unit, find out the average length of time before a refund is issued. In communities with low occupancy, there is a tendency for providers to fill units without a refund obligation first thus delaying repayment of refunds.

**OTHER REPORTS:** Other documents or reports that are required to be submitted annually to the Continuing Care Contracts Branch are:

- Annual Provider Fee
- Resident Population
- Report on CCRC Monthly Service Fees (Annual increases by level of care)
- Certification by CEO accompanying the annual report that the statements are correct, contracts in use have all been reviewed by the department to determine compliance with minimum statutory requirements, and the liquid reserve requirement is being maintained at the required level; and
- Evidence of fidelity bonding for any employee or agent who has access to substantial provider investments or funds.