

F. Financial Planning and Management

Description

CARF-accredited organizations strive to be financially responsible and solvent, conducting fiscal management in a manner that supports their mission, values, and performance objectives. Fiscal practices adhere to established accounting principles and business practices. Fiscal management covers daily operational cost management and incorporates plans for long-term solvency.

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- 1.F. **1. The organization's financial planning and management activities are designed to meet:**
- a. **Established outcomes for the persons served.**
 - b. **Organizational performance objectives.**

Examples

Strategic planning and financial planning are integrated to ensure that initiatives or changes in programs are adequately funded or supported to maximize success.

1.a. This may tie to Section 1.M. Performance Measurement and Management standards on identifying and measuring service delivery performance indicators such as results achieved for the persons served, experience of services and other feedback, efficiency, and service access.

1.b. The organization's performance objectives may include, but are not limited to areas of potential financial risk such as reductions in funding or new regulations that might impact services or expand the population to be served. This may tie to Standard 1.M.9. related to setting and measuring performance indicators for business function improvement.

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- 1.F. **2. Budgets:**
- a. **Are prepared prior to the start of the fiscal year.**
 - b. **Reflect:**
 - (1) **Input from various stakeholders, as required.**
 - (2) **Comparison to historical performance.**
 - (3) **Consideration of necessary cash flow.**
 - (4) **Consideration of external environment information.**
 - c. **Document:**
 - (1) **Reasonable projections of:**
 - (a) **Revenues.**
 - (b) **Expenses.**
 - (c) **Capital expenditures.**
 - (2) **Approval by the identified authority.**
 - d. **Are disseminated, as appropriate, to:**
 - (1) **Personnel.**
 - (2) **Other stakeholders.**

Examples

The annual budget reflects projected income and expenses. Input from professional and administrative personnel in budget development may demonstrate the organization's intent to anticipate its fiscal needs.

Input from persons served can be gathered by a variety of means. For example:

- Formal meetings to discuss the budget.
- Informally, via ongoing conversations with personnel.
- Through participation on the board or advisory groups.

2.c.(2) Approval of the budget could be conducted by an owner, executive leadership, governing board, or other authority. If an organization is dependent on funding from an external entity's budget that has not been finalized prior to the beginning of the fiscal year, an organization may adopt a provisional budget until the final budget is approved for the year.

- 1.F. **3. Actual financial results are:**
- a. **Compared to budget.**
 - b. **Reported, as appropriate, to:**
 - (1) **Personnel.**
 - (2) **Persons served.**
 - (3) **Other stakeholders.**
 - c. **Reviewed at least monthly.**

Examples

3.b.(2) Persons served may be interested in the financial status, stability, or viability of an organization for a variety of reasons; e.g., they are personally responsible for the payment of fees; they anticipate being engaged with the organization for an extended period of time; they are seeking new or enhanced equipment, technology, facilities, or programs/services and want to know whether the organization's budget will support these; they are considering donating to or investing in the organization; etc.

Nonprofit organizations are subject to reporting requirements, including financial reporting, with information publicly available. In some settings, a contract for services between an organization and a person served may include requirements for reporting specified information. An organization may publish annual reports, performance reports, newsletters, or news releases, or it may post information on a website that reflects its overall status and plans, including the finances needed to support them.

3.c. The review of actual financial results may be conducted by program management, finance personnel, or the governing board.

- 1.F. **4. The organization:**
- a. **Identifies and reviews, at a minimum:**
 - (1) **Revenues.**
 - (2) **Expenses.**
 - (3) **Internal:**
 - (a) **Financial trends.**
 - (b) **Financial challenges.**

- (c) **Financial opportunities.**
- (d) **Management information.**

(4) **External:**

- (a) **Financial trends.**
- (b) **Financial challenges.**
- (c) **Financial opportunities.**
- (d) **Industry trends.**

- b. **Identifies areas needing improvement.**
- c. **Implements actions to address the improvements needed.**
- d. **Reviews financial solvency, with the development of remediation plans if appropriate.**

Examples

External events that have a financial impact on the organization can include items such as:

- Changes in reimbursement rates.
- Competition in the marketplace.
- Changes in preferences of persons served.
- Interest rates and the availability of financing.
- Regulatory and legislative changes.

Management information can include items such as:

- Amount of time it takes to sell or lease a vacant unit.
- Percentage of private pay versus Medicare/Medicaid or pay from other public funds.

An organization might benefit from knowing how sensitive it is to a variety of issues and how much of a drop in certain areas of revenue can occur before it begins to lose cash, possibly leading to a default on debt repayment. For example, how low can persons served census from a certain payer source become before the decline causes the organization stress in cash flow or with meeting the terms of debt.

An organization might develop a remediation plan to determine underlying causes of the decline in number of persons served through a variety of means, which might include reassessing the performance of the liaisons to referring hospitals, community-based providers, and referring physicians; conducting a survey of past persons served; or conducting a competitive

analysis to determine if the census decline is widespread or only at one organization.

A remediation plan could identify strategies to increase the number of persons served through strategies such as advertising and/or senior management meetings with referring hospitals, physicians, or other referral sources to ensure that they are informed about the services offered by the organization.

An organization can demonstrate that consideration of these items occurs through meeting minutes or other type of document.

4.a.(3) Key metrics can include census and utilization.

4.d. Financial solvency could be described as the ability of an organization to meet its financial obligations, to meet long-term expenses, and to accomplish long-term expansion and growth.

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- 1.F. 5. If the organization has related entities, it documents:**
- a. The types of relationships.**
 - b. Financial reliance on related entities.**
 - c. Responsibilities between related entities and the organization, including:**
 - (1) Legal.**
 - (2) Contractual.**
 - (3) Other.**
 - d. Any material transactions.**

Intent Statements

Full disclosure of relationships demonstrates an organization's commitment to excellence and transparency. The organization discloses information to persons served and other stakeholders that explains its assets and liabilities, reflects the position and responsibilities of any parent or sponsoring organizations, and discloses any material and legal relationships with other entities.

Examples

Organizations often form strategic relationships with other entities to share financial and non-financial resources or to guarantee debt. At times, organizations benefit from a third-party revenue source. The relationship of this revenue source

and the risks or value of this relationship should be disclosed.

Examples of relationships include:

- Parent-subsidiary structures.
- Affiliations.
- Alliances.
- Guarantees.
- Limited partnerships.
- Other third-party operating support.
- Material contracts such as food services, pharmacy, and therapy.
- Financial support from related foundations.

Disclosure of these relationships can be accomplished through:

- Audited financial statements.
- Annual reports distributed to residents and persons served.
- Marketing materials.
- Tax report filings.

5.d. Material, when used in accounting, is defined as the magnitude of an omission or misstatement of accounting information that makes it probable that the judgment of a reasonable person relying on that information would have been changed or influenced by the omission or misstatement. When used in finance, it refers to the magnitude of the financial impact on an organization. If the magnitude of the items relative to the whole organization is significant, then it is material. For example, a company with \$2,000 of total assets has \$1,000 worth of investments, the investment is material. A \$1,000 impact on a \$500 million total asset corporation is immaterial.

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- 1.F. 6. The organization:**
- a. Implements fiscal policies and written procedures, including internal control practices.**
 - b. Provides training related to fiscal policies and written procedures to appropriate personnel, including:**
 - (1) Initial training.**
 - (2) Ongoing training.**

Intent Statements

To reduce risk, it is important that the organization, regardless of size, establish who has responsibility and authority in all financial activities, such as in purchasing materials and capital equipment, writing checks, making investments, fundraising, and billing.

Examples

6.a. Policies and written procedures may address methods for receiving cash, checks, donations, or other financial instruments; disbursing funds, including petty cash, other cash, checks, or other financial instruments; managing the use, receipt, or disbursement of funds through purchase orders, invoices, organizational credit cards and debit cards, and/or lines of credit with outside vendors; managing donations; and investing funds.

Written internal controls provide management with some assurance that information provided by the accounting system is reliable and timely; therefore, an auditor's report on internal control is not a substitute for an organization having internal control procedures.

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- 1.F. 7. If the organization bills for services provided, it conducts a documented review of a representative sample of bills of the persons served:**
- a. At least quarterly.**
 - b. That addresses:**
 - (1) Whether bills are accurate.**
 - (2) Trends.**
 - (3) Areas needing improvement.**
 - (4) Actions to be taken.**

Intent Statements

A review of bills of the persons served to determine that they are accurate is a proactive method for an organization to help reduce or eliminate costly audit exceptions. This review and corresponding action will assist in that process.

Refer to the Glossary for the definition of *representative sample*.

Examples

7.b.(3)–(4) Actions to be taken address the areas identified as needing improvement. For example,

errors in billing may be addressed with education for billing personnel on why bills were rejected or declined, training on proper coding, issuing corrected bills, or return of overpayments to persons served or payers. Service delivery personnel may be trained on requirements for documentation in the records of persons served that justifies the billing.

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- 1.F. 8. The organization, if responsible for fee structures:**
- a. Identifies the basis of the fee structures.**
 - b. Demonstrates:**
 - (1) Review of fee schedules.**
 - (2) Comparison of fee schedules.**
 - (3) Modifications when necessary.**
 - c. Discloses to the persons served all fees for which they will be responsible.**

Intent Statements

An accountable organization assists the persons served in understanding the fee structure and whether there might be any additional charges to the individual.

Examples

On a regular basis, the organization can evaluate its current fee structure to ensure that the fees are adjusted as necessary to reflect changes in services, the cost of delivering services, third-party/funder rate adjustments, and the local market.

CCRCs can use a variety of techniques to determine fees, including actuarial studies and financial analyses. For example, CCRCs may use actuarial studies with mortality and morbidity tables to assess the likely inflow, outflow, and turnover of CCRC residents. Other CCRCs might use some combination of resident statistics, government reimbursement rates, marketing data, and operating costs. Although CARF does not require CCRCs to use actuarial studies, they may be required as part of financial feasibility studies necessary in the CCRC licensing process. Actuarial studies can be a useful tool for CCRCs that offer contracts

which incur long-term liabilities such as guaranteeing healthcare services over the long term.

8.b. The organization may demonstrate this in different ways. It might include dates on documents or mention this activity in meeting minutes, various personnel could discuss how this process occurred, etc.

8.b.(2) Comparison of fee schedules could be with what it has charged before and what new analysis might show is needed; it could be comparing to fee schedules from the funding source or other organizations. It does not require that it be external to the organization.

8.c. These may be called unfunded services, or services that include the beauty shop, meals, tuck shop, country store, café, carpools, or covered parking spaces. Although disclosure in writing is not required, it may be useful to provide written disclosure to persons served.

1.F. 9. The organization:

- a. Obtains annual review or audit of its financial statements conducted by an independent accountant authorized by the appropriate authority.**
- b. Provides documentation of:**
 - (1) The results of annual financial statement review or audit, including any resulting recommendations.**
 - (2) Management's response to recommendations, if applicable, resulting from annual financial statement review or audit, including corrective actions taken or reasons why corrective actions will not be taken.**

Intent Statements

An accountant authorized by the appropriate authority means a CPA in the U.S.; in countries outside the U.S., the terminology for a similar accountant qualified to conduct a review or audit would be used. The CPA, chartered accountant, or similar accountant retained must be independent of the organization; i.e., may not be contracted with the organization for its regular accounting needs, represent the organization's funding

sources, or be a member of the governance authority.

It is important for the organization to determine that its financial position is accurately represented in its financial statements. Accountants may typically undertake three types of engagements: audit, review, and compilation. Each is described in more detail below, but in summary, the audit is the most extensive effort and accordingly the highest cost to the organization.

An audit requires an examination of the financial statements in accordance with generally accepted auditing standards, including tests of the accounting records and other auditing procedures as necessary. An audit will result in a report expressing an opinion as to conformance of the financial statements to generally accepted accounting principles.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination using generally accepted auditing standards. Typically, a review will result in a report expressing limited assurance that there are not material modifications that should be made to the statements.

As part of a compilation engagement, an accountant will compile the financial statements based on management representations without expressing any assurance on the statements. A compilation will not meet this standard.

The scope of this independent examination may vary based on the accounting requirements to which the organization is subject. For CARF either a full audit or a review is acceptable. A compilation will not meet this standard. An organization should always be sure it is meeting other applicable requirements.

Examples

For a governmental entity, this standard may be met by review within its own system of oversight.

9.a. An organization that is part of a larger entity may be included in the audit or review of the larger entity. In addition to documentation of the audit or review, the organization is expected to provide evidence that it was included in the process of the larger entity. This may be demonstrated through financial reports, subsidiary agreements, annual reports, or other

business-related documents that provide evidence of the relationship of the organization to the larger entity.

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- 1.F. **10. If the organization takes responsibility for the funds of persons served, it implements written procedures that address:**
- a. Identification of the role of the organization.
 - b. How the persons served will give informed consent for the expenditure of funds.
 - c. How the persons served can access their funds.
 - d. How funds will be segregated for accounting purposes.
 - e. Safeguards in place to ensure that funds are used for the designated and appropriate purposes.
 - f. When interest-bearing accounts are used, how interest will be credited to the accounts of the persons served.
 - g. How account reconciliation is provided to the persons served at least monthly.
 - h. How funds will be returned to the persons served upon transition/exit from the program.
 - i. Communication of these procedures to the persons served.

Intent Statements

If the organization serves as a representative payee for the persons served, is involved in managing the funds of the persons served, receives benefits on behalf of the persons served, or temporarily safeguards funds for the persons served, it demonstrates that it has a system in place to protect the fiscal interests of the persons served.

Personnel and persons served, including, if applicable, those persons legally authorized to make decisions on behalf of the person served, are informed of the practices in place.

Examples

The organization may function in an official capacity such as a representative payee or other formally appointed representative with financial

responsibility for the person served, or it may safeguard funds as a courtesy to the persons served; e.g., holding money in a bank account or keeping money or credit cards in a secure place for use by or on behalf of the persons served. These may be referred to as Trust Accounts.

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- 1.F. **11. The organization provides documented evidence that an independent financial audit is completed within 120 days of fiscal year end.**

Examples

An organization may demonstrate conformance by sharing the cover letter that is received from the auditing firm.

Long-Term Financial Planning

CCRCs are complex organizations that often rely on a variety of revenue sources. Some CCRCs offer a resident contract that includes prepaid healthcare. Prudent financial management requires these organizations to have financial analysis and planning skills in order to monitor their financial operations, liquidity, and the capital structure of the organization, and to translate their analysis into financial plans that will ensure the long-term solvency of the organization.

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- 1.F. **12. The organization addresses:**
- a. **Margin/profitability, including:**
 - (1) Revenue and expenses related to the persons served.
 - (2) Earnings related to businesses not directly related to the persons served (ancillary revenue) and third-party sources of revenue.
 - (3) Expense management.
 - b. **Liquidity.**
 - c. **Capital structure to ensure:**
 - (1) Financial flexibility.
 - (2) Ability to meet the needs of persons served and other stakeholders.

- d. Use of financial ratio information.
- e. Bond covenant compliance, if the organization has bond covenants that must be met.

Intent Statements

Financially savvy organizations analyze the various revenue and expense components of the net income in order to make informed decisions. They understand the revenues/expenses associated solely with the delivery of services to residents and other persons served. They identify their financial reliance on nonresident income, such as contributions, investment earnings, and ancillary revenue (earned from services not related to delivery of services to residents, such as space rental and catering services). They must also understand their dependence on third-party funding sources necessary for them to meet their obligations to residents.

For CCRC programs, conformance to these standards is determined by the organization's financial ratios calculated from the audit report for the most recent fiscal year. These financial ratios are then benchmarked against the average of three years of financial ratios data for the purpose of determining a level of conformance:

- **12.a.(1)** Net operating margin ratio
- **12.a.(2)** Total excess margin ratio
- **12.a.(3)** Operating ratio
- **12.b.** Days cash on hand ratio
- **12.c.(1)** Cash to debt ratio
- **12.c.(2)** Debt service coverage ratio

Effective asset/liability (balance sheet) management is a 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.

Examples

NOTE: Organizations submit audited financial statements and Ratio Pro for their most current fiscal year end with the survey application. If the organization has more current audited financial statements available once the survey has been scheduled, the most current audited financial statements and updated Ratio Pro should be submitted for use in assessing conformance to accreditation

standards during the survey. CARF must receive the more current audited financial statements and updated Ratio Pro at least two weeks prior to the start of the site survey in order to be considered for inclusion.

NOTE: If CARF does not receive more current audited financial statements two weeks prior to the survey, the financial statements submitted with the Application will be used to determine conformance to the standards during the survey.

Refer to the annual publication *Financial Ratios & Trend Analysis of CARF-Accredited Continuing Care Retirement Communities*, Chapter 2. Margin (Profitability) Ratios for assistance in analyzing your organization's margin (profitability). Ratio Pro has five margin/profitability ratios that will assist in your analysis:

- Operating Margin Ratio
- Operating Ratio
- Total Excess Margin Ratio
- Net Operating Margin Ratio
- Net Operating Margin—Adjusted Ratio

If an organization's cash operating expenses exceed cash revenue, either unintentionally or by design, this shortfall will need to be funded.

Examples of non-operating funding sources include:

- Admission fees of new residents.
- A parent or affiliate organization.
- Owners, including limited partners.
- Contributions.
- Unrestricted cash balances.
- Release of temporarily restricted net assets.
- Sale of investments.

Financial flexibility can be obtained by a variety of mechanisms, including:

- Legally structuring an organization to provide flexibility for debt cross-collateralization.
- Targeting a mix of fixed versus floating rate debt.
- Hedging variable rate debt with swaps, caps, and other derivative products.
- Hedging fixed rate debt with swaps.

- Using obligated groups.
- Using bond ratings and insurance.

Refer to the annual publication *Financial Ratios & Trend Analysis of CARF-Accredited Continuing Care Retirement Communities*, Chapter 3. Liquidity—Days Cash on Hand and Appendix A. Discussion of Unrestricted Cash & Investments for assistance in analyzing your organization’s unrestricted cash reserves. Ratio Pro has one ratio, Days Cash on Hand, to assist you in your analysis.

Unrestricted cash and investment balances are those asset balances that are freely available for use in operations. Therefore, temporarily or permanently restricted funds and those held in trust by a third party are not considered unrestricted cash/investments.

Unrestricted cash and investments include:

- Cash and short-term investments that are not subject to temporary or permanent restrictions.
- State operating reserves (if not required to be maintained in a separate escrow account).
- Board-restricted reserves.

NOTE: All trustee-held funds (debt service reserve, operating reserves) are not considered unrestricted.

The amount of days cash on hand will vary among organizations and is dependent on many factors, such as ownership type (for profit/non-profit), resident contract type (A, B, C, rental), and the philosophy of boards and senior management. For example, although both nonprofits and for-profit CCRCs take in cash entrance fees, the nonprofit is restricted by tax laws as to the amount of cash that can be legally removed from the organization. Conversely, for-profits are not limited on cash removal and may choose to withdraw the cash and maintain an alternative source of cash to fund operating shortfalls. Hence a for-profit may have lower days cash on hand.

Contract types will also influence the amount of days cash on hand. Contract type A organizations take in a larger upfront entrance fee and may invest these monies until they are needed for future healthcare costs. On the other hand, rental communities do not charge entrance fees and hence tend not to have large days cash on hand

as they price their monthly service fees to cover their monthly expenses. Hence contract type A CCRCs will have a higher days cash on hand benchmark.

The *Financial Ratios & Trend Analysis of CARF-Accredited Continuing Care Retirement Communities* publication lists financial ratio benchmarks for CCRC contracts type A, B, and C.

Regardless of contract type, ownership type, etc., it is essential that organizations have access to liquidity either through days 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 from Congress.
- Owner/limited partners.

Refer to the *Financial Ratios & Trend Analysis of CARF-Accredited Continuing Care Retirement Communities*, Chapter 4. Capital Structure Ratios for a discussion of how to measure and interpret balance sheet ratios. Ratio Pro has the following capital structure ratios to assist you in your analysis:

- Debt service coverage
- Debt service coverage—adjusted
- Cash to debt
- Debt to equity
- Debt to equity—adjusted
- Debt to total assets
- Average age of facility
- Capital expenditures as a percentage of depreciation

12.d. The organization may describe ways that it has used current financial ratio information to make planning decisions, or it may explain how using financial ratio data to benchmark itself to other organizations might inform changes to

operations or service delivery, or perhaps affirm current practices.

12.e. Examples shared with surveyors regarding how bond covenants are met might include periodic reports to bondholders, audit compliance reports, or other methods.

1.F. 13. If the organization has material investments, it implements an investment policy that:

- a. Addresses, at a minimum:**
 - (1) **Portfolio return.**
 - (2) **Portfolio risk.**
 - (3) **Restricted cash reserves.**
 - (4) **Investment instruments.**
- b. Is reviewed at least annually for relevance.**
- c. Is updated as needed.**

Intent Statements

Organizations, especially those that offer life care contracts, generally have material assets to invest. Organizations with investment assets that are material to the organization must have policies and procedures in place to address investment portfolio return and risk.

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 their residents and other persons served.

If an organization is required to maintain restricted reserves, it must have procedures to ensure that account balances are adequate and that time and usage restrictions are adhered to.

Examples

A sound investment policy should incorporate a variety of themes. For example:

- **Investment objective:** a statement outlining the purpose of the portfolio.
- **Approved investments:** the risk tolerance of an organization will dictate the percentage of investment assets in less risky, more liquid investments (cash, bank CDs, money market fund) and the percentage in riskier stocks and bonds.

- **Investment restrictions:** outlines the type of investments that have been prohibited; e.g., investments are restricted to bonds with a BBB rating or better.
- **Investment safekeeping:** what entity will hold the investment certificates and other documentation.
- **Portfolio management:**
 - How is portfolio performance monitored?
 - How often are results reviewed?
 - Whose responsibility is it to monitor the portfolio?

13.a.(3) This standard applies if the organization is required to maintain restricted reserves under debt agreements, state statutory requirements, and/or restricted endowments.

13.b. Review of the investment policy may be conducted by a finance committee, a management team, a financial expert that is retained by the organization for this review, or by another entity that the organization identifies as having the appropriate knowledge. The review could result in revision of the policy or it may result in affirmation that the policy is still relevant.

1.F. 14. Identified leadership of the organization reviews investment results at least annually in accordance with the investment policy.

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- 1.F. 15. The organization implements a cash management strategy that:**
- a. Addresses, at a minimum:**
 - (1) **Accounts receivable management.**
 - (2) **Accounts payable management.**
 - b. Is reviewed at least annually for relevance.**
 - c. Is updated as needed.**

Intent Statements

Effective management of accounts receivables ensures a steady stream of cash that can be invested to earn additional income for the organization.

Examples

Accounts receivables must be analyzed periodically to determine if the receivables are being paid according to the invoice due date. Receivable conversion can vary depending on the type of receivable; generally government reimbursement receivables take longer to collect than private pay. Therefore, the receivable mix will influence your overall days in accounts receivable that are outstanding.

A key financial benchmark of the efficiency of accounts receivable management is “Days in Accounts Receivable.” Refer to the annual publication *Financial Ratios & Trend Analysis of CARF-Accredited Continuing Care Retirement Communities*, Chapter 3. Liquidity Ratios for a discussion of Days in Accounts Receivable ratio. Ratio Pro has a “Days in Accounts Receivable” ratio against which to benchmark.

Examples of current assets include:

- Cash and current investments.
- Accounts receivables.

Examples of current liabilities include:

- Short-term debt.
- Accounts payable

1.F. 16. The organization evaluates key performance indicators that include, but are not limited to, contract types identified by:

- a. Level or type of care or service.**
- b. Number of residents per contract type.**

Intent Statements

Accredited organizations evaluate key financial performance indicators, such as contract type information, to aid in strategic fiscal planning efforts.

1.F. 17. The organization has a mechanism to make the audited financial statements and footnotes available to:

- a. Prospective persons served.**
- b. Current persons served.**
- c. Other stakeholders.**

Intent Statements

To demonstrate an organization’s commitment to excellence and transparency, the organization fully discloses the financial information contained in the audited financial statements and footnotes.

Examples

Copies could be made available in the marketing office or resident service office. A summary could be made available in the resident newsletter.

1.F. 18. The organization conducts a capital needs assessment that:

- a. Addresses:**
 - (1) Existing capital assets.**
 - (2) Future capital asset needs.**
- b. Is documented.**
- c. Is reviewed regularly and updated as needed.**

Intent Statements

A capital needs assessment is a valuable guide to understanding the life expectancy and cost of major items needed to maintain and update an organization. It serves as a process to identify, predict, budget, and make critical decisions regarding major upcoming expenditures, maintenance of existing facilities, planned expansions, and associated financing strategies to support such needs (i.e., growth of new assets, debt capacity, etc.). Although a capital needs assessment may involve multiple experts and consider various types of information, the assessment process should result in a document to help the organization identify major capital needs that should be considered for long-range financial planning.

18.c. The organization determines the frequency at which it will review the capital needs assessment to ensure that the information is current.

Examples

18.a. Existing capital assets may include property, plant, and equipment items, such as:

- Bricks and mortar.
- Sidewalks.
- Landscaping.
- HVAC systems.

- Personal computers/servers/electronic medical records.
- Buses and other vehicles.

For each item identified, the following information may be addressed:

- Date put into service.
- Estimated repair/replacement date.
- Estimated cost of repair/replacement.

Building assessment reports may be part of the capital needs assessment.

18.b.–c. Changes in capital needs, the organization’s strategic planning process, and its annual budgeting process may be considered in determining the frequency at which the capital needs assessment is reviewed. This review documents that the budgeting for cash and investments required for the capital needs of the organization is addressed. Cash flow projections include what is required to address upcoming capital spending.

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- 1.F. 19. The organization’s long-range financial planning process considers:**
- a. The results of the capital needs assessment.**
 - b. Debt management risks.**
 - c. Investment risks.**
 - d. Input from:**
 - (1) Persons served.**
 - (2) Personnel.**
 - (3) Other stakeholders.**

Intent Statements

To engage in planning that considers both fixed assets and monetary capital, organizations benefit from considering a variety of perspectives and information. Combining the insights gained from the capital needs assessment, looking at the risks associated with the organization’s debt, considering the potential risks of the organization’s investment strategy, and obtaining input from key stakeholders are part of a comprehensive approach to identifying future financial opportunities and challenges.

Examples

19.b. The organization reviews how assets are safeguarded and how it is currently managing financial obligations such as debt. The organization can describe its outstanding long-term debt and the approaches it will employ to continue to meet debt obligations. It may use long-term financial projections or projected financial ratios to inform debt management. The organization may have a plan in place for replacing a letter of credit.

19.c. Planning might include approaches such as exploring diversification of the investment portfolio, reviewing long-term investment goals and how they may be impacted by short-term volatility in financial markets, monitoring and tracking the organization’s investment performance and making necessary adjustments in the portfolio, and considering external financial expertise regarding use of various financial products based on the organization’s risk tolerance.

19.d.(3) Other stakeholders may include board members, advisory groups, donors, financial institutions, bondholders, and credit rating agencies.

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- 1.F. 20. A long-range financial plan is implemented that:**
- a. Includes:**
 - (1) Timelines for capital asset repair and replacement projects.**
 - (2) Cash flow projections for capital asset needs.**
 - (3) Sources of funding to support identified needs related to:**
 - (a) Fixed asset repair and replacement.**
 - (b) Organizational growth.**
 - (4) Management of debt obligations.**
 - (5) Management of investment risks.**
 - b. Aligns with the organization’s strategic plan.**
 - c. Is shared, as relevant to the needs of:**
 - (1) Persons served.**
 - (2) Personnel.**
 - (3) Other stakeholders.**

- d. Is reviewed at least annually for relevance.
- e. Is updated as needed.

Intent Statements

When properly developed and implemented, the long-range financial plan serves as a tool to facilitate future financial performance. It matches the organization's financial resources with the goals and priorities set in the strategic plan addressed in Section 1.C. A well-thought-out long-range financial plan provides the organization with the information needed to make informed strategic and operational decisions. The long-range financial plan should therefore address both maintenance and growth capital, and it should identify the financial instruments being used to meet future needs.

Maintenance capital is typically provided by cash and cash flow. Growth capital may be financed through internal and external sources. Internal sources may include reserves, proceeds from a capital campaign, or other sources; external sources may include various types of debt that could be structured in different ways based on interest rates, maturity/amortization, and other factors.

The intention of the long-range plan is to provide forecasting and projections for multiple years beyond the current annual budget. CARF does not identify a specific timeframe for such planning; organizations should identify their timeframe for "long-range" based on their market.

The long-range financial plan may be a separate document or it may be clearly integrated with the organization's strategic plan. If the long-range financial plan is integrated with the strategic plan, surveyors must be able to easily identify the required written elements of the long-range financial plan within the strategic plan.

Examples

20.a.(1)–(3) Based on the information in the capital needs assessment, organizations identify funding source(s) for estimated costs of repair/replacement.

Projected financial statements are prepared in a format consistent with the organization's annual audited financial statements and include:

- Financial position.
- Activities.
- Cash flow.

20.a.(4) To manage debt, an organization may explore long-range approaches such as reviewing the type of debt it takes on to ensure that it best aligns with organizational needs, prioritizing existing debt payments, or restructuring debt.

20.a.(5) To manage investment risk, an organization may include different asset classes in its investment portfolio; e.g., stocks, bonds, real estate, and cash, to increase the probability that some investments will provide satisfactory returns even if others are flat or losing value. An organization might also diversify by dividing the money allocated to a particular asset class, such as bonds, among various categories of investments that belong to that asset class.

20.c.(3) The organization shares the information in the long-range financial plan, including but not limited to information related to continuing disclosure requirements for public debt and investor relations, with various stakeholders. Other stakeholders might include, but are not limited to, organizational leadership and governance, lending institutions, and credit rating agencies.

20.d.–e. The organization determines the method of review and responsibility for plan updates. Although the long-range financial plan should have some type of review at least annually, it may not need to be updated that frequently because it is long-range in nature. Significant market changes impacting the long-range financial plan could prompt leadership to consider an update.