Financial Ratios & Trend Analysis

OF CARF-ACCREDITED CONTINUING CARE RETIREMENT COMMUNITIES

ANNIVERSARY 30th EDITION

2022

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 2022 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.**

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Accreditation Matters in Senior Living

The confidence and accountability of an independent accreditation is important to residents, families, insurers, and regulators. The CARF accreditation seal is a sign of a life plan community's commitment to continuously improve service quality through listening, gathering information, and taking action on feedback. CARF accreditation positions providers to prepare for and respond to future challenges using an approach that:

Promotes 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 adequate training and education.

Focuses on individual needs

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

Assures 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 to lessen risk and provide greater accountability.

Implements continuous quality improvement

Meaningful changes are made 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.

Fosters 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 CARF International as an independent accrediting body of health and human service providers, and, they know accredited providers have applied a comprehensive set of standards for quality to their business and service delivery practices. Because CARF accreditation signals a provider's demonstrated conformance to internationally accepted standards, a growing number of state regulators are recognizing accreditation as part of their overall **monitoring processes**.

For lenders, accreditation identifies organizations in the senior housing and services sector who are accountable for business and financial practices. The CCRC standards encourage regular review of financial performance, profitability, cash management, investments, and long-term financial planning. Accredited CCRCs annually submit financial audit reports for review of margin/profitability ratios, liquidity ratios, and capital structure ratios.

Looking toward the future, prospective residents and family members are increasingly seeking external validation of excellence. CARF accreditation provides a visible symbol that assures the public of a provider's commitment to continually enhance the quality of services and programs with a focus on the satisfaction of the persons served.

Newly updated Consumer Guide

CARF International's Aging Services department has long published the *Consumer Guide to Understanding Financial Performance and Reporting in Continuing Care Retirement Communities*, an in-depth publication designed to assist individuals in understanding the complexities involved in selecting a continuing care retirement community (CCRC), also referred to as a life plan community, and important factors to consider, including short- and long-term financial viability. Following a months-long review process involving the input of multiple stakeholders, the guide has undergone an extensive update to better assist consumers and their family members with navigating the complicated process of choosing a life plan community. To reflect these updates, the publication has been retitled the *Consumer Guide to Life Plan Communities: Quality and Financial Viability*. It is currently available for complimentary download on the CARF website at **www.carf.org/Consumer-Guide-to-LPCs**.

A Message from the CARF Financial Advisory Panel Chair

We are pleased to bring you the 2022 edition of Financial Ratios & Trend Analysis. This year, we are celebrating the 30th anniversary of publishing benchmark data for the senior living industry. This collection and trending of key financial data for Continuing Care Retirement Communities (CCRCs)/Life Plan Communities (LPCs) has been used by organizations (both accredited and unaccredited) for the last three decades to gauge overall financial performance of the industry, track individual performance against peers, and draw attention to changes and trends impacting CCRCs/LPCs.

The ratios presented in the 2022 publication capture fiscal years ranging from March 31, 2021 to December 31, 2021. Last year's publication was the first to include financial statements revealing COVID-19's detrimental effects (i.e., lost revenues, additional expenses, and occupancy challenges) on operating metrics as well as the initial impact of COVID relief and government funding. The 2022 edition highlights the continuing challenge to margin (profitability) ratios across all providers as CCRCs emerge from what are hopefully the worst impacts of COVID. Although most margin ratios continue to be challenged, there was improvement in many of the liquidity ratios, indicating that most providers are well positioned to meet their future margin ratio challenges. Be sure to read the findings sections in each chapter for more details on all the CARF ratios.

The ratios presented in the 2022 publication capture fiscal years ranging from March 31, 2021 to December 31, 2021. In 2020 and 2021, many CCRCs received federal, state, and local COVID-19 relief funding (including but not limited to PPP loans and distributions from the U.S. Department of Health and Human Services). 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.

Over the summer, the publication team was informed that the 2021 edition was submitted for the 31st Annual National Mature Media Awards for the first time in the publication's history. The 2021 edition received a Gold award in the annual reports category. Congratulations to all members of the publication team on this recognition! We appreciate all your efforts that have contributed to the success of this annual publication.

Another first for the publication is the inclusion of a small number of formerly accredited multi-site communities who accepted an invitation to participate in this year's financial ratio analysis. Multi-site data is particularly important for the field and the number of accredited multi-sites included in the sample has declined over the last ten years. Consequently, the publication team reached out to key multi-site communities with a past commitment to accreditation and who had previously been included in the benchmark data. We received positive responses from a majority of the communities invited to participate. Their participation allows us to increase sample size and validity of data, and also slightly changes the sample population (71% of sample participants remain the same year over year; 29% of this year's sample did not participate in the 2021 financial ratio analysis).

In the 2020 edition, we added 14 additional years of data to the publication to help us maintain a broader perspective as we continued to navigate our way through pandemic years and a changing economy. We have continued to add data and present 26 years of data in the 2022 edition. 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 their 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.

We hope you find the 2022 edition of Financial Ratios & Trend Analysis helpful. Your feedback is essential to improvements that would make this publication useful in the years ahead. Feedback drives future innovation and publication changes. So please, take a few minutes to respond to the five questions in our feedback survey: **www.surveymonkey.com/s/RatiosPublicationFeedback**.

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 to make the ratio data meaningful to both providers and financial institutions.

We are proud to offer the *Consumer Guide to Life Plan Communities: Quality and Financial Viability* publication in 2022. This complimentary guide is an update from our 2016 guide and an invaluable resource for all stakeholders seeking to better understand the complexities involved in selecting a CCRC. The guide is available as a PDF download at **www.carf.org/Consumer-Guide-to-LPCs**. We hope you find it useful.

CARF Financial Advisory Panel

The **CARF Financial Advisory Panel** is an advisory group. It includes consumer representation and professional representation from both CARF-accredited CCRCs/LPCs and the development and finance industries, with expertise in for-profit and not-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**
- Matthew Clifton, **Senior Star**
- Thomas L. Gibbons, **The Huntington National Bank**
- 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**

We hope this publication remains a valuable tool supporting your journey to regular review and improvements in the financial health of your organization.

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

Executive Summary

This year's publication examines how organizations managed through the second year of the COVID-19 pandemic. As mentioned throughout this publication, the receipt and impact of COVID relief funding and loans have varying effects on the published ratios. For comparison and consistency purposes, relief funds and loans were *excluded* from certain profitability and cash flow ratio calculations where their effects can be identified and isolated. However, the receipt and impact of COVID relief funds and loans are *included* in other ratios, such as liquidity, where their effects cannot be accurately carved out.

New to this year's publication is the inclusion of 12 multi-site organizations that were previously accredited by CARF. The organizations were invited to provide their financial information to create a more robust sample size for the multi-site provider ratios. We do not expect this change to have a significant impact on the ratio medians, as the organizations included in the publication ratios will fluctuate from year to year.

Median ratios measuring profitability and cash flow generally held steady at last years' significantly weakened levels or improved modestly. Anecdotally, we have heard that organizations continue to struggle to some extent with increasing expenses and challenged occupancy in skilled nursing and assisted living. Liquidity ratios remained strong and improved slightly. It is important to note that gains in cash and investments driven by 2021 equity market gains were largely erased in 2022.

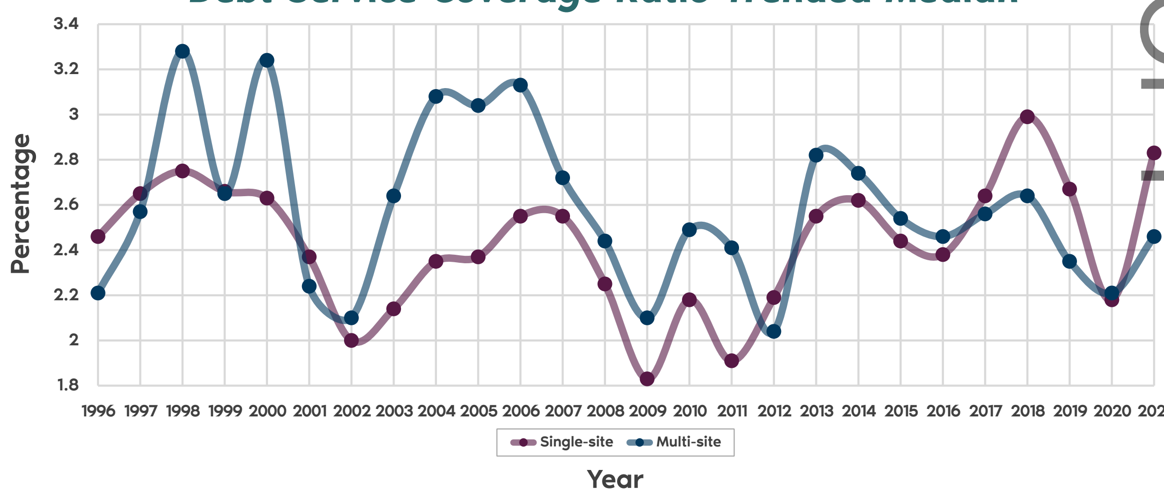
For the 2022 publication, profitability margin ratios generally stabilized for single- and multi-site organizations, albeit at weaker levels. There was some improvement in the Net Operating Margin-Adjusted (NOM-A)—likely reflecting improvement in entrance fee receipts from post-lockdown independent living occupancy gains.

In contrast to profitability ratios, COVID relief funds and loans played an important role, along with improving investments, in maintaining liquidity for senior living organizations. The median Days Cash on Hand (DCH) for single-site providers improved to 547 days—a new high for the publication and more than 250 days above the median of 296 days a decade ago. The median DCH for multi-site organizations remained stable at 352 days.

Single- and multi-site organizations also saw improvement in the median Debt Service Coverage Ratio (DSC). This likely reflects the improvement in cash flow from entrance fees and compensates for the weakness in core operating profitability—a one-time, catch-up event not sustainable in 2022. In addition, not-for-profit organizations have benefited from nearly a decade of low borrowing costs, which boosts an organization's ability to cover its debt.

The median DSC for single-site organizations improved to 2.83 from 2.18 the previous year. The median DSC for multi-site organizations improved to 2.46 from 2.21. These DSC medians for CARF-accredited organizations remain strong compared with historical levels and are in-line with the Fitch published medians of 2.8 for investment grade rated senior living organizations.

Debt Service Coverage Ratio Trended Median



Ratio Summary

	2021 Median*	
	Single-site	Multi-site**
Sample Size	**79**	**24**
Margin (Profitability) Ratios		
Net Operating Margin Ratio	-0.29%	1.05%
Net Operating Margin–Adjusted Ratio	18.47%	16.33%
Operating Ratio	101.44%	102.10%
Operating Margin Ratio	-5.54%	-4.27%
Total Excess Margin Ratio	1.21%	3.08%
Liquidity Ratios		
Days in Accounts Receivable Ratio	15	20
Days Cash on Hand Ratio	547	352
Cushion Ratio (x)	13.22	7.35
Capital Structure Ratios		
Debt Service Coverage Ratio (x)	2.83	2.46
Debt Service Coverage–Revenue Basis Ratio (x)	0.92	1.10
Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio	9.59%	9.20%
Unrestricted Cash and Investments to Long-Term Debt Ratio	83.39%	47.50%
Long-Term Debt as a Percentage of Total Capital Ratio	74.28%	78.82%
Long-Term Debt as a Percentage of Total Capital–Adjusted Ratio	53.27%	58.76%
Long-Term Debt to Total Assets Ratio	33.21%	40.61%
Average Age of Community Ratio (Years)	12.98	11.91
Capital Expenditures as a Percentage of Depreciation Ratio	102%	143%

*50th Percentile

**In 2022, formerly accredited Multi-site Life Plan Communities were invited to participate by submitting data for Ratio Trends. This increased the sample size and slightly changed the sample population (71% of the sample participants remain the same). Readers are cautioned in use of the data.

Section 1
Introduction

Uses and Limitations of this Publication

Background

The purpose of this publication is to provide in summary form for the past 26 years (1996 through 2021) the financial ratio quartiles of organizations (hereafter referred to as CCRCs regardless of individual state's designations) that were accredited by CARF as of December 2021. 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 79 single-site providers and 24 multi-site providers. This is the first year that the publication team sought to increase multi-site provider participation by inviting formerly accredited providers to participate. The increase in sample size of multi-site providers slightly changes the population sample (71% of the sample remains the same while 29% of the sample did not participate in the 2021 publication). One organization included in this publication operates on a for-profit basis.

The intent of this report is to:

- Assist individual CCRC boards and management teams 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 is the 30th 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:

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

The Limitations of Financial Ratios

However, financial ratios have limitations. Specifically:

- Ratios are not an exclusive tool to be used in isolation.
- The interpretation of an individual CCRC's ratios may vary 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. Thus, the reader is cautioned about drawing quick conclusions that Provider A is better than Provider B because Provider A has a particular financial ratio above the 75th percent quartile while Provider B's is below the 25th percent quartile. In general, no single ratio should be looked at in isolation.

Rather, ratios must be looked at in combination with other ratios and with nonfinancial information to interpret the overall financial condition of a provider.

For instance, whether a provider has one site or multiple sites will impact its financial ratios. It is for this reason that throughout this publication we always categorize the data as 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, start-up organizations would be expected to have a relatively unfavorable (high) Long-Term Debt to Total Assets Ratio (LTD-TA), whereas a mature community would be expected to have a relatively favorable (low) LTD-TA.

Similarly, a high Long-Term Debt as a Percentage of Total Capital 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 164 senior living providers, the majority of which are life plan communities (LPCs), have their debt rated—100 are single-site and 64 are multi-site. Two organizations have debt rated by more than one rating agency. Within CARF's accredited population, 56 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 64,000 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 27 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.

Uses and Limitations of this Publication *continued*

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 148 territories, with 38,000 professionals. The combined worldwide revenue of independent member firms is $4.3 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 2021 fiscal year audited financial statements of the single-site and multi-site providers accredited as of December 2021. Additionally, for the first time this year a small number of formerly accredited multi-site providers were invited to participate and be included in the multi-site sample. The boost in sample size for multi-site providers slightly changes the population, although 71% of the sample remains the same. The trended median graphs in this report present data collected from 1996 through 2021 fiscal year end. For organizations that were accredited for the first time during their 2021 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

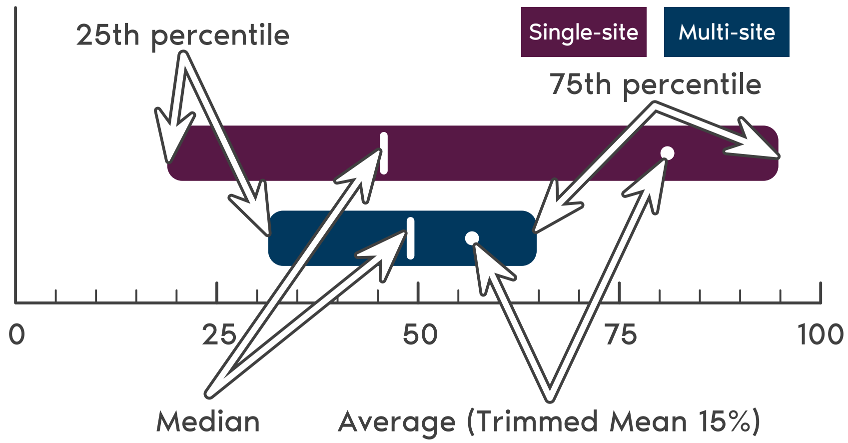
We divided the presentation of data between single-site and multi-site providers. Where the type of provider appears to have a significant impact on ratio performance, the impact is noted and discussed. The decision to include only data derived from audited financial statements in calculating the ratios 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

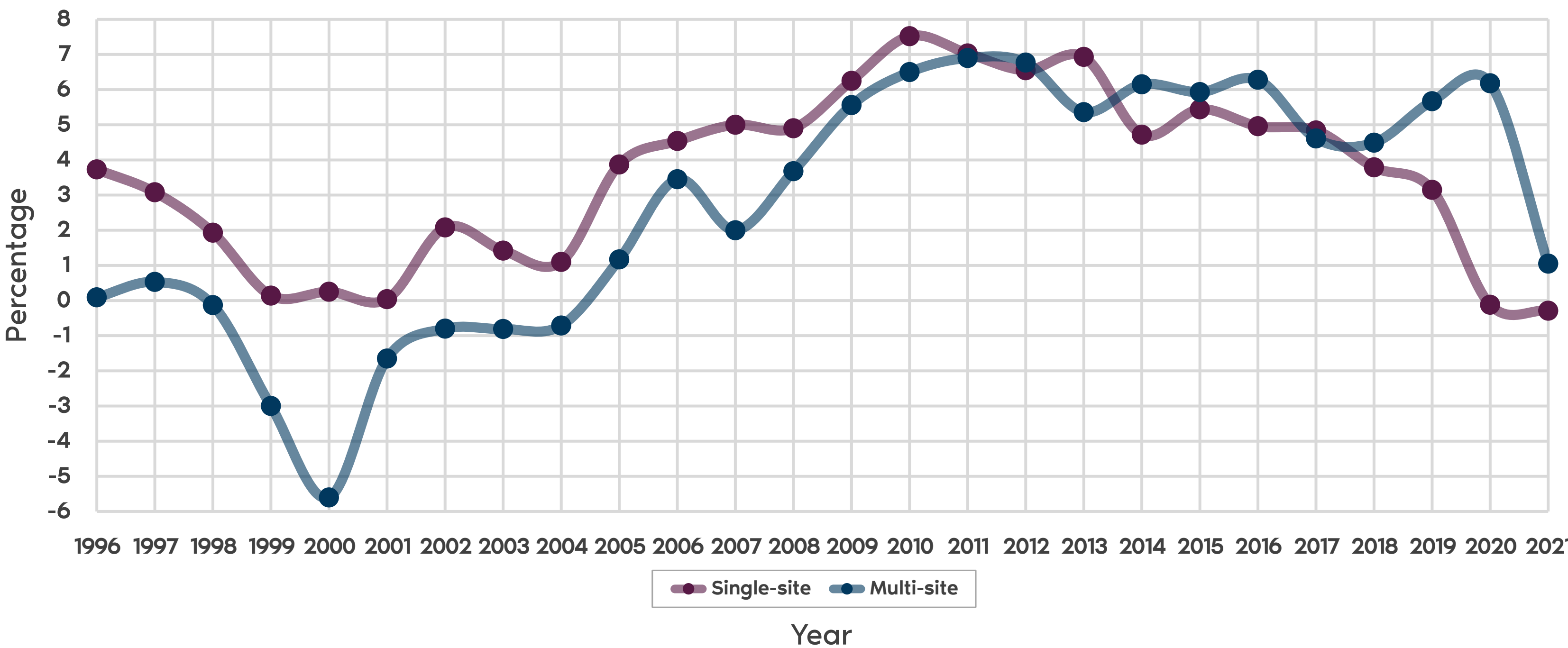
Three groups of financial ratios are presented in this report: margin (or profitability) ratios, liquidity ratios, and capital structure ratios. Each group is covered in one of the following chapters. Each chapter, in turn, is divided into certain commonly used ratios in each group.

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 26 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.

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 (December 31, 2019) and is effective for nonpublic entities with fiscal years beginning after December 15, 2021 (December 31, 2022), 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 2021 ratios. In May 2020, the effective date for nonpublic entities and not-for-profit entities with conduit debt that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of leases was deferred for one year.

COVID-19 Funding

In response to economic uncertainties resulting from the spread of COVID-19 in 2020 and 2021, many CCRCs received federal, state, and local funding, including, but not limited to, 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., CARES act provider relief funding 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.

Findings

For the 2022 publication (fiscal years ending in 2021), profitability ratios exhibited a slight continued weakening in core operations, with small pockets of improvement for both single- and multi-site organizations. As mentioned previously, none of the profitability measures includes income from COVID-19 relief funding (i.e., CARES Act provider relief funding or PPP Loans). However, these profitability ratios do include the significant added expenses from COVID efforts. In last year's publication, single-site organizations experienced a decline in the median ratio of each of the five profitability measures and weakened at nearly every quartile. Multi-site organization profitability ratio medians weakened to a lesser extent, but the effects of COVID across the sector were undeniable. This year, the weakening of profitability ratio medians that did continue appeared mild and some profitability ratios saw improvement.

The median Net Operating Margin Ratio (NOM), the measure of profitability in core operations, inched downward to -0.29% from -0.12% for single-site providers. This marks the sixth consecutive year of declines and the lowest ratio in the history of the publication. This is also just the second time the median NOM has been negative, although it came close in 2001 at just 0.04%. The median NOM for multi-site organizations declined to 1.05% from 6.18% in last year's publication. Core profitability continues to experience the greatest downward pressure, as NOM ratios declined at all quartiles for both single- and multi-site providers.

The median Net Operating Margin-Adjusted Ratio (NOM-A), which includes the impact of net entrance fees in core profitability, improved for single-site providers, reversing a four-year weakening trend. The median NOM-A for single-site providers improved to 18.47% from 16.17%, and likely reflects increased net entrance fees from occupancy improvements following pandemic lows. The median NOM-A for multi-site organizations dipped to 16.33% from 16.91%. These NOM-A medians remain among the lowest reported over the publication history.

The median Operating Ratio (OR), a measure of profitability on a cash-basis, improved for single-site organizations and weakened for multi-site organizations. The single-site provider median strengthened (decreased) to 101.44% from 102.07%, but reinforced that operating cash losses are still occurring. The multi-site provider OR median weakened to 102.10% from 96.98%, its weakest level since 2005.

The median Operating Margin Ratio (OM) dropped significantly for single-site organizations to -5.54% from -3.64%, the lowest level in the history of the publication. The median OM for multi-site providers declined to –4.27% from -0.81% the prior year—also the weakest OM ratio in the history of the publication.

Finally, the median Total Excess Margin Ratio (TEM) improved for both single- and multi-site organizations, stemming prior multi-year declines. The median TEM for single-site organizations rose to 1.21% from -0.87%. The median TEM for multi-site organizations improved to 3.08% from 0.84% the prior year. Given continued pressure on operating profitability, strong investment gains in 2021 likely played a role in boosting the TEM medians.

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.

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

Over the course of this study, NOM ratio results have typically varied by the contract types offered at each of the communities. Generally, the weakest NOM ratios are exhibited by providers 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.

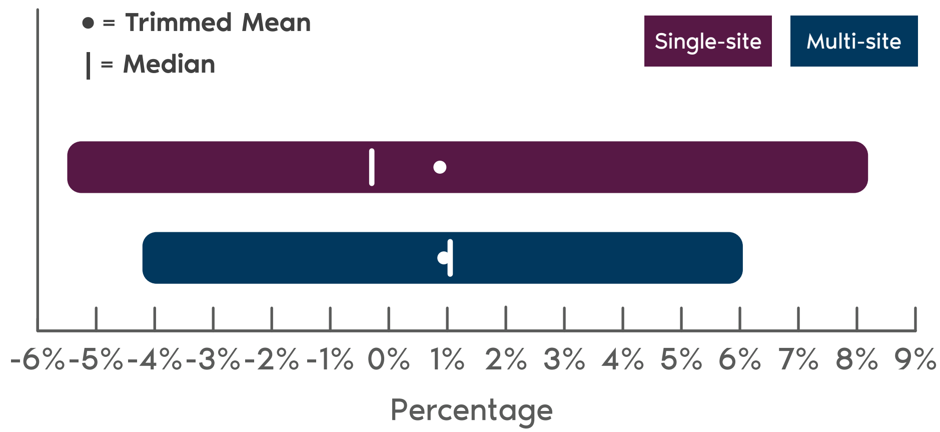
$$\frac{\text{Resident Revenue}^{*} - \text{Resident Expense}^{**}}{\text{Resident Revenue}}$$

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

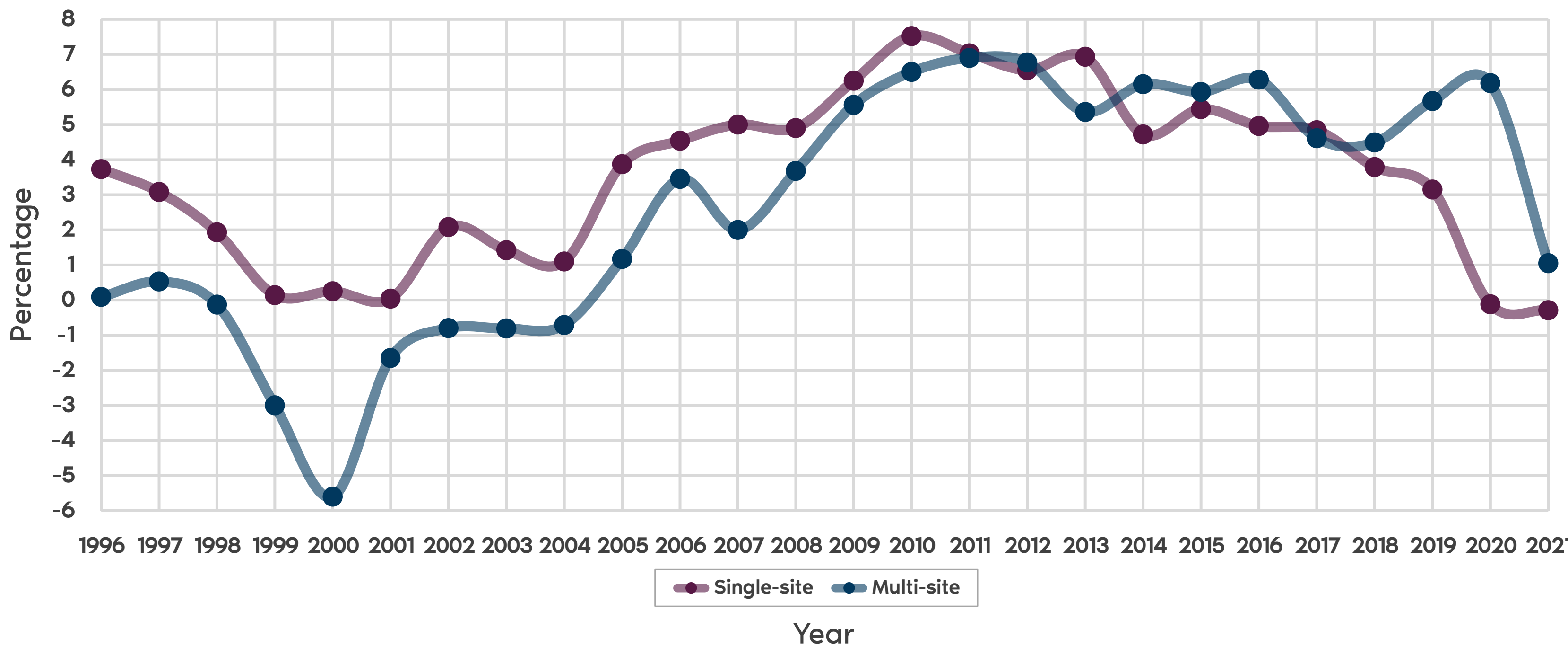
*** Resident Expense = Total Operating Expense, excluding interest expense, depreciation, amortization, and income taxes*

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

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

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.

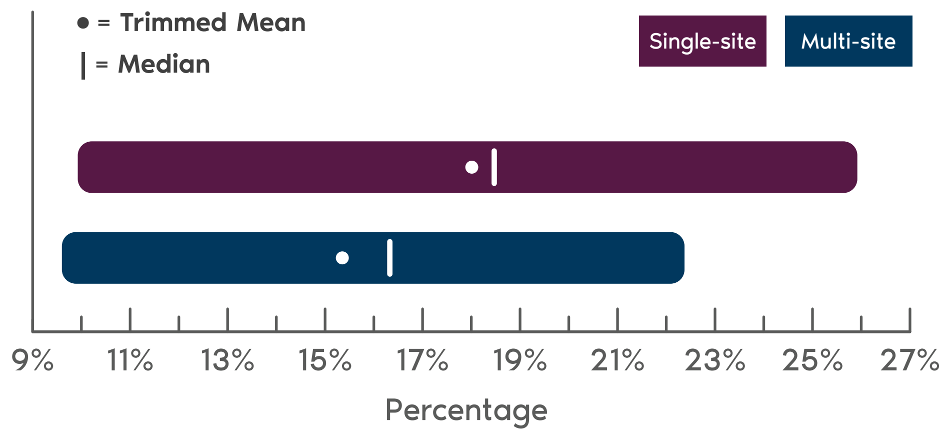
$$\frac{\text{Resident Revenue* + Net Proceeds from Entrance Fees – Resident Expense**}}{\text{Resident Revenue + Net Proceeds from Entrance Fees}}$$

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

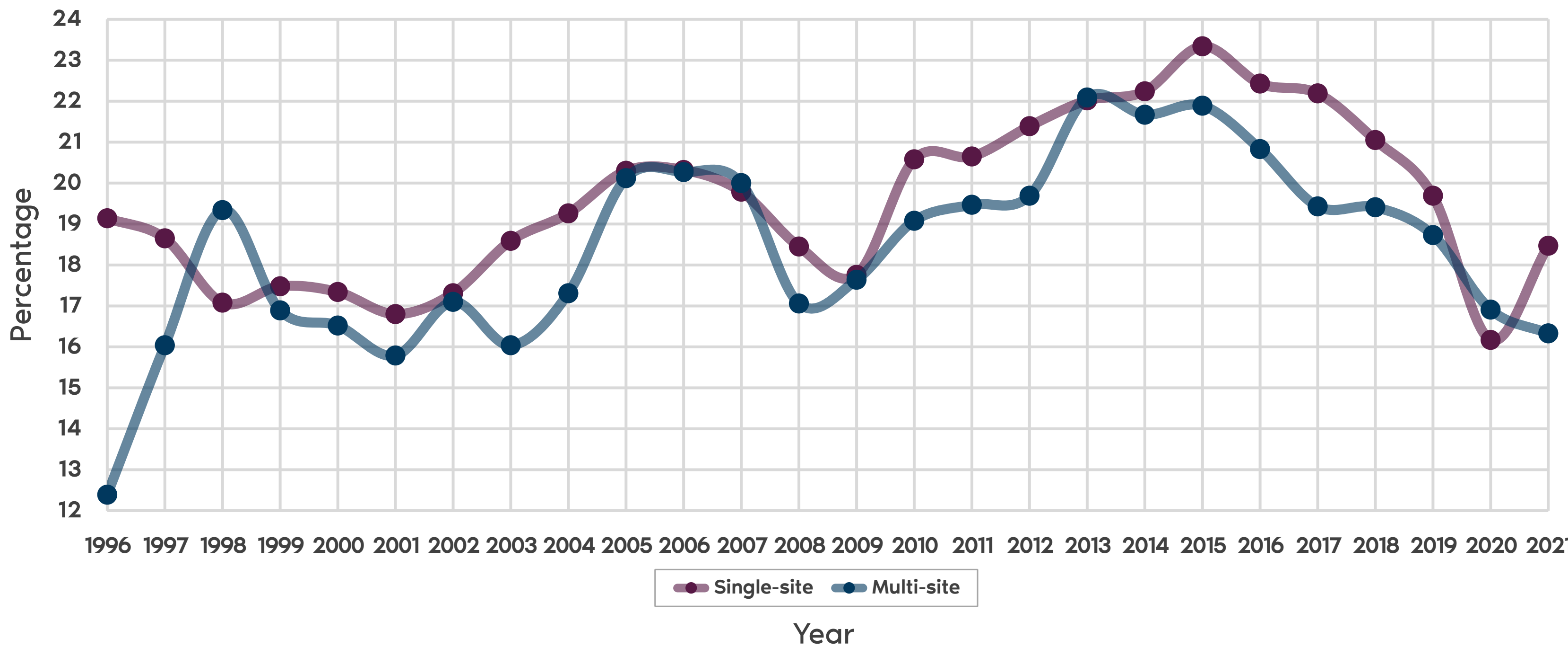
*** Resident Expense = Total Operating Expense, excluding interest expense, depreciation, amortization, and income taxes*

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

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

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).

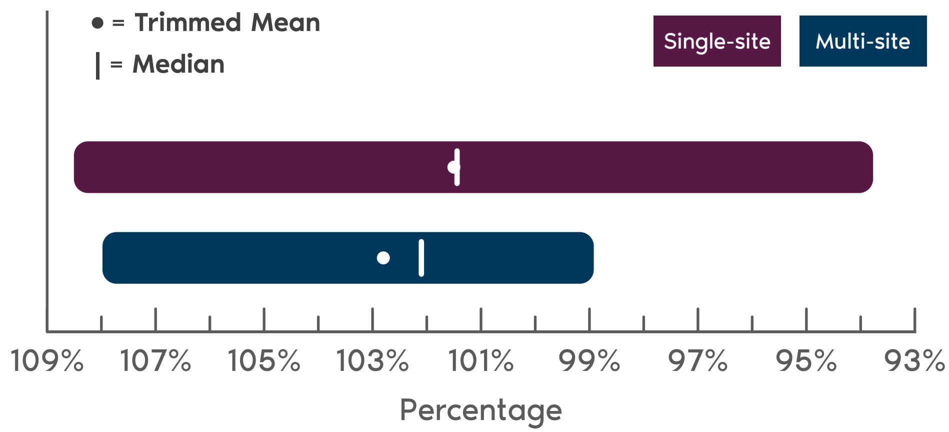
Although an OR of less than 100% is desired, this ratio may push above the 100% mark (a value resulting from cash operating expenses exceeding cash operating revenues) because of the historical dependence of many CCRCs on cash from entrance fees collected to offset operating expenses, particularly interest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

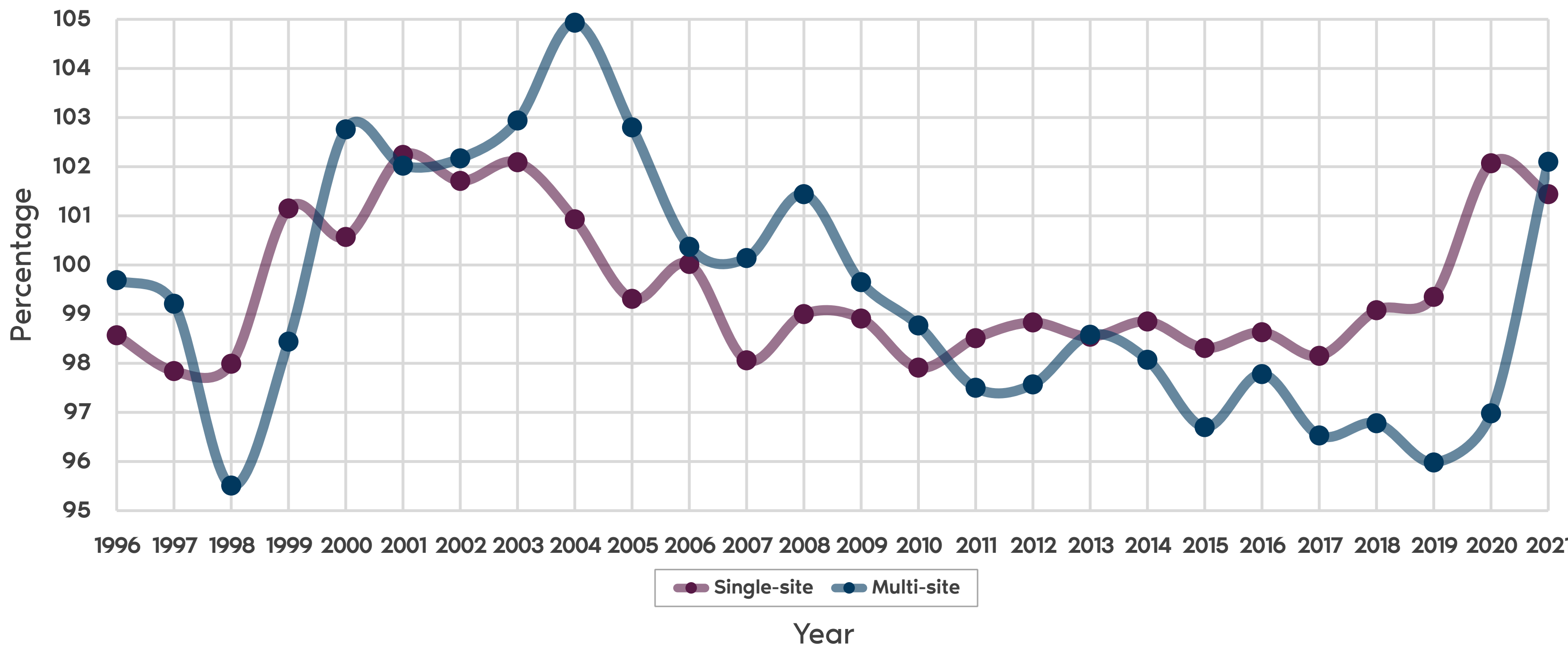
$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

Operating Ratio *continued*

Interquartile Range



Trended Median



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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

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

Operating Margin Ratio

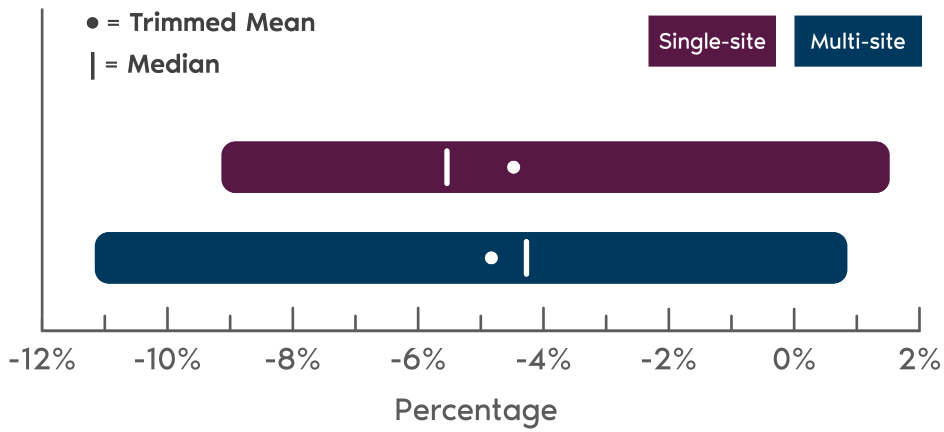
The Operating Margin Ratio (OM) measures the portion of total operating revenues remaining after operating expenses are met. For purposes of calculating the OM ratio, "total operating revenues" are defined to include all operating revenues net of contractual adjustments and charity care. Although financial 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).

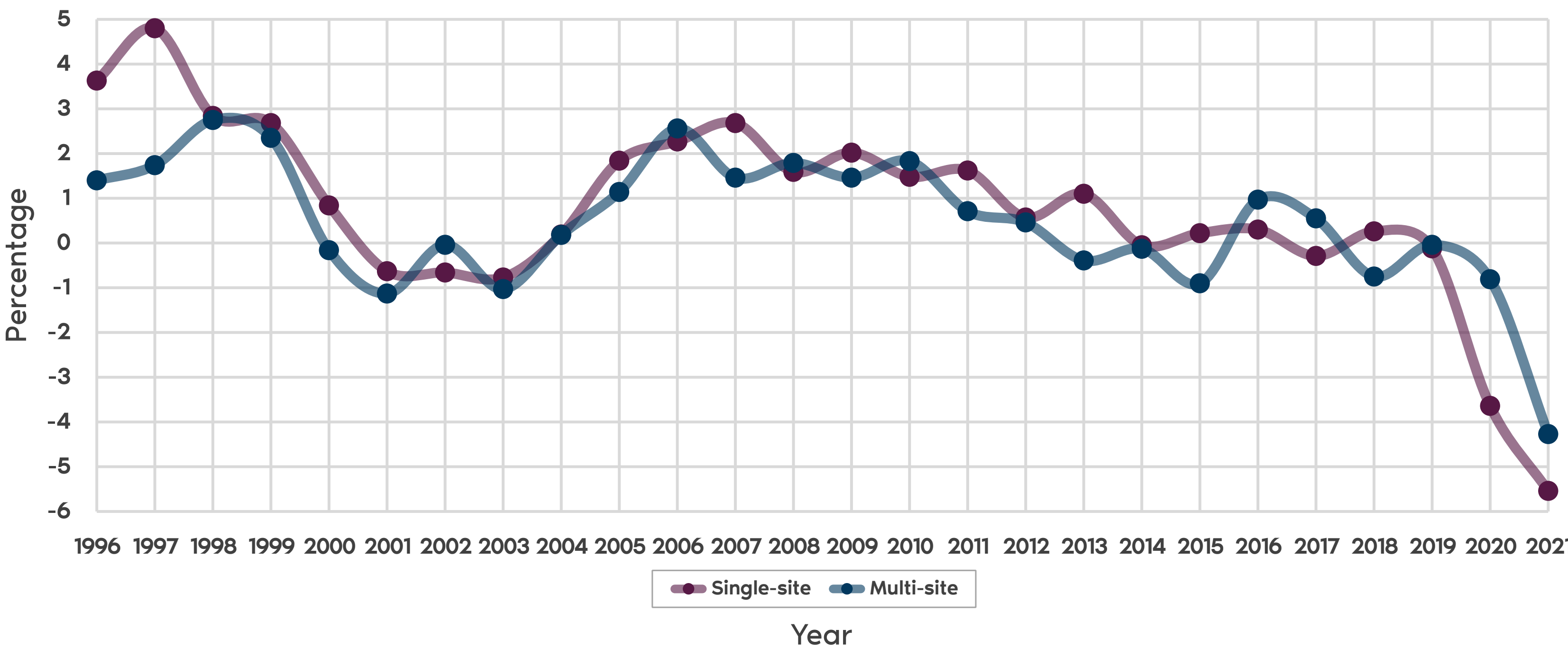
In general, a trend of stable or increasing OM ratio values is favorable. A declining trend and/or negative ratio may signal an inappropriate monthly service fee pricing structure, poor expense control, low occupancy, or operating inefficiencies. If a provider has a low OM ratio but a high TEM ratio, 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.

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

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

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

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.

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