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Wealth Management.

Lourdes Senior Community

REPORT TO AUDIT COMMITTEE
April 21, 2023



Your Plante Moran team



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Agenda

- **Presentation of financial statement audit:**
 - Scope of audit
 - Audit results and required communications
- **Draft financial results and ratio analysis**
- **Accounting update**
- **Plante Moran point of view**



Scope and results of audit





Audit scope

Scope of work

Audit of the Organization's combined financial statements as of and for the year ended Dec. 31, 2022

Financial reporting framework

U.S. Generally Accepted Accounting Principles (GAAP)

Auditing standards

We perform our audit in accordance with auditing standards generally accepted in the United States of America as issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (U.S. GAAS)

Independence

We are independent of the Organization based on the requirements of the AICPA Code of Professional Conduct.

Other reports issued by PM in relation to attest services

Report on Additional Information - Combining financial information



Required communications

Our responsibility under General Accepted Auditing Standards

- Express an opinion on whether the financial statements are fairly presented in conformity with U.S. GAAP.
- Plan and perform the audit to obtain reasonable, not absolute, assurance that the financial statements are free of material misstatement.
- Planning our audit includes obtaining an understanding of internal controls over financial reporting.
- The extent, timing, and nature of our procedures is determined based on risk assessments and our understanding of control and inherent risks to enable us to express an opinion on the financial statements.
- Communicate significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process.

Management's responsibilities

- Financial statements
- Selection and use of appropriate accounting policies
- Adopting and maintaining sound internal controls
- Evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued

Opinion

Unmodified opinion



Required communications

Significant accounting policies

- Note 2 to the financial statements
- No significant or unusual transactions occurred

Significant accounting estimates

- Management's estimate of the following included in the combined financial statements:
 - » Allowance for doubtful accounts
 - » Employee Retention Credit
- No significant changes in methodology for allowance estimate
- We evaluated key factors and assumptions used
- Estimates are reasonable in relation to FS taken as a whole

Significant disclosures

- Note 15 – COVID-19 and Related Funding
 - Impact of COVID-19 on the Organization
 - Significant funding received by the Organization through the CARES Act
-



Required communications

Disagreements with management or difficulties encountered

- None

Corrected and uncorrected misstatements

- None

Other matters

- Discussions with management prior to and during our audit occurred in the normal course of our professional relationship
 - Management to provide a management representation letter
 - No consultations with other accountants
-



Draft Financial Results and Ratio Analysis





Evaluating financial position and performance

We have found one of the best ways to evaluate your financial position and performance is to use financial ratios. Ratios are a valuable tool as they can:

- Identify financial strengths and weaknesses
- Identify trends or unusual operating results
- Provide comparisons among providers regardless of actual dollar amounts

The benchmarks we choose for your organization:

- **CARF Benchmark** – 2022 Financial Ratios and Trend Analysis of CARF-Accredited CCRC organizations (data through 2021) that were accredited by CARF. The group of organizations included in the ratios include 79 single-site providers.
- Please note that these ratios do have limitations. Specifically, CCRCs will have different characteristics such as varying bed compliment or contract type that make certain benchmark ratios difficult to obtain. If your organization's make up is significantly different from this peer group we recommend setting your own targets for key ratios that help guide your future goals.
- The arrow indicates the favorable direction for this graph.



¹CARF-CCAC stands for Commission on Accreditation of Rehabilitation Facilities - Continuing Care Accreditation Commission



Ratio definitions



Liquidity ratios

- These ratios are intended to measure an entity's ability to meet the short-term (less than one year) cash needs of its ongoing operations.
- As is true of any business, a healthcare provider needs to make sure it has sufficient cash or easily convertible investments to meet its payroll, to pay for supplies and services, to fund debt service payments, and to provide essential maintenance and repairs.



Capital structure ratios

- These ratios focus on an entity's balance sheet strengths and weaknesses, and provide an important quantification of the link between annual operating performance and an entity's debt obligations.
- The ratios measure the relative amount of debt a provider has undertaken and are useful in assessing the long-term solvency of an entity.



Margin and profitability ratios

- These ratios indicate the excess or deficiency of revenue over expenses.
- The ratios measure an entity's ability to generate annual operating surpluses, to provide for future resident care expense and capital and program needs, and to handle unexpected internal and external events.



Combined Balance Sheet

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash	\$ 606,454	\$ 1,925,552
Residents accounts receivable - Net (Note 3)	913,487	761,391
Pledges receivable	53,169	-
Due from third-party payors	79,775	57,563
Employee retention credit receivable (Note 15)	3,427,473	-
Prepaid expenses and other assets	362,265	391,796
	<u>5,442,623</u>	<u>3,136,302</u>
Total current assets	5,442,623	3,136,302
Investments and Assets Limited as to Use (Note 4)	27,019,792	30,448,786
Property and Equipment (Note 5)	32,287,232	31,129,028
Other Assets		
Interest rate swap (Note 7)	1,037,281	-
Other noncurrent assets	21,771	41,245
	<u>1,059,052</u>	<u>41,245</u>
Total other assets	1,059,052	41,245
Total assets	<u><u>\$ 65,808,699</u></u>	<u><u>\$ 64,755,361</u></u>



Combined Balance Sheet (Continued)

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 352,515	\$ 370,129
Current portion of long-term debt (Note 6)	597,030	580,284
Due to third-party payors	208,268	710,864
Accrued liabilities and other:		
Accrued compensation and related liabilities	178,428	140,175
Accrued compensated absences	100,367	118,423
Construction in progress retention payable	-	720,406
Other	791,315	718,270

Total current liabilities 2,227,923 3,358,551

Long-term Debt - Net of current portion (Note 6) 16,044,073 13,350,704

Other Long-term Liabilities

Interest rate swap (Note 7)	-	265,985
Other	2,297	21,771

Total other long-term liabilities 2,297 287,756

Total liabilities 18,274,293 16,997,011

Net Assets

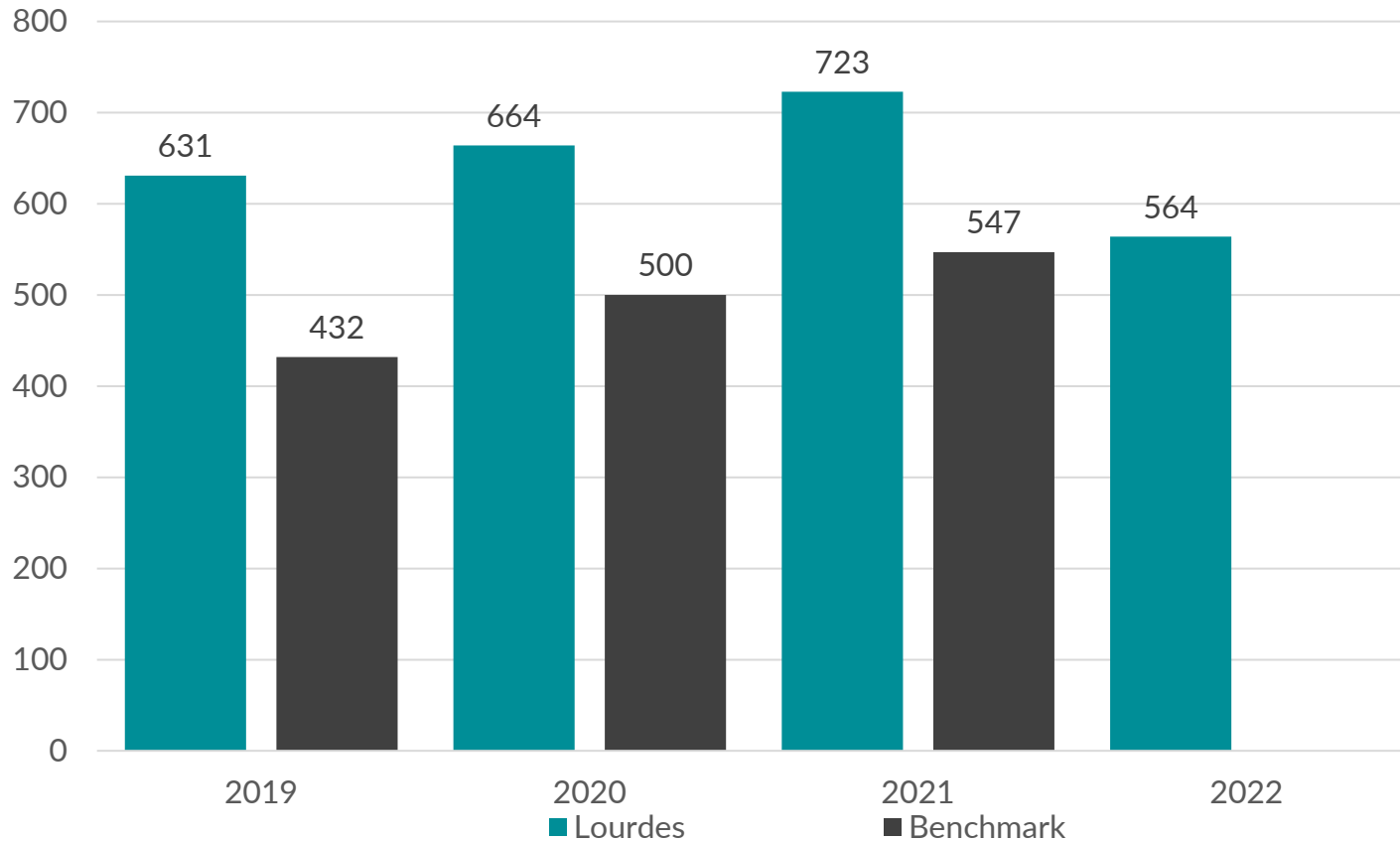
Without donor restrictions (Note 8)	46,982,436	47,239,724
With donor restrictions (Note 8)	551,970	518,626

Total net assets 47,534,406 47,758,350

Total liabilities and net assets \$ 65,808,699 \$ 64,755,361



Days cash on hand

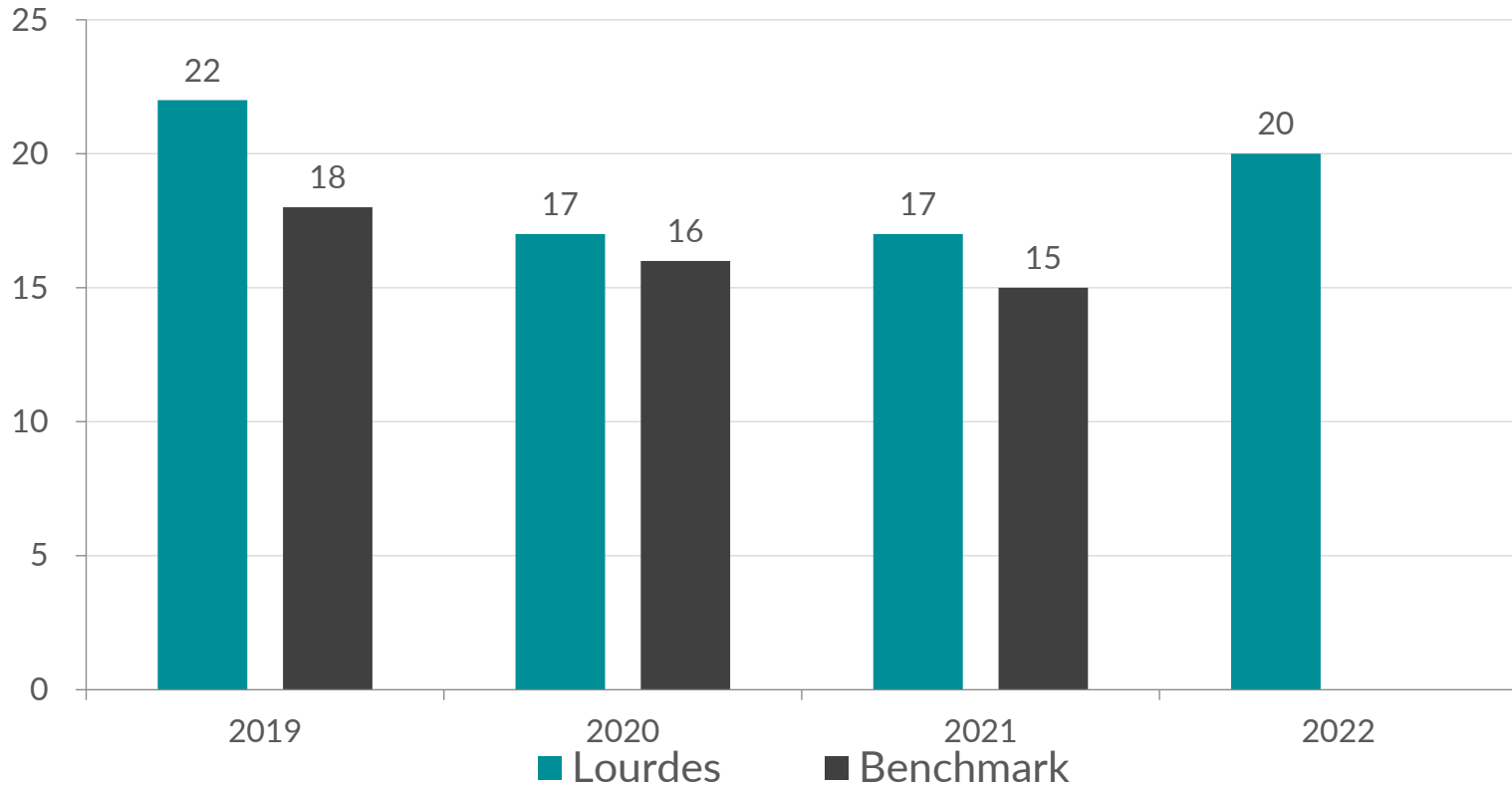


Days cash on hand is the number of days of operating expenses, excluding depreciation and other significant noncash expenses, in cash and investments at year end.

- Represents the number of days' expenses that could be paid from existing cash and investments
- Indicates the ability to sustain a period of low or no cash collections, yet continue to meet obligations
- **Covenant requirement identified is 120 days**



Days in net accounts receivable

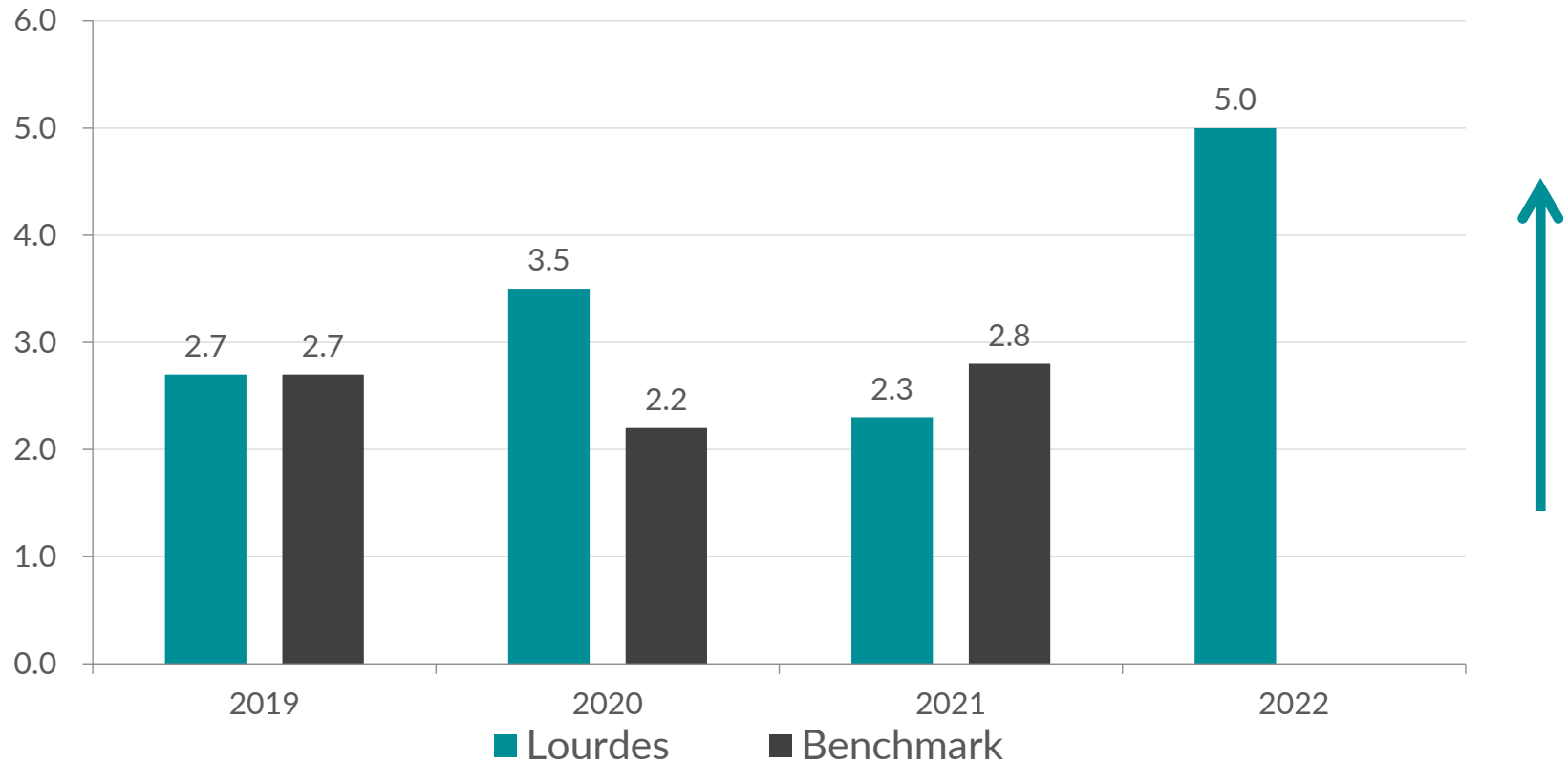


Days in accounts receivable is net resident accounts receivable divided by average daily net resident revenue.

- The ratio is an indicator of good coding, prompt billing, and timely collection efforts.
- A lower ratio indicates a reduced risk of noncollection and higher cash on hand; it should be monitored in conjunction with bad debt expense ratio.



Historical debt service coverage ratio

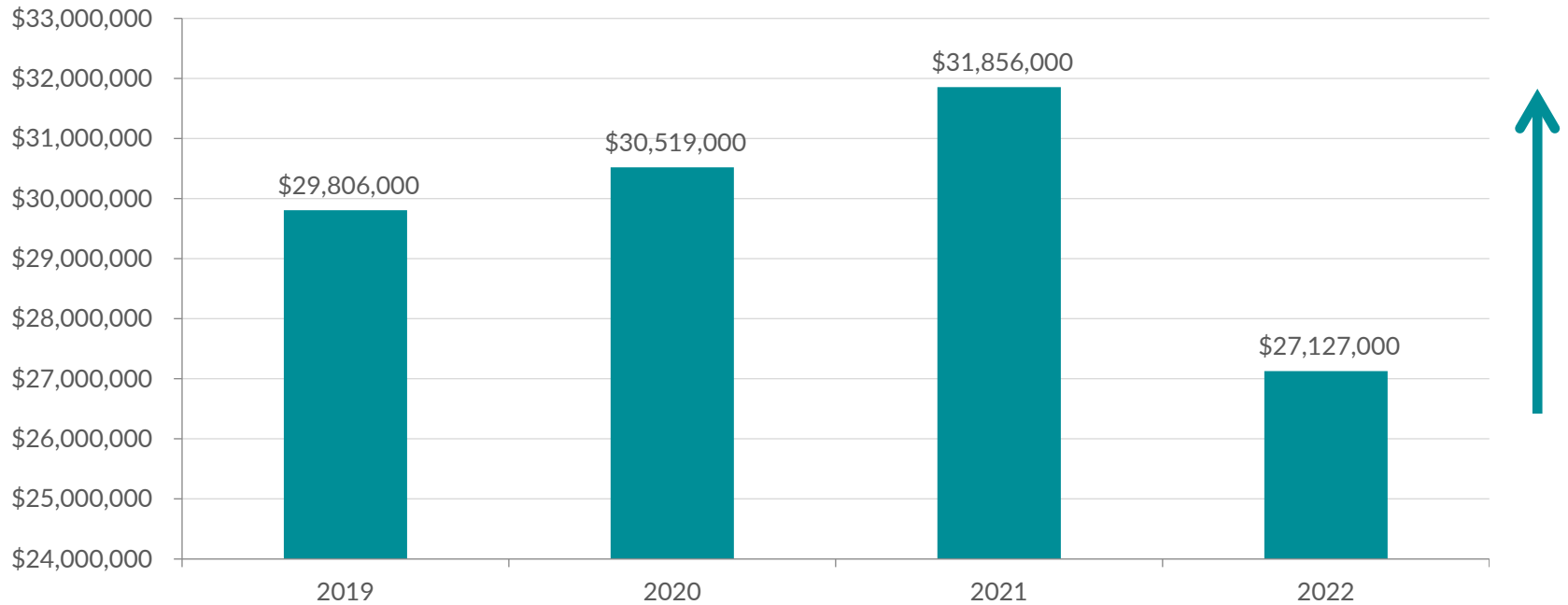


Debt service coverage ratio is the change in net assets (bottom line) plus depreciation, amortization, and interest, divided by principal and interest payments made during the year.

- The ratio is an indicator as to how many times annual principal and interest payments on all debt can be made with annual operating earnings.
- The ratio is scrutinized by institutions involved in financing arrangements.
- Covenant requirement for 2019 bond series is a 1.20 to 1.00 ratio
- 2022 ratio includes Employee Retention Credit of \$3.4 million



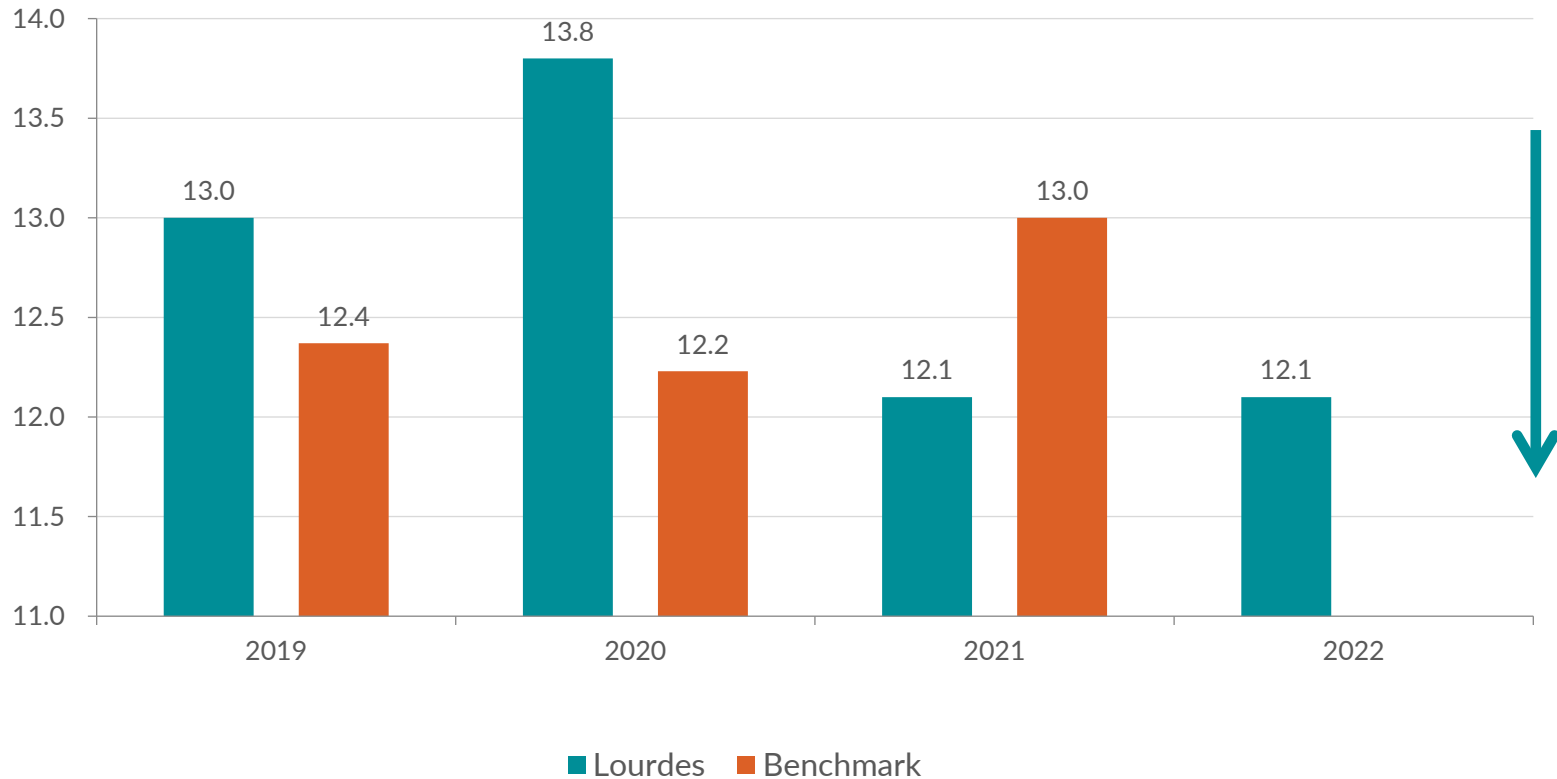
Unrestricted cash and investments



- Covenant requirement for 2019 bond series is **\$5 Million** of cash and unrestricted investment
- The covenant considers board-designated investments to be unrestricted



Average age of facility



Average age of organization is accumulated depreciation divided by depreciation expense.

- The index would indicate how old are, on average, the facilities, and equipment in use.
- The index would also indicate if the organization requires significant investment in renovations and/or replacement of buildings or equipment.



Combined Statement of Operations

	<u>2022</u>	<u>2021</u>
Operating Revenue		
Net resident service revenue (Note 14)	\$ 16,380,789	\$ 16,031,178
Other	37,050	43,787
Net assets released from restrictions used in operations	3,934,922	960,666
	<u>20,352,761</u>	<u>17,035,631</u>
Operating Expenses		
Salaries, payroll taxes, and benefits	7,824,929	7,542,397
Supplies	1,380,211	952,089
Contracted health care services	1,658,570	1,564,212
Repairs and maintenance	305,852	353,944
Food and other	666,526	581,223
Medicaid provider bed tax	555,426	618,842
Utilities	643,710	613,445
Depreciation	1,544,527	1,514,763
Interest	363,075	327,469
Bad debt expense	100,660	112,681
Loss on asset disposal	3,751	236,847
Demolition of building	695,819	-
Management and general	2,901,899	2,876,389
	<u>18,644,955</u>	<u>17,294,301</u>
Operating Income (Loss)	1,707,806	(258,670)



Combined Statement of Operations (Contd.)

Operating Income (Loss)	1,707,806	(258,670)
Other Income (Expense)		
Investment income - Net	1,450,827	2,563,830
Contributions	1,514	1,213
Development expenses	(549,478)	(423,788)
Unrealized gain on interest rate swap (Note 7)	1,303,266	598,523
Other income	3,808	8,622
Unrealized (loss) gain on investments	(4,243,010)	696,503
Forgiveness of debt (Note 15)	-	2,051,000
Loss on debt extinguishment (Note 6)	-	(40,553)
	<hr/>	<hr/>
Total nonoperating (expense) income	(2,033,073)	5,455,350
	<hr/>	<hr/>
Excess of Revenue (Under) Over Expenses	(325,267)	5,196,680
Net Assets Released from Restrictions for Capital Purchases	67,979	28,132
	<hr/>	<hr/>
(Decrease) Increase in Net Assets Without Donor Restrictions	\$ (257,288)	\$ 5,224,812

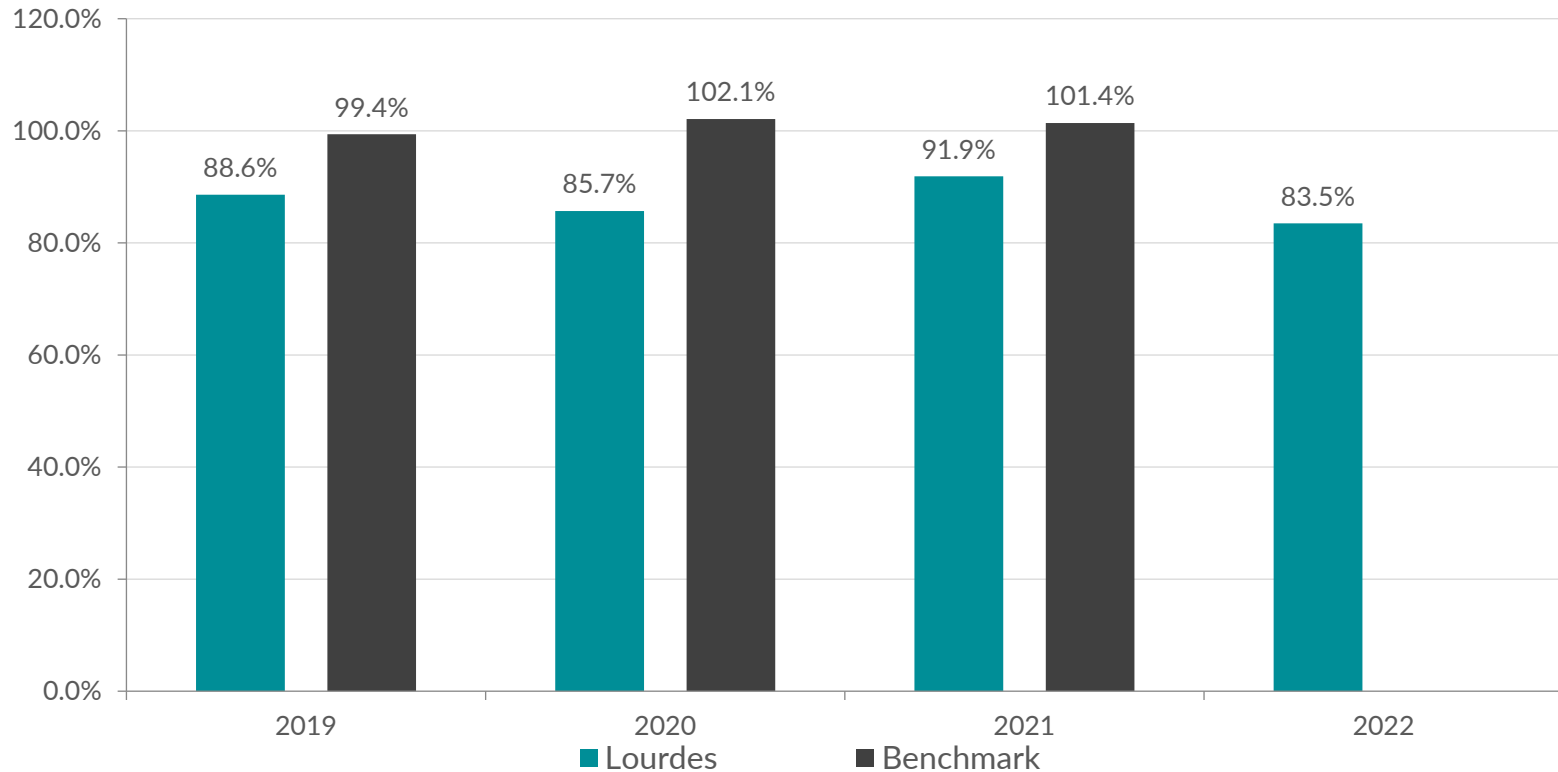


Combined Statement of Changes in Net Assets

	<u>2022</u>	<u>2021</u>
(Decrease) Increase in Net Assets without Donor Restrictions	\$ (257,288)	\$ 5,224,812
Net Assets with Donor Restrictions		
Restricted contributions	4,036,245	1,218,776
Net assets released from restrictions	<u>(4,002,901)</u>	<u>(988,798)</u>
Increase in net assets with donor restrictions	<u>33,344</u>	<u>229,978</u>
(Decrease) Increase in Net Assets	(223,944)	5,454,790
Net Assets - Beginning of year	<u>47,758,350</u>	<u>42,303,560</u>
Net Assets - End of year	<u><u>\$ 47,534,406</u></u>	<u><u>\$ 47,758,350</u></u>



Operating ratio



Operating ratio is total operating expenses (less depreciation and amortization) as a percent of total operating revenue (less amortization of deferred revenue from entrance fees).

- This ratio indicates whether current year cash operating revenue is sufficient to cover current year cash operating expenses.
- This ratio is a more stringent test of an entity's ability to support annual operating expenses than operating margin ratio.
- An operating ratio of less than 100 percent is desired.



Accounting Update



Recent Accounting Standards

Measurement of Credit Losses on Financial Instruments

ASU 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*

- Effective date: Organization's year ending December 31, 2023
 - Application: Modified retrospective
 - Summary – Require organizations to measure expected credit losses on financial instruments, including trade receivables, based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount.
-

Facilitation of the Effects of Reference Rate Reform on Financial Reporting

ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.*

- Effective date: Organization may elect to adopt at any point through December 31, 2024
 - Application: Prospective
 - Summary – provides optional expedients for hedge accounting, removing the requirement from using the London Interbank Offered Rate (LIBOR).
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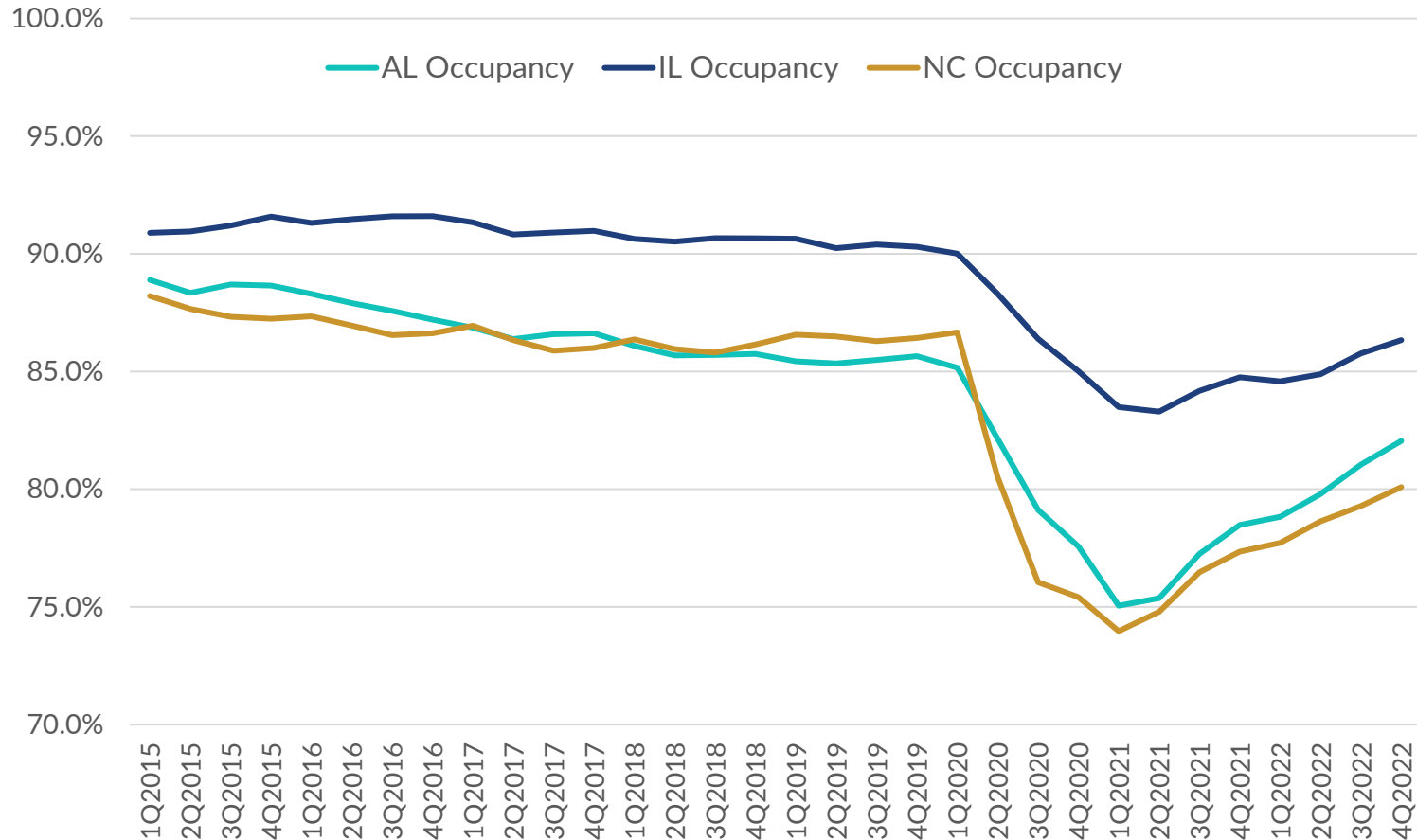
Plante Moran Point of View

2023 Senior Care and Living Industry Update



Occupancy Trends

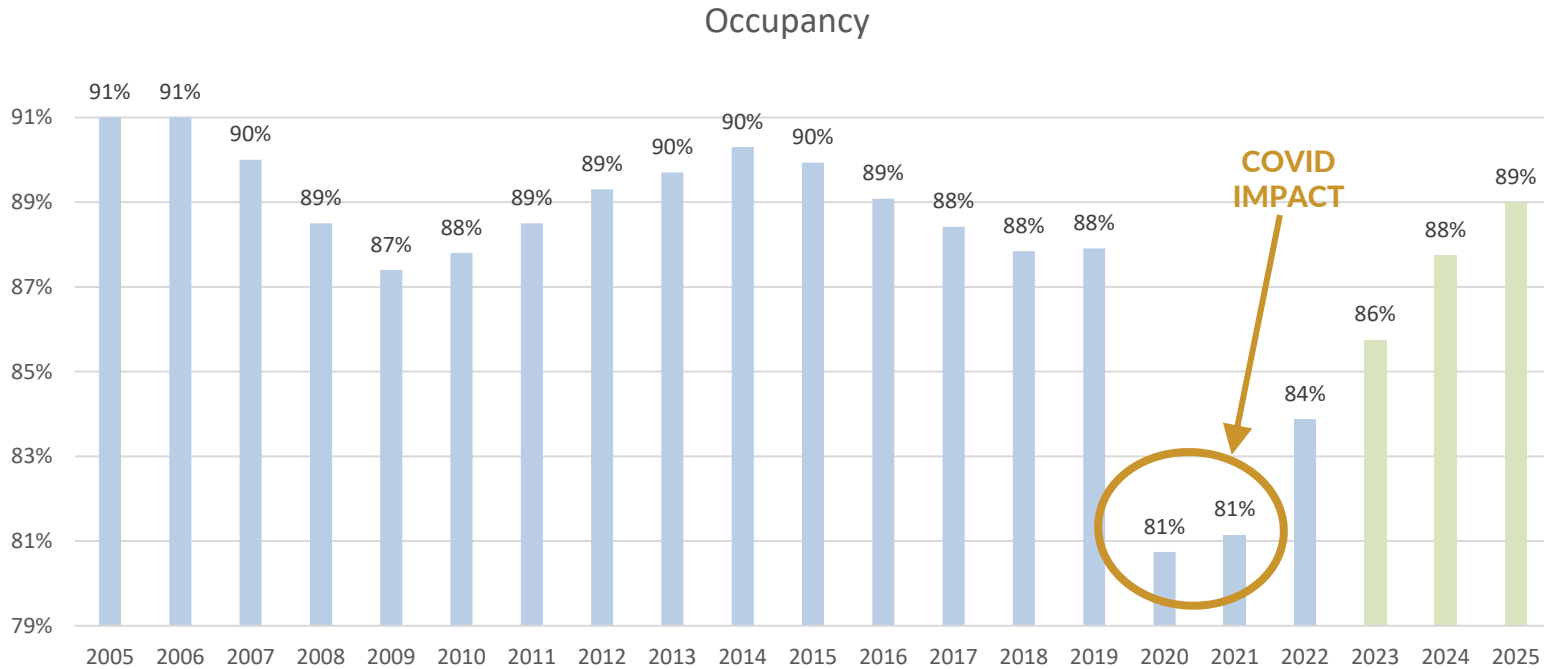
Occupancy Trend - All Markets (2015-2022)



Source: NIC MAP Data Service



Occupancy Trends



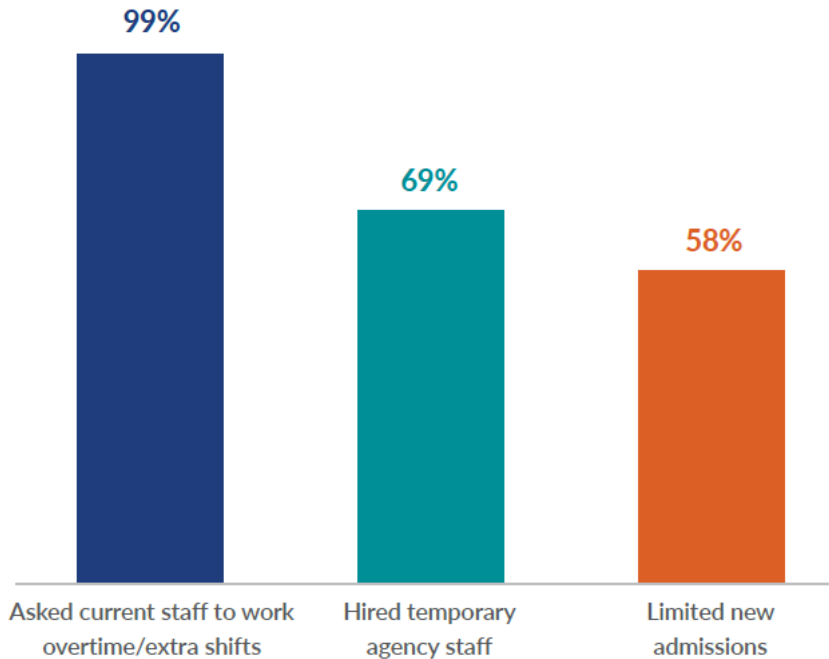
Source: NIC MAP® Data Service: 2005-2007 represent 31 primary markets, 2008-2014 represents 99 primary and secondary markets, 2015-2022 represent 140 top markets, 2023-2025 are based on PMLF and Green Street estimates



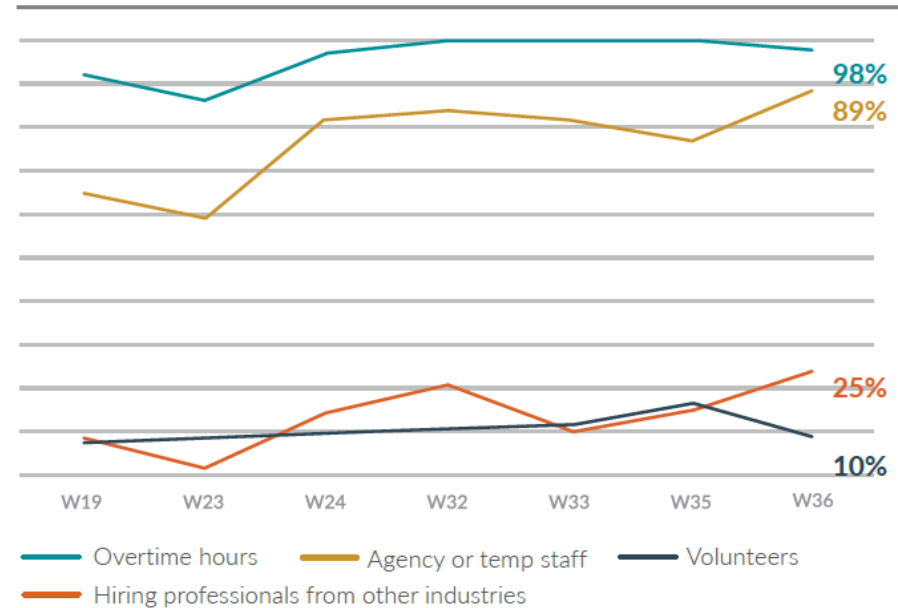
Workforce Challenges

Staffing Shortages

58% of nursing homes limiting new admissions due to staffing shortages



How senior housing providers are tackling staffing shortages



Source: NIC Executive Survey Insights

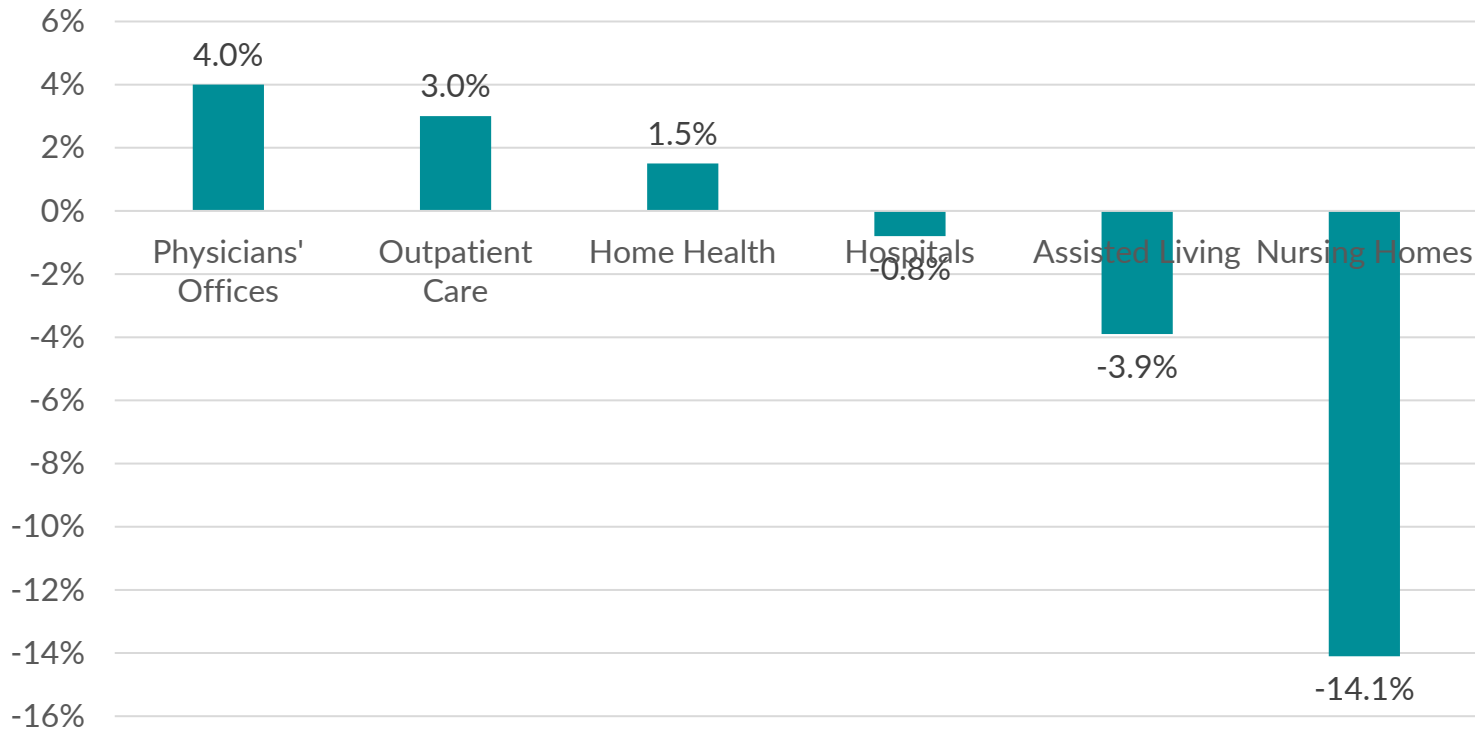
Source: American Health Care Association & National Center for Assisted Living, State of the Long Term Care Industry: Survey of nursing home and assisted living providers show industry-facing significant workforce crisis, September 2021.



Workforce Challenges

Staffing Shortages

Percent change in healthcare sector employment:
February 2020 - July 2022

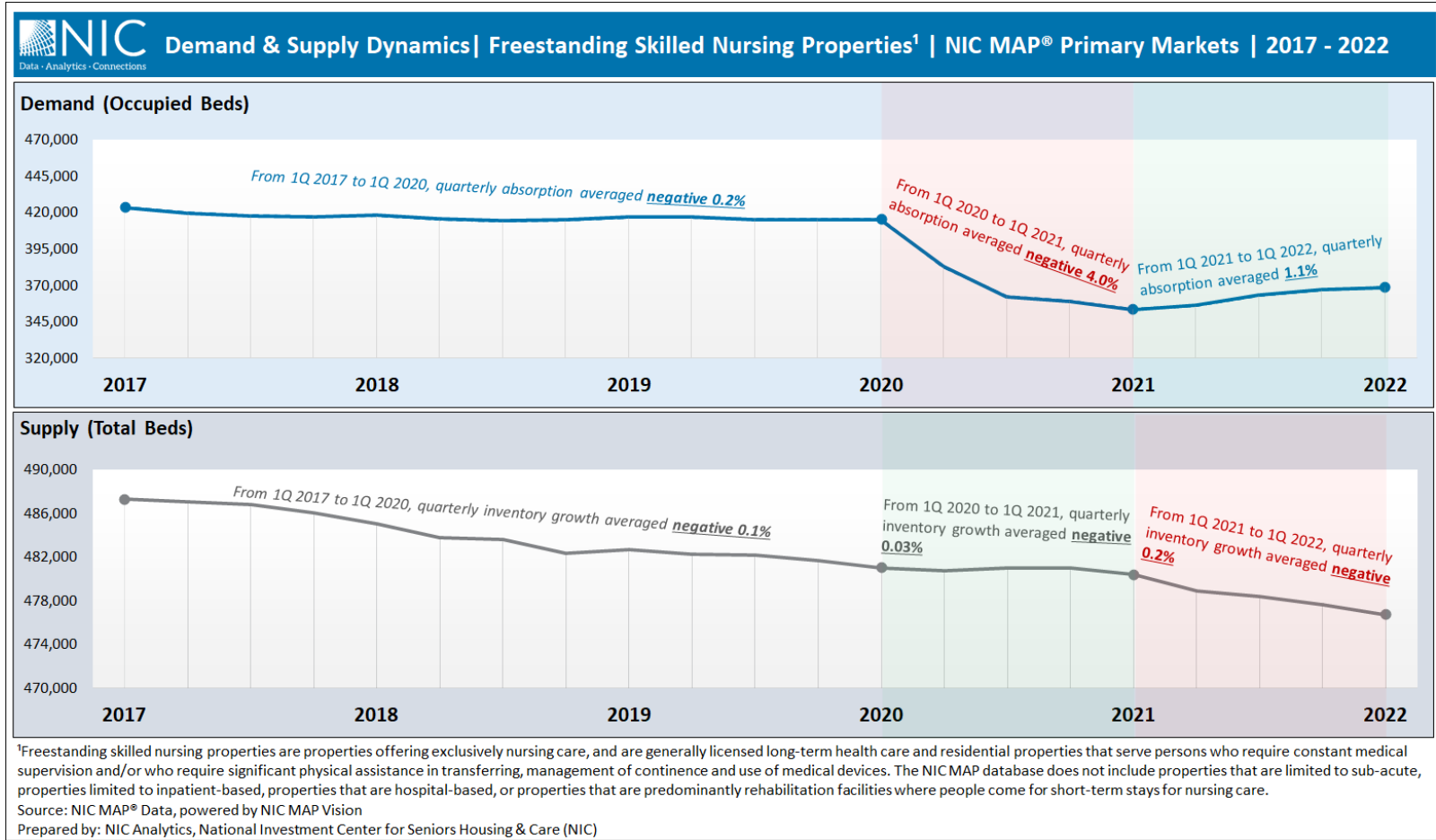


Source: American Health Care Association & National Center for Assisted Living, BLS January Jobs Report, July 2022



SNF Trends

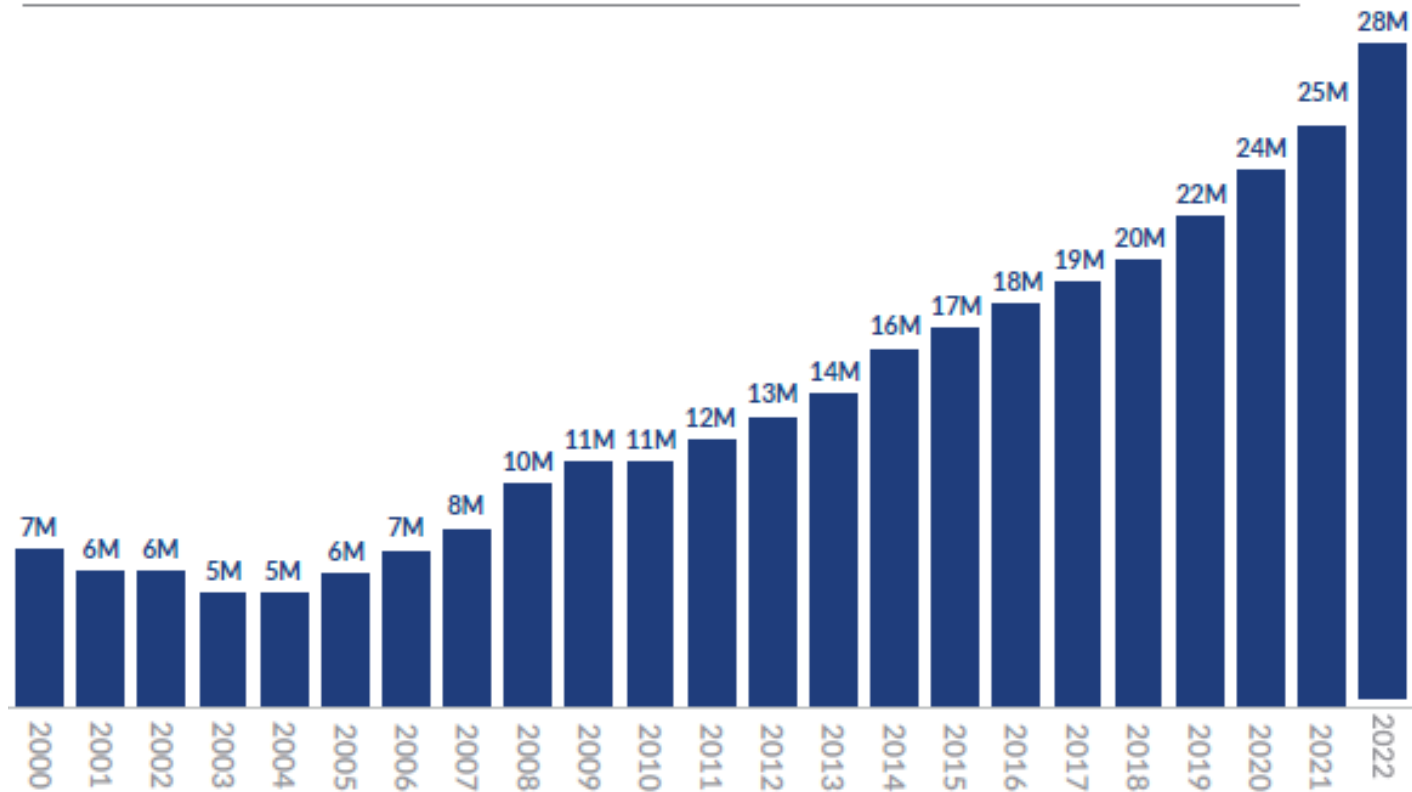
Nursing Home Bed Reduction - National





Medicare Advantage Trends

Total Medicare Advantage enrollment, 2000-2022



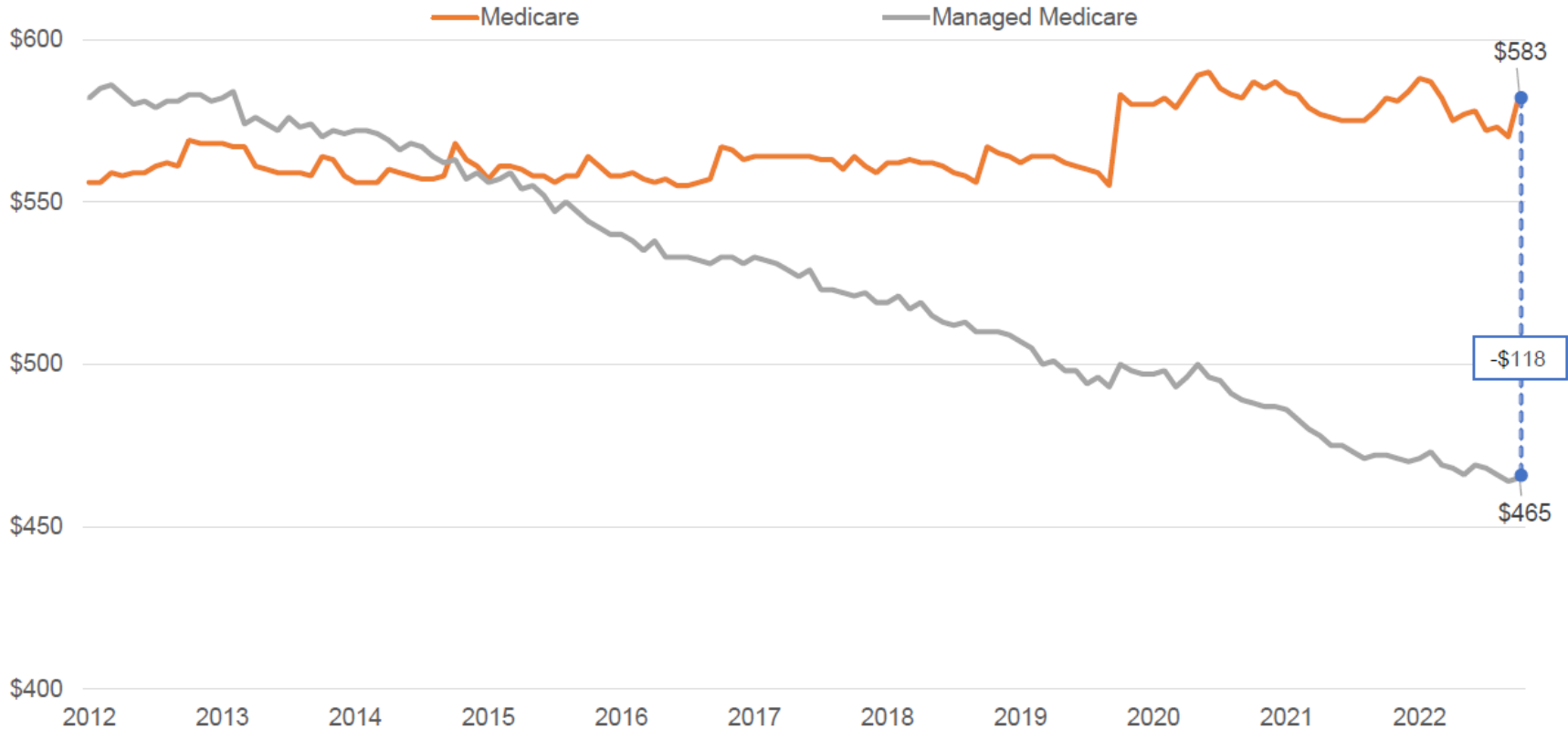
Source: KFF, Medicare Advantage in 2021: Enrollment Update and Key Trends, June 21, 2021



Medicare Advantage Trends

Medicare vs. Medicare Advantage Revenue Differential Widens

Revenue Per Patient Day (RPPD) | January 2012 – October 2022

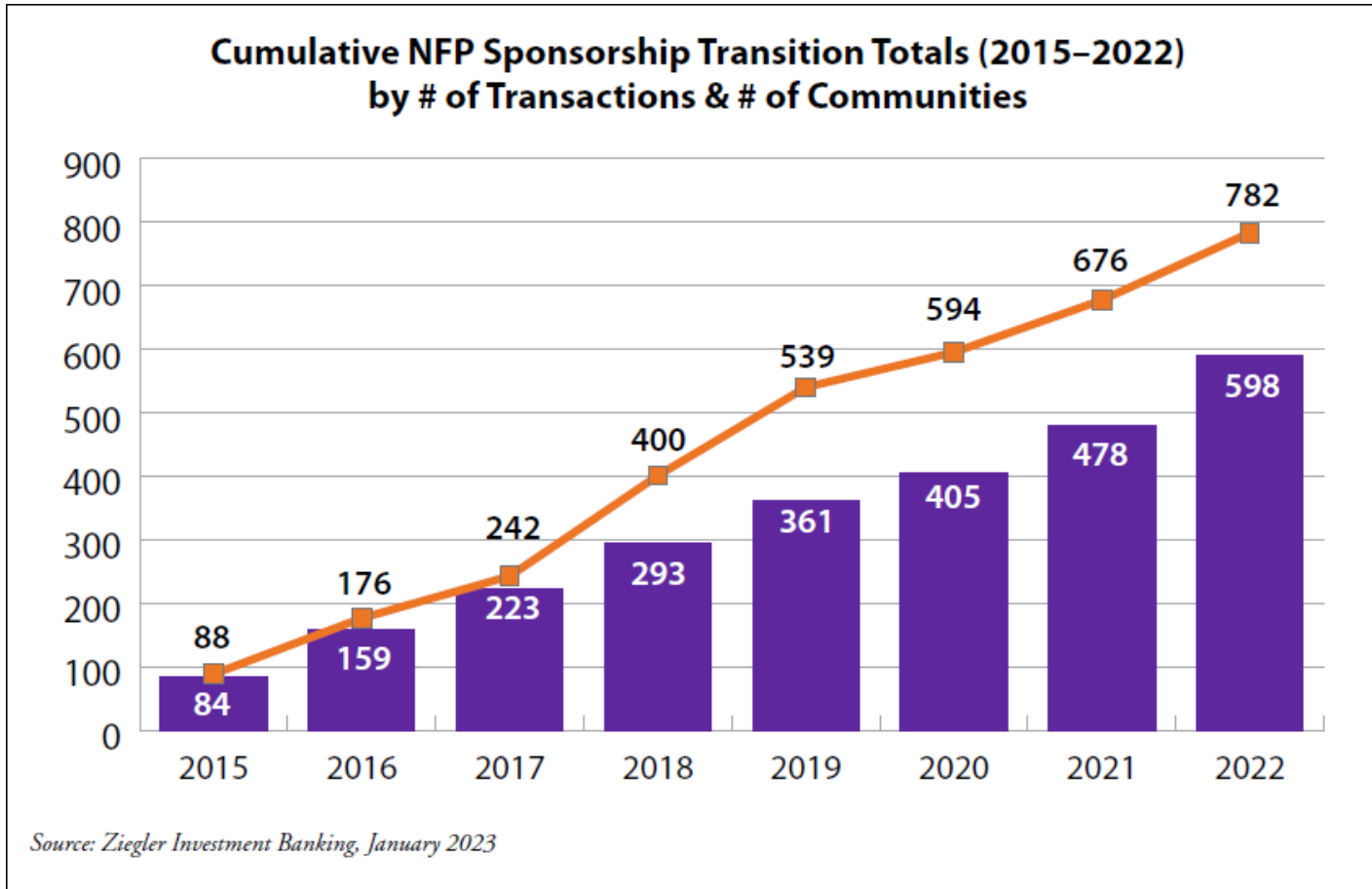


Source: NIC MAP® Data, powered by NIC MAP Vision



Senior Living Growth & Consolidation












Not-for-Profit Senior Living Sector Consolidation Trends





Senior Living Growth & Consolidation

Drivers of Senior Living Sector Consolidation

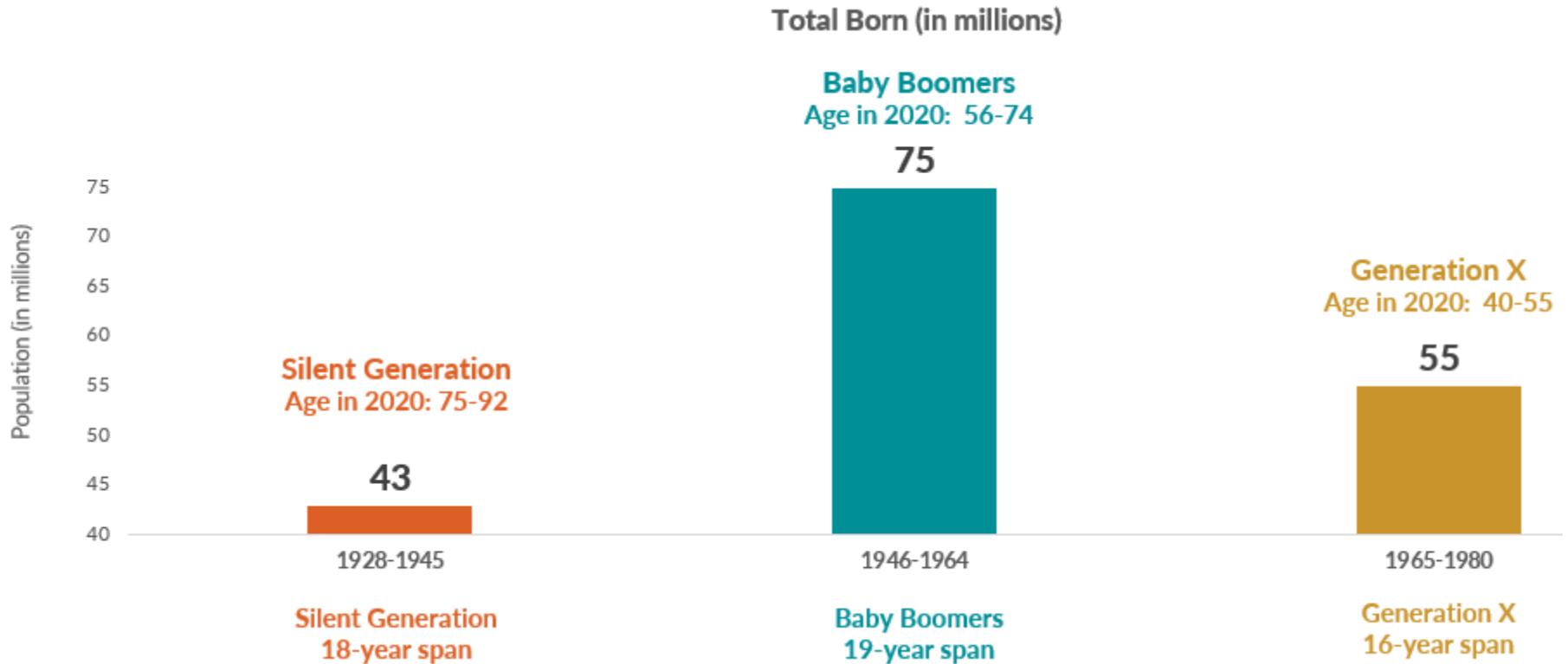
	1990	2000	2010	2022
 Ability to Attract & Retain Talent		✓	✓	✓
 Complexities of Healthcare		✓	✓	✓
 Financial Pressures			✓	✓
 Leadership Turnover		✓	✓	✓
 Competition			✓	✓
 Board Strength				✓
 Technology Demands		✓	✓	✓
 Access to Capital	✓		✓	✓
 Reinvestment Requirements				✓
 Health System Consolidation		✓	✓	✓
 Diversify Service Lines				✓

COVID-19 ACCELERATED



Demographic Tailwinds – Long Term US

First Baby Boomers will be 80 in **2026**



Source: US Census Bureau



Demographic Tailwinds – Long Term US

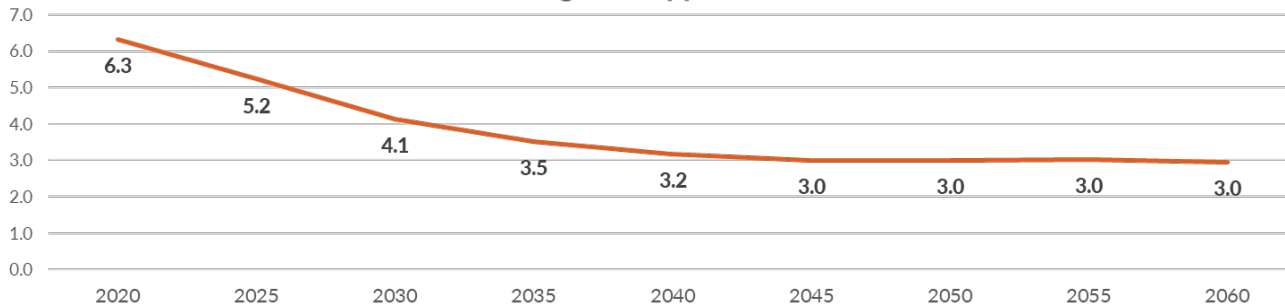
Not only is the 80+ population growing, but the caregiver support ratio is also decreasing.

Caregiver support ratio represents the 45-64 population divided by the 80+ population. This means there will be less people to care for the 80+ population, causing more seniors to seek housing and care outside of their home.

- At any given point, 6 percent of adult children serve as caregivers, and 17 percent will take on this role at some point in their lives.
- Those who do provide care devote an average of 77 hours per month, which can take a toll on both the finances and health of the caregiver.

Caregiver Support Ratio

Caregiver:
Population
aged 45-64



Caregiver
Support Ratio:
 $\frac{\text{Population 45-64}}{\text{Population 80+}}$

	2020	2025	2030	2035	2040	2045	2050	2055	2060
Population 45-64	83,398	81,472	81,329	84,314	89,136	92,997	95,437	96,838	96,973
Population 80+	13,209	15,586	19,683	23,939	28,119	30,989	31,878	32,097	32,799
Caregiver Support Ratio	6.31	5.23	4.13	3.52	3.17	3.00	2.99	3.02	2.96

Source: US
Census Bureau



Questions?

