DEFINING AGE

LeadingAge

ANNUAL MEETING AND EXPO

AT MUSIC CITY CENTER

OCTOBER 19–22, 2014

DOWNTOWN NASHVILLE, TN

FINANCIAL RATIOS FOR CCRCS: INSIGHTS FROM BENCHMARKING

SESSION 53-C | MONDAY, OCTOBER 20TH | 3:45 – 5:15 PM

PRESENTERS:

MICHAEL CONNELL
Chief Financial Officer
Asbury Communities

BENJAMIN HOYLE
Chief Executive Officer
Pennswood Village

MICHAEL KELLY
Managing Director
AMY CASTLEBERRY
Senior Vice President
Ziegler

MARK ROSS
Partner and Practice Leader
Baker Tilly

SESSION OBJECTIVES & OVERVIEW

- Discuss the benefits and limitations of financial ratio analysis and how financial ratios can serve as strategic management tools.

- Gain insights into current CCRC financial trends from the 2014 Financial Ratios and Trend Analysis publication.

- Learn about what's new and what's coming as it relates to accounting standards and impacts on financial ratios

- Discuss techniques for using ratios to communicate the financial position and operating results of a CCRC to various stakeholders.

THIS SESSION IS PRESENTED BY THE CARF-CCAC FINANCIAL ADVISORY PANEL

Jeffrey Boland	Reinsel Kuntz Lesher LLP
Dave Bond	CCRC Actuaries, LLC
Karen Christiansen	ACTS Retirement-Life Communities, Inc.
Michael Connell	**Asbury Communities, Inc.**
Michael Flynn	Friendship Senior Options
Amy Hayman	Cain Brothers & Company
Michael Kelly	**Ziegler**
Geary Milliken	Carroll Lutheran Village
Timothy Myers	The Kendal Corporation
Andrew Nesi	Herbert J. Sims
J. Wickliffe Peterson	Senior Resource Group, LLC
Mark Ross	**Baker Tilly**

INFORMATION ABOUT CARF-CCAC

- For general information:
  - Booth #1642
  - www.carf.org/aging, 1-888-281-6531

- CARF-CCAC Peer Accreditation Surveyors may receive CARF continuing education credits for this session
  - Sign the orange sheet in back of room upon exit

- To become a peer surveyor:
  - Please go to www.carf.org/surveyor for downloadable application

AGENDA

Section 1 - Overview

Section 2 - Examination of the 2014 Median Ratios

Section 3 - Operating Benchmarks

Section 4 - What's New and What's Coming?

Section 5 - Case Studies: Financial Ratios:

- from a Multi-Site Perspective: Asbury Communities
- from a Single-Site Perspective: Pennswood Village

Q & A

SECTION 1

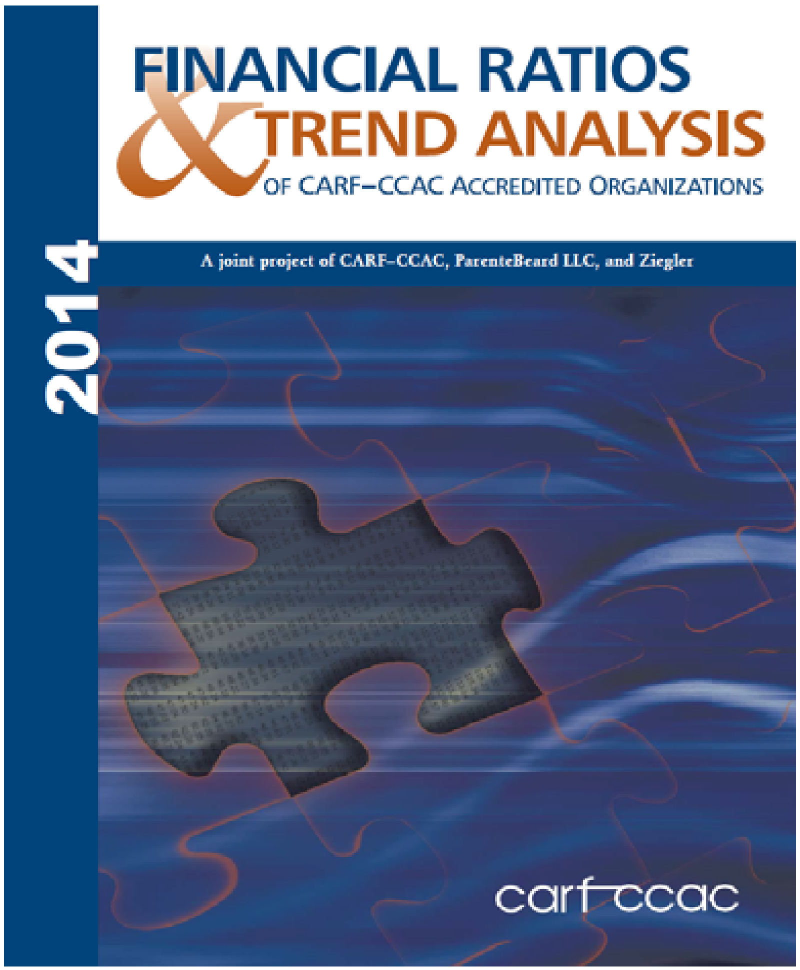
OVERVIEW

MICHAEL KELLY
Managing Director
Ziegler

BACKGROUND: 2014 FINANCIAL RATIOS & TREND ANALYSIS

- Joint project of CARF-CCAC, Baker Tilly (formerly ParenteBeard), and Ziegler
- Provides, from 2004-2013, the financial ratio quartiles of CARF-CCAC accredited organizations
- Assists CCRC boards and management in understanding and fulfilling their fiduciary responsibilities
- Provides ongoing mechanism for strengthening CARF-CCAC's finance standards
- Promotes better understanding of CCRCs among constituencies such as investors, regulators, consumers

BACKGROUND: 2014
FINANCIAL RATIOS & TREND ANALYSIS



- 2014 marks the 22nd publication of financial ratios for CARF-CCAC accredited providers
- Published annually in October
- Includes 17 financial ratios

INCLUDED IN THE 2014 PUBLICATION

- Publication includes single-site (SS) providers (138) and multi-site (MS) providers (32)
- Providers are predominantly non-for-profit
- 2014 publication based on 2013 audited financial statements
- Publication includes medians and quartile divisions

TYPES OF RATIOS ADDRESSED

3 types of ratios:

- Margin (Profitability) Ratios
- Liquidity Ratios
- Capital Structure Ratios

BENEFITS OF FINANCIAL RATIOS

- Financial ratios are tools that assist a provider in ongoing measurement of key financial drivers

- They should be used internally
  - year-to-year measurements of one's OWN performance

- They should be used externally
  - year-to-year measurements of one's own organization to the benchmarks of the publication
    - 25th, 50th, 75th quartiles

LIMITATIONS OF FINANCIAL RATIOS

- Financial 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 financial reporting treatments
- Comparisons of financial ratios among organizations may be distorted by unique attributes of a provider, significant expansions or divestitures, or significant operational changes
- The types of entrance fee contracts (Lifecare/Rental) offered to residents at CCRCs may affect certain ratios

SECTION 2

REDEFINING AGE

EXAMINATION OF THE 2014 MEDIAN RATIOS

AMY CASTLEBERRY
Senior Vice President
Ziegler

MARK ROSS
Partner and Healthcare Practice Leader
Baker Tilly

Ziegler
CAPITAL :: INVESTMENTS :: ADVICE

BAKER TILLY
Candor. Insight. Results.

PROFITABILITY RATIOS

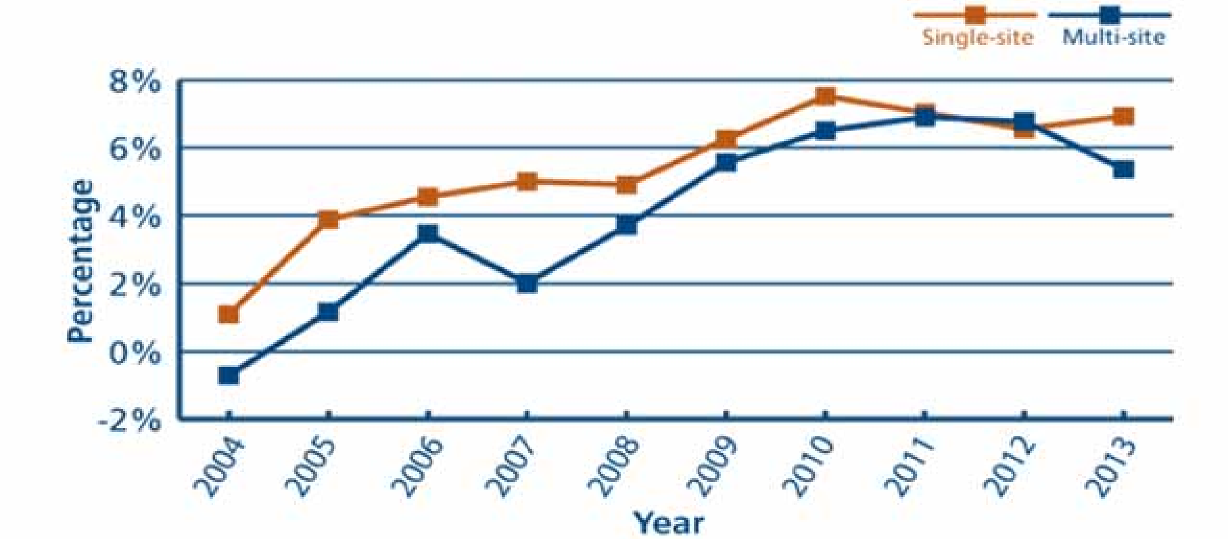
- Overall Significance:
  - Indicate a provider's annual excess or deficiency of revenues over expenses
  - Indicate a provider's ability to generate operating surpluses

PROFITABILITY RATIOS

Profitability Ratios	Single-Site Median	Multi-Site Median
Net Operating Margin Ratio	6.93%	5.36%
Net Operating Margin - Adjusted Ratio	22.02%	22.09%
Operating Ratio	98.54%	98.58%
Operating Margin Ratio	1.10%	-0.39%
Total Excess Margin Ratio	3.24%	2.39%

PROFITABILITY RATIOS
NET OPERATING MARGIN RATIO (NOM)

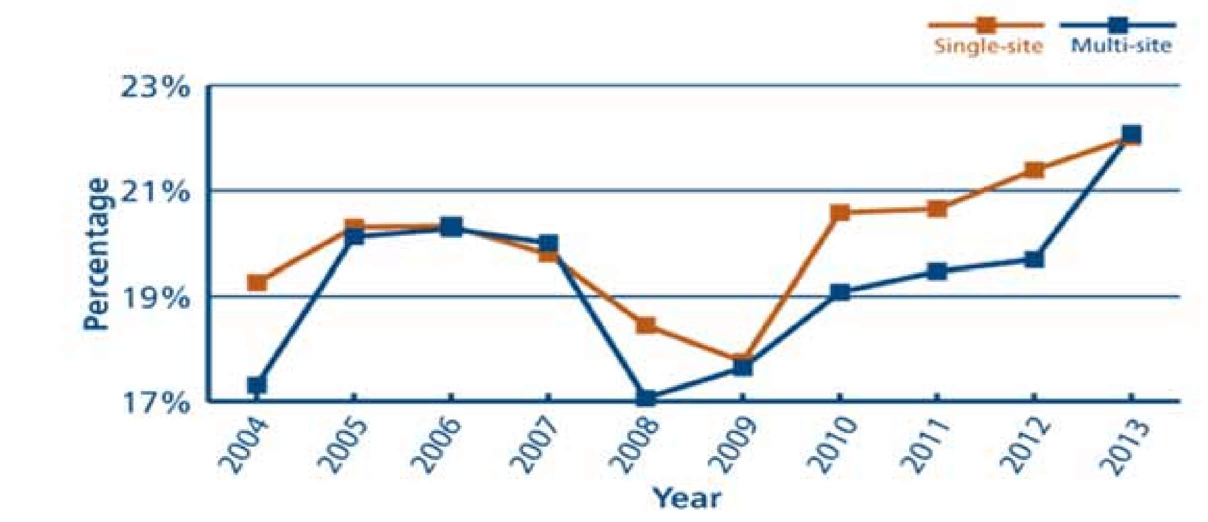
- Measures profitability from core operations
- Generally strong operating results, with a decline from previous year in multi-sites
- Gap between multi-site and single site medians has opened compared to last year
- Relatively consistent results over the last 5 years



Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

PROFITABILITY RATIOS
NET OPERATING MARGIN RATIO ADJUSTED (NOM-A)

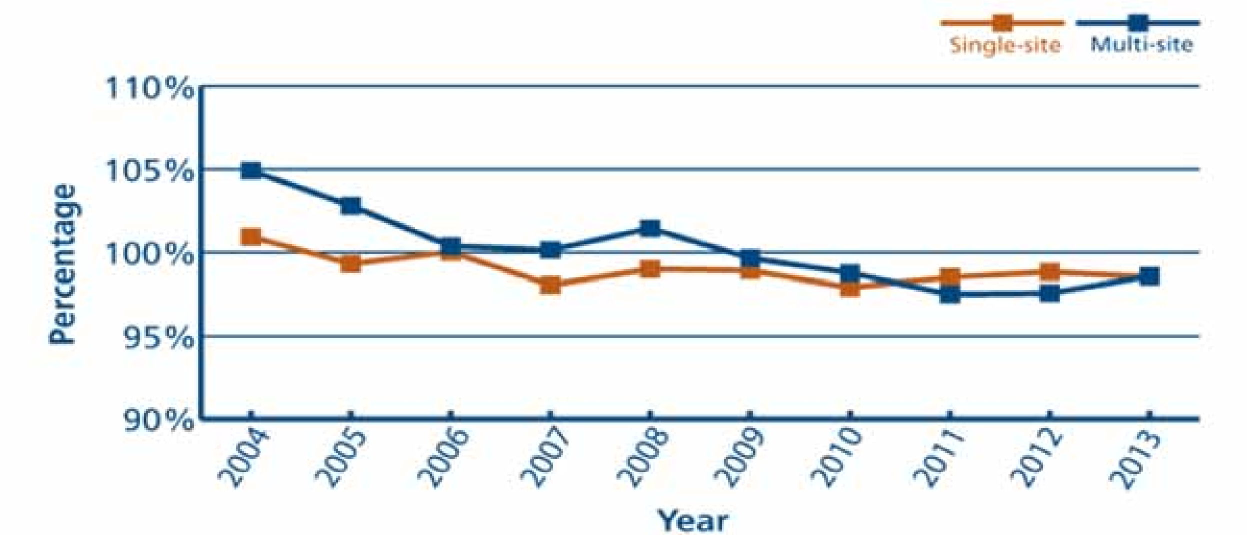
- Measures profitability from core operations plus net entrance fees
- Continued improvement for both single-site and multi-site providers
- 4th consecutive year of improvement for single-sites
- 5th consecutive year of improvement for multi-sites



Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

PROFITABILITY RATIOS
OPERATING RATIO (OR)

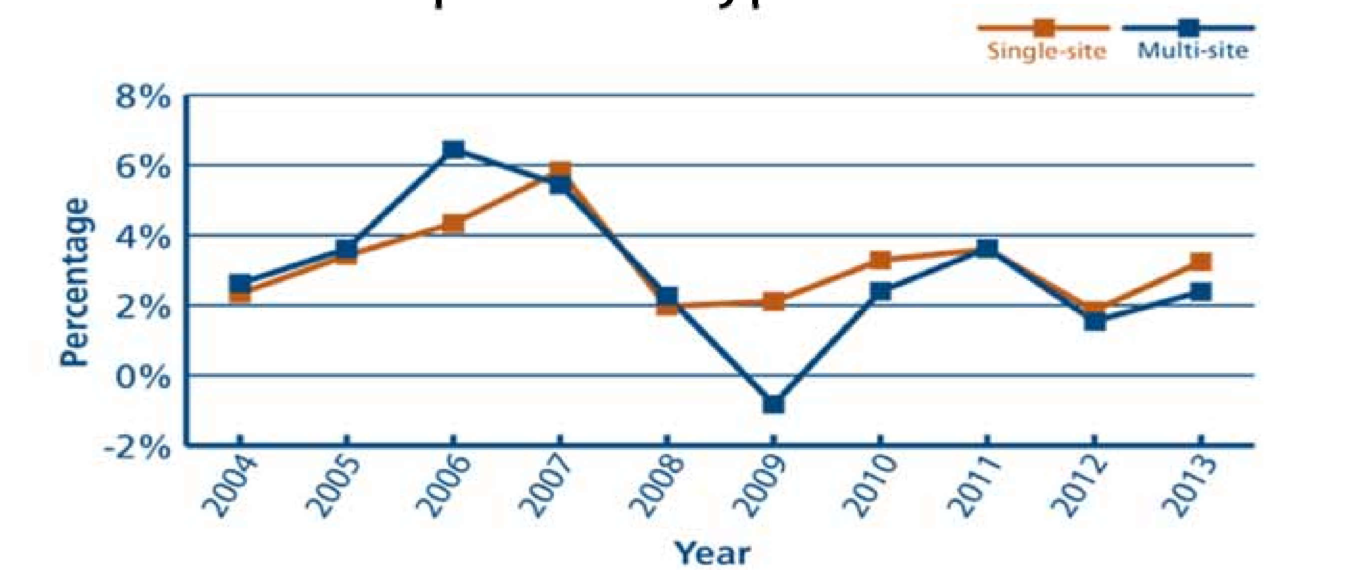
- Declining ratio is a favorable trend (cash expenses ÷ cash revenues)
- Single-site and Multi-site medians stayed below 100%, but multi-sites increased slightly
- Single-site median less than 100% for 7th consecutive year
- Multi-site median less than 100% for 5th consecutive year



Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

PROFITABILITY RATIOS
TOTAL EXCESS MARGIN RATIO (TEM)

- Includes both operating and non-operating sources of revenue and gains
- One of the more volatile profitability ratios; can be impacted by volume of non-operating activity (e.g., contributions, realized investment return, etc.)
- Increased for both provider types



Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

LIQUIDITY RATIOS

- Overall Significance:
  - Measure a provider's ability to meet the short-term (one year or less) cash needs of its on-going operations

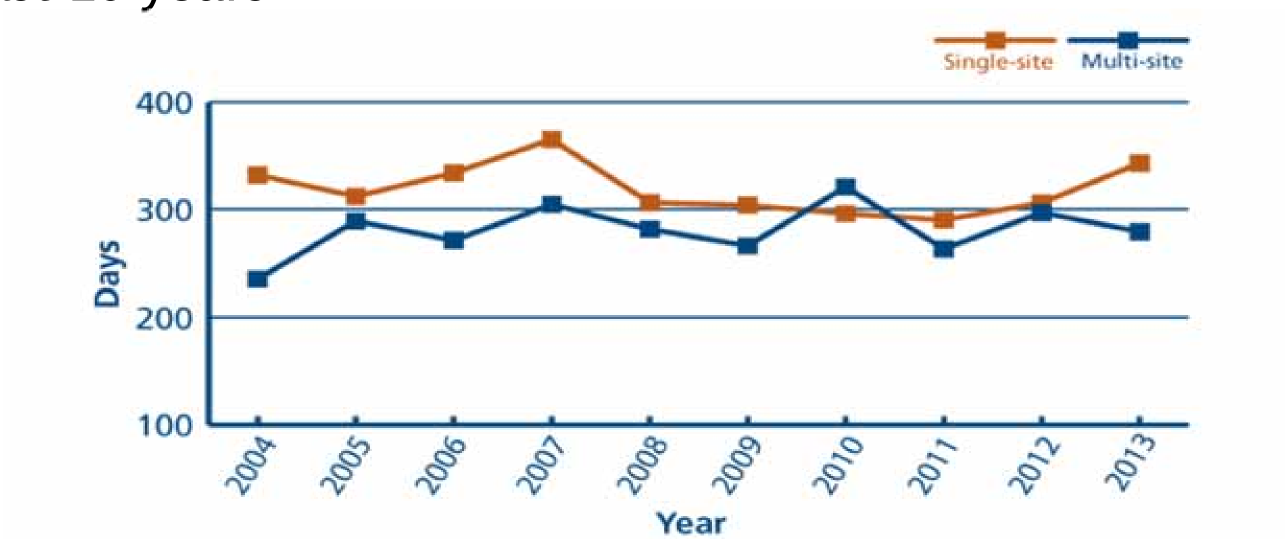
LIQUIDITY RATIOS

Liquidity Ratios	Single Site Median	Multi Site Median
Days in Accounts Receivable Ratio	19	23
Days Cash on Hand Ratio	343	279
Cushion Ratio	7.20	6.58

Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

LIQUIDITY RATIOS
DAYS CASH ON HAND (DCH)

- Net entrance fee receipts, unfunded (i.e., not financed) capital expenditures, and investment performance can have a significant impact on a provider's DCH.
- Single-site median increased in 2013, while multi-site median decreased; however, approximately two-thirds of multi-site organizations had an improvement in DCH
- Single-site and multi-site medians have averaged around 300 DCH over the last 10 years



Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

CAPITAL STRUCTURE RATIOS

Overall Significance:

- Focus on a provider's balance sheet strengths and weaknesses and are useful in assessing a provider's long-term solvency, as well as short-term operational issues (e.g. Debt Service Coverage Ratio)

CAPITAL STRUCTURE RATIOS

Capital Structure Ratios	Single-Site Median	Multi-Site Median
Debt Service Coverage Ratio	2.55	2.82
Debt Service Coverage – Revenue Basis Ratio	0.99	1.08
Debt Service as a % of Revenue Ratio	10.94%	8.68%
Unrestricted Cash & Investments to Long-Term Debt (LTD) Ratio	60.21%	46.05%

Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

CAPITAL STRUCTURE RATIOS

Capital Structure Ratios	Single-Site Median	Multi-Site Median
LTD as a % of Total Capital Ratio	74.06%	77.40%
LTD as a % of Total Capital Ratio – Adjusted	55.98%	57.38%
LTD to Total Assets Ratio	37.71%	44.14%

Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

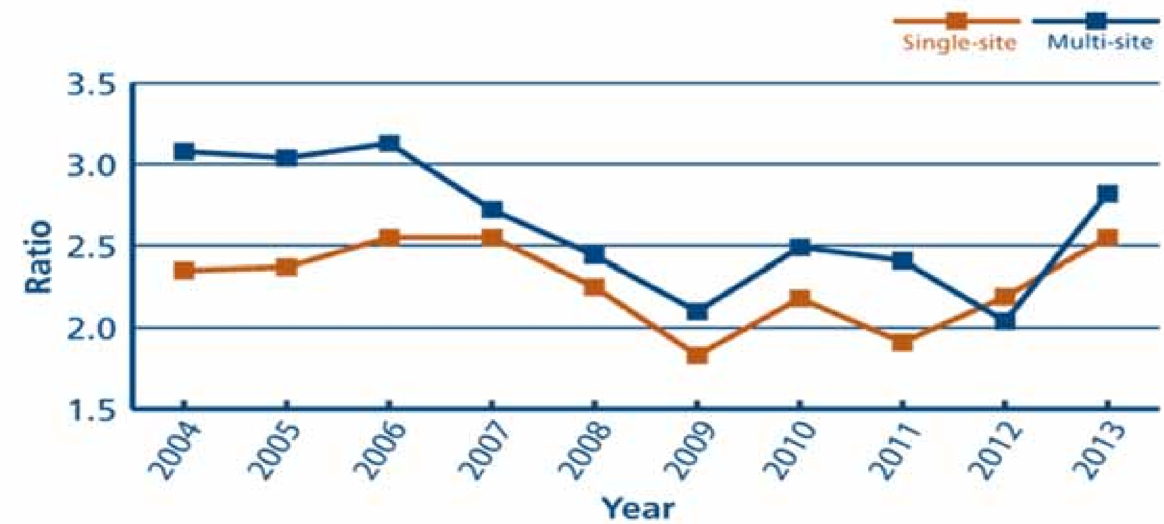
CAPITAL STRUCTURE RATIOS

Capital Structure Ratios	Single-Site Median	Multi-Site Median
Average Age of Facility Ratio	11.75	12.50
Capital Expenditures as a % of Depreciation	82%	97%

Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

CAPITAL STRUCTURE RATIOS
DEBT SERVICE COVERAGE (DSC) RATIO

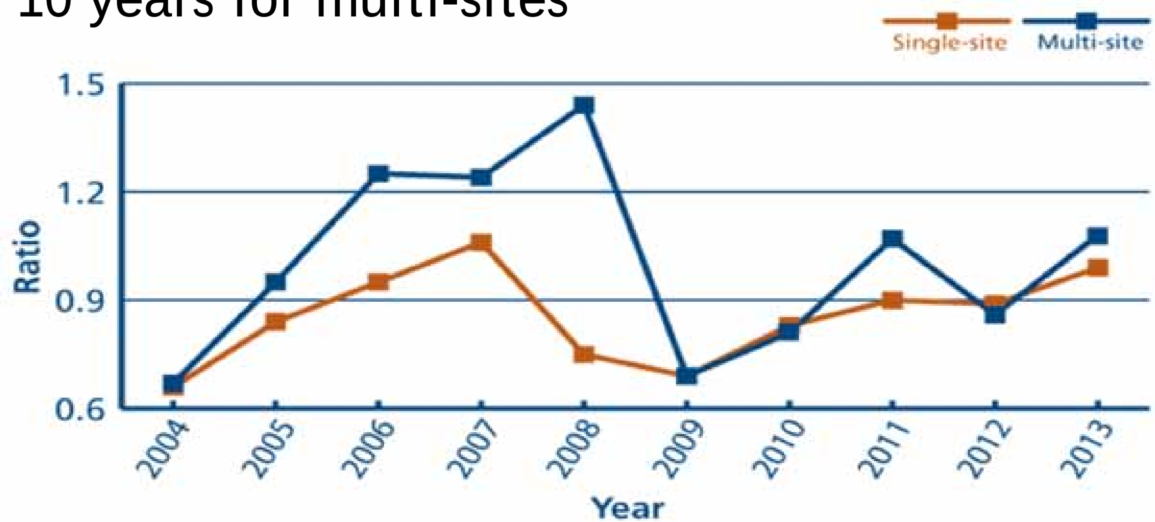
- DSC ratio is generally considered to be one of the most important ratios for evaluating a provider's financial performance
- Reflects provider's ability to fund debt service with cash flow from net cash revenues and net entrance fees
- Entrance fee activity and non-operating activity (e.g., contributions and realized investment return) can have a significant impact on the DSC ratio
- Multi-site and single-site medians increased in 2013



Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

CAPITAL STRUCTURE RATIOS
DSC – REVENUE BASIS (DSC-R) RATIO

- DSC-R ratio is a measure of a CCRC's ability to meet its debt obligations through revenues alone
- Indicator of how much reliance a CCRC places on net entrance fee proceeds to cover its annual debt service
- Value of at least 0.75 is considered desirable by the credit community
- Multi-site and single-site medians increased in 2013
- Median exceeded 1.0 in 2 of the last 10 years for single-sites and 5 of the last 10 years for multi-sites

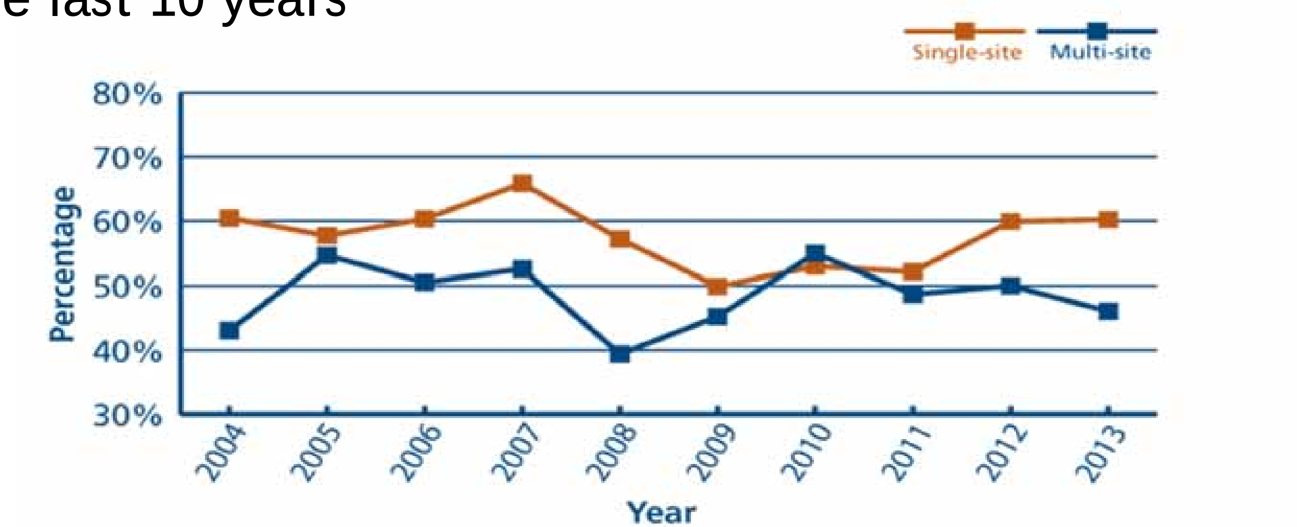


Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

CAPITAL STRUCTURE RATIOS

UNRESTRICTED CASH & INVESTMENTS TO LONG-TERM DEBT (CD)

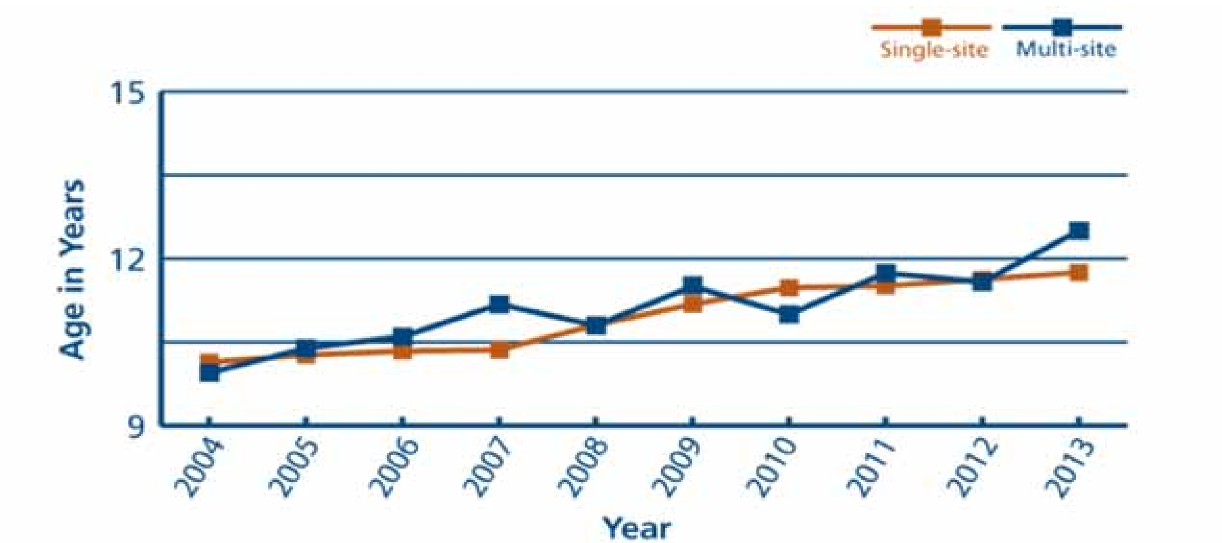
- Measures a provider's position in available cash and marketable securities in relation to its long-term debt
  - What cash is included?
    - Unrestricted cash
    - Board-designated investments
    - Non-trustee held
- While single-site median remained stable, multi-site median declined
- Single-site and multi-site medians averaged 58% and 49%, respectively, over the last 10 years



Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

CAPITAL STRUCTURE RATIOS
AVERAGE AGE OF FACILITY (AGE) RATIO

- AGE ratio measures organization's commitment to maintaining its physical plant
- Significant expansion projects can drop the AGE ratio without renovating existing, aging areas of a CCRC
- Important to maintain a "clean" property and equipment detail to arrive at an accurate AGE ratio
- Minor changes in single-site and multi-site medians



Source: Preliminary Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2014.

SECTION 3

REDEFINING AGE

OPERATING BENCHMARKS

LeadingAge

MARK ROSS
Partner and Healthcare Practice Leader
Baker Tilly

BAKER TILLY

Candor. Insight. Results.

OPERATING BENCHMARKS OPTIONS

- Similar operations within one's organization (for multi-site providers)
- Historical information
- Information from one's peer group; "like kind" organizations
- State-wide or National data

OPERATING BENCHMARKS – WHERE ARE THEY?

- Your own organization
- State of Senior Housing
- Medicare / Medicaid cost reports, MedPAC data, etc.
- LeadingAge – State Associations
- Peer group surveys
- Proprietary benchmarks (accountants, actuaries, investment bankers, etc.)
- National Association for Home Care & Hospice

OPERATING BENCHMARKS

- Medicare Part A margin, including cost per resident day for pharmacy, therapy, etc.
- Medicare Part A days by RUG category
- Medicare Part B revenue per non-skilled day (and/or % of non-skilled residents on Medicare Part B caseload)
- Referrals (where are the SNF referrals coming from)

OPERATING BENCHMARKS

- Days to reoccupy units (PC and IL focus)
- Costs to renovate ILUs upon turnover
- Lost work days (workers' compensation)
- Fund development expenses as a % of contributions received

SECTION 4

WHAT'S NEW AND WHAT'S COMING

MARK ROSS
Partner and Healthcare Practice Leader
Baker Tilly

Candor. Insight. Results.

WHAT'S NEW…

- CCRCs – Refundable Advance Fees

- Impacts the following ratios…
  - Operating Margin
  - Total Excess Margin
  - Debt Service as a % of Total Operating Revenues and Net Non-operating Gains and Losses
  - Long-Term Debt as a % of Total Capital (and Total Capital – Adjusted)

WHAT'S COMING…

- Revenue Recognition – ASU 2014-09

- Core principle is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

WHAT’S COMING…

- Revenue Recognition – ASU 2014-09

- Five Step Process…
  - Step 1 – Identify the contract with the customer
  - Step 2 – Identify the performance obligations in the contract
  - Step 3 – Determine the transaction price
  - Step 4 – Allocate the transaction price to the performance obligations in the contract
  - Step 5 – Recognize revenue when (or as) the entity satisfies the performance obligations

WHAT'S COMING…

- Financial statements of not-for-profit entities
  - Intermediate measure of operations; performance indicator is no longer required
  - Net asset classifications
  - "Underwater" endowments
  - Direct method statement of cash flows
  - Expense reporting by nature and by function
  - Quantitative and qualitative information regarding liquidity would be disclosed

SECTION 5A

REDEFINING AGE

FINANCIAL RATIOS: A MULTI-SITE PERSPECTIVE

LeadingAge

MICHAEL CONNELL
Chief Financial Officer
Asbury Communities

ASBURY
Anticipate More

ASBURY
Anticipate More

: MISSION AND VISION

- *MISSION:*

  DOING ALL THE GOOD WE CAN BY PROVIDING EXCEPTIONAL LIFESTYLE OPPORTUNITIES TO THOSE WE SERVE.

- *VISION:*

  AS A NATIONALLY RECOGNIZED LEADER IN SENIOR LIFESTYLE OPPORTUNITIES, ASBURY CONTINUALLY REDEFINES THE EXPECTATIONS OF AGING.

Asbury – a not-for-profit organization providing CCRC management and home- and community-based services for older adults – is committed to continually redefining the expectations of aging.

Asbury Methodist Village
Gaithersburg, MD: 1926

approx. 1,400 residents

Asbury Solomons
Solomons, MD: 1996

approx. 450 residents

Bethany Village
Mechanicsburg, PA: 1964

approx. 670 residents

Inverness Village
Tulsa, OK: 2003

approx. 410 residents

Springhill
Erie, PA: 1990

approx. 260 residents

The Asbury Group

www.TheAsburyGrp.com

Management, Marketing and IT consulting services for aging services providers.

The Asbury Foundation

www.TheAsburyFoundation.org

A 501(c)(3) organization that secures philanthropic support for Asbury residents who have outlived their financial resources through no fault of their own.

ASBURY HOME SERVICES
Anticipate More

ASBURY Bethany Village at Home
Anticipate More

ASBURY INVERNESS at Home
Anticipate More

ASBURY Methodist Village at Home
Anticipate More

ASBURY SOLOMONS at Home
Anticipate More

ASBURY SPRINGHILL at Home
Anticipate More

The Asbury Perspective

A blog devoted to the topics important to older adults.

ASBURY: SYSTEM BACKGROUND

- Faith based Not-for-profit (NFP) organization founded in 1926
- Our core business is operating Continuing Care Retirement Communities (CCRCs); in 2012, Asbury began offering home-based services to residents and external clients
- 5 CCRCs in three states (MD, PA, OK); manage additional 2 CCRCs in a fourth state (TN)
  - 3 historically United Methodist communities, 1 CCRC that was hospital-based, 1 CCRC developed by Presbyterian and Christian church group
- CARF/CCAC Accredited
- 16th largest NFP multi-site CCRC system in U.S. per LZ100 ranking in 2014

ASBURY Anticipate More: BACKGROUND *(CONT'D)*

- Corporate offices in Germantown, MD, with 90 associates
- Innovative volunteer board structure guided by parent board of 15 directors representing geographic constituencies
- Embrace principles of Performance Excellence (Baldrige criteria)
- The Asbury Group subsidiary provides management, marketing, and IT services to non-affiliated NFP senior living colleagues

The Asbury Group℠ Anticipate More

ASBURY Anticipate More: FINANCIAL SNAPSHOT

- Asbury MD Obligated Group - Fitch 'BBB' rating
  - Upgraded in December 2012
- Financial Summary:
  - Total Assets $560 million
    - Cash & Investments $163 million
  - Total Outstanding LTD $326 million
  - Total Revenues $180 million
  - Annual Capital Budget $20 million
  - Occupancy – 94% overall
    - ILU 93.5%
    - AL 96.8%
    - SNF 94.2%

ASBURY'S STRATEGIC FRAMEWORK

Key Results: Key measures of our success
1) Operating Ratio of 100% or less
2) Exceed 90% on customer satisfaction
3) Exceed 90% on associate engagement

Action Plans
Deliverables, who is accountable, and by when

Goals (10,000 ft.)
Our statements of success in one to three years

"Our 2 + 4":
Two **Foundational Requirements**
1. Ensure Financial Strength
2. Advance Organizational Excellence

Four **Strategic Objectives (30,000 ft.)**
1. **Reposition** Asbury's campuses
2. **Extend** Asbury's Home and Community Based Services (HCBS)
3. **Perform** for success in the Health Care Reform Marketplace
4. **Grow** our system to serve more older persons

"Do all the good you can, by all the means you can, in all the ways you can, at all the times you can, to all the people you can, as long as ever you can." **- John Wesley**

Vision (50,000 ft.): As a nationally recognized leader in senior lifestyle opportunities, Asbury continually redefines the expectations of aging

Our **Mission** is to do all the good we can by providing exceptional lifestyle opportunities to those we serve

Core Values:
Commitment to residents, associates, volunteers, and partners; stewardship and financial strength; quality and innovation; and integrity

KEY RESULTS

Achieve an operating ratio of 100% or less for the entire organization's consolidated financial results by 2016

Exceed 90% on customer satisfaction survey indicators by 2016

Exceed 90% on associate engagement indicators by 2016

ASBURY SM
Anticipate More

FINANCIAL RATIOS IN STRATEGIC PLANNING

- Financial ratios are a key financial indicator and are used in strategic planning
  - Directly tied to our 4 strategic goals: Reposition CCRCs, Extend HCBS, Perform under HCR, Grow
- Financial ratios are used as the basis for annual budgeting with each community / entity given specific targets to align the entire system to meet the strategic goals
- Financial ratios are used by the Board and management
- Measured monthly, yearly, and our in 5 year financial projections
- Financial ratios are used to create a customized journey to continuously improve the financial strength of the system
  - Started with a NOM focus, now an Operating Ratio focus
- Financial ratios benchmarked and shared with stakeholders (Boards / Residents / Associates)

FINANCIAL RATIOS IN 5 YEAR FINANCIAL PROJECTIONS

Asbury Communities, Inc. and Affiliates
Projected Consolidated Financial Ratios
Years Ending 2013-2018

	2013	2014	2015	2016	2017	2018
Excess Margin (Profitability Ratios)						
Operating Margin Ratio	-8.79%	-7.33%	-4.83%	-3.84%	-2.24%	-1.05%
Operating Ratio (CCAC)	106.10%	101.70%	99.49%	98.42%	96.93%	95.74%
Total Excess Margin Ratio	-5.02%	-6.46%	-3.93%	-2.95%	-1.38%	-0.20%
Net Operating Margin Ratio (CCAC)	6.75%	10.34%	11.91%	12.45%	13.29%	13.86%
Net Operating Margin Ratio-Adjusted	21.07%	23.10%	24.15%	24.97%	25.18%	25.31%
Liquidity Ratios						
Days in A/R	16.27	13.25	13.37	13.37	13.42	13.45
Days Cash on Hand	227.70	215.24	214.63	220.65	239.16	260.54
Cushion Ratio	3.82	3.30	3.36	3.53	3.96	4.45
Capital Structure Ratios						
Debt Service Coverage (MADS)	1.77	1.60	1.72	1.84	1.93	2.02
Debt Service Coverage/Revenue	1.34	0.70	0.81	0.86	0.96	1.04
Debt Service % of Total Revenues	15.15%	16.39%	15.76%	15.24%	14.54%	13.91%
Operating Cash to Debt Service Ratio	38.28%	56.16%	67.50%	73.01%	81.72%	89.09%
Unrestricted Cash & Investments/Debt	29.97%	29.68%	30.96%	33.41%	38.02%	43.55%
LT Debt to Capitalization	395.47%	483.96%	609.90%	809.59%	1105.71%	1602.35%
LT Debt to Capitalization/Adjusted	149.07%	151.74%	152.34%	150.90%	147.94%	143.76%
LT Debt to Total Assets	57.80%	57.84%	56.89%	55.62%	54.16%	52.48%
Average Age of Facility	11.77	12.28	13.22	13.80	14.62	15.38

ASBURY
Anticipate More

Financial Key Performance Indicators Summary

	2012	2013	Actual Aug-14	Actual YTD 2014	Budget 2014
OCCUPANCY					
AMV	89.5%	91.1%	94.4%	93.7%	91.4%
Asbury~Solomons	94.5%	94.8%	94.4%	95.2%	95.3%
Bethany Village	97.7%	96.1%	95.4%	95.2%	95.3%
Springhill	88.1%	88.0%	91.1%	91.2%	92.1%
Inverness Village	97.4%	94.3%	92.5%	94.2%	95.5%
Asbury CCRC's	92.7%	92.7%	94.1%	94.0%	93.3%

FINANCIAL RATIOS

	2012	2013	Actual Aug-14	Actual YTD 2014	Budget 2014
Operating Ratio					
AMV	94.9%	99.6%	97.9%	97.4%	95.0%
Asbury~Solomons	102.0%	103.2%	102.8%	100.4%	104.8%
Bethany Village	108.8%	103.7%	100.2%	103.5%	103.3%
Springhill	104.2%	102.5%	96.5%	99.1%	100.8%
Inverness Village	117.5%	121.2%	120.7%	115.1%	113.1%
Asbury System Consolidated	104.8%	106.1%	102.1%	102.4%	101.7%
Fitch - BBB median *(2013 audits)*	97.4%	97.4%	97.4%	97.4%	97.4%

CARF/CCAC - 97.57% 50th / 93.40% 75th

	2012	2013	Actual Aug-14	Actual YTD 2014	Budget 2014
Net Operating Margin					
AMV	11.88%	11.64%	12.87%	13.07%	15.00%
Asbury~Solomons	9.23%	12.66%	12.69%	14.26%	12.08%
Bethany Village	14.24%	16.73%	20.60%	16.97%	16.04%
Springhill	7.1%	7.8%	13.1%	10.4%	8.7%
Inverness Village	5.6%	4.7%	6.9%	11.9%	13.5%
Asbury CCRC's	10.75%	11.45%	13.57%	13.47%	14.01%
Fitch - BBB median *(2013 audits)*	9.2%	9.2%	9.2%	9.2%	9.2%

ASBURY
Anticipate More

Financial Key Performance Indicators Summary

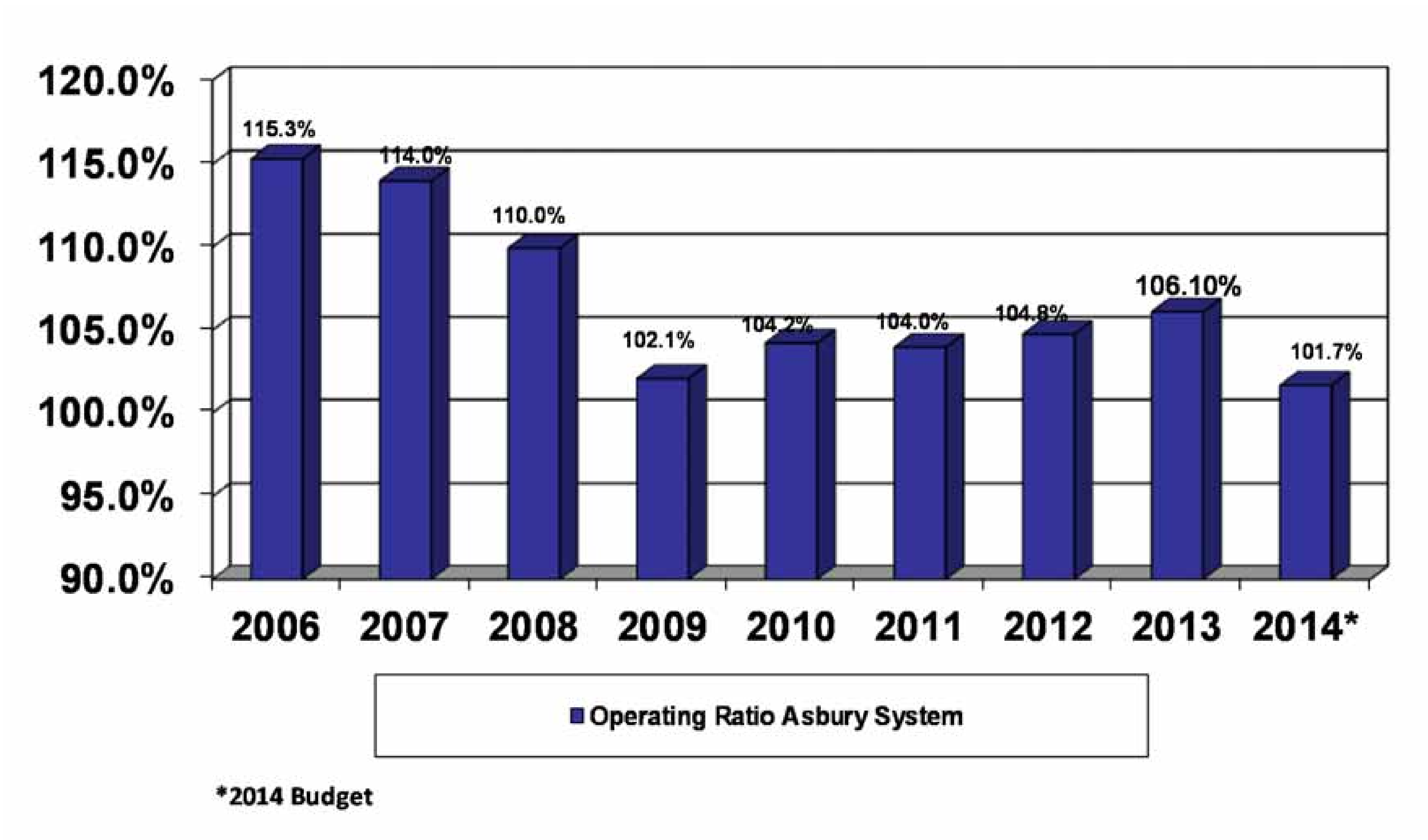
	2nd QTR 2013	3rd QTR 2013	4th QTR 2013	1st QTR 2014	2nd QTR 2014
Cash to Debt Ratio					
MD Obligated Group	38%	38%	38%	45%	41%
PA Obligated Group	20%	20%	20%	20%	21%
Combined Group - MD, PA, & AComm	41%	40%	41%	45%	46%
Fitch - BBB median *(2013 audits)*	**60%**	**60%**	**60%**	**60%**	**60%**

BOND COVENANTS

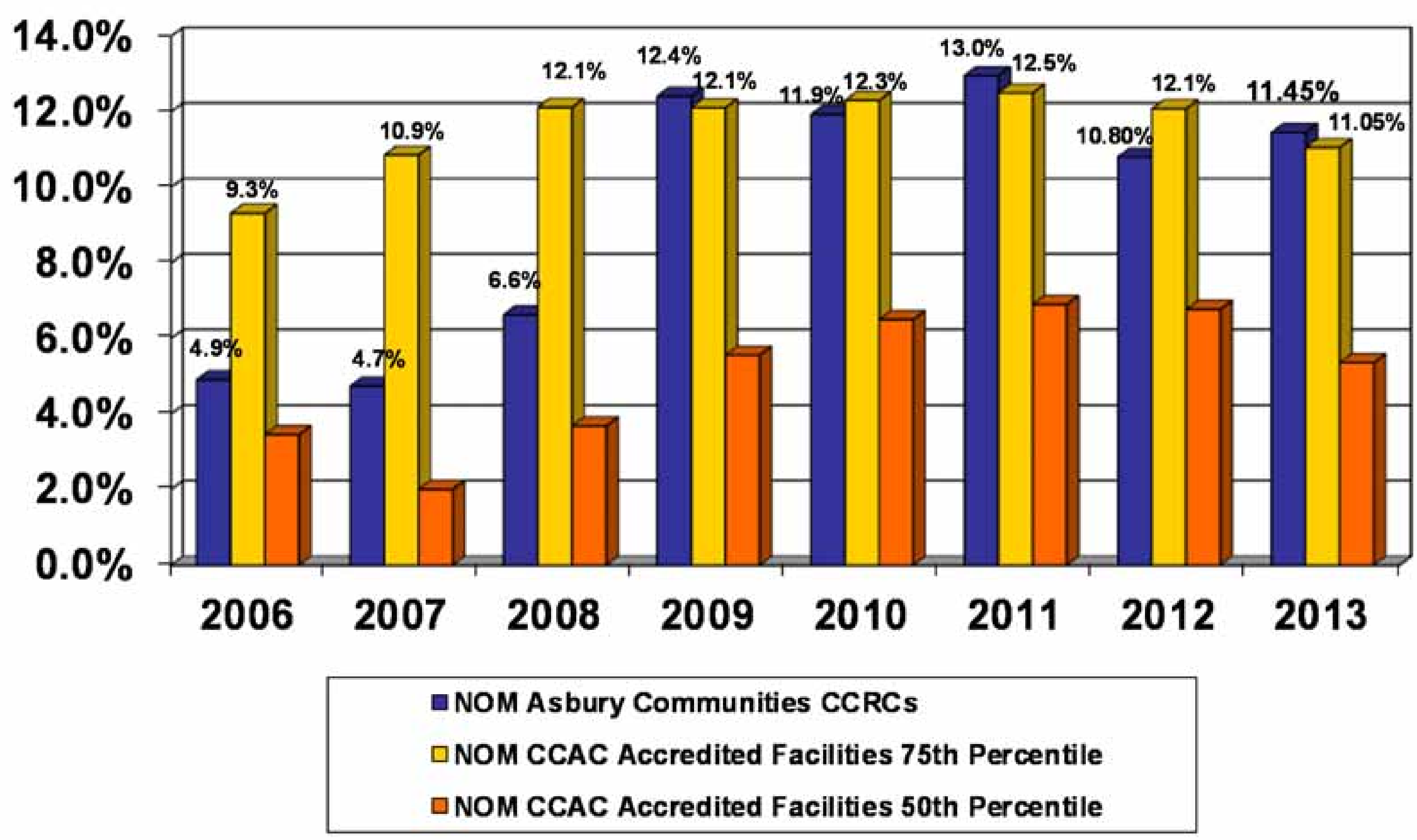
	2nd QTR 2013	3rd QTR 2013	4th QTR 2013	1st QTR 2014	2nd QTR 2014
Debt Service Coverage Ratio					
MD Obligated Group	2.52	2.53	2.31	2.65	3.02
PA Obligated Group	1.37	1.52	1.74	1.69	2.09
Combined Group - MD, PA, & AComm	1.86	1.74	1.73	1.93	2.33
Covenant Requirement	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*
Inverness Village	1.21	1.25	1.27	1.31	1.46
Covenant Requirement	*1.20*	*1.20*	*1.20*	*1.20*	*1.20*
Fitch - BBB median *(2013 audits)*	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**
Days Cash on Hand					
MD Obligated Group	191	188	185	186	197
PA Obligated Group	138	139	142	142	154
Covenant Requirement	*120*	*120*	*120*	*120*	*120*
AComm Parent	500+	500+	500+	500+	500+
Combined Group - MD, PA, & AComm	255	246	257	256	284
Covenant Requirement	*200 / 160*	*200 / 160*	*200 / 160*	*200 / 160*	*200 / 160*
Inverness Village	196	179	174	175	169
Covenant Requirement	*120*	*120*	*120*	*120*	*120*
Fitch - BBB median *(2013 audits)*	**408**	**408**	**408**	**408**	**408**

CARF/CCAC - 297 50^{th} / 396 75^{th}

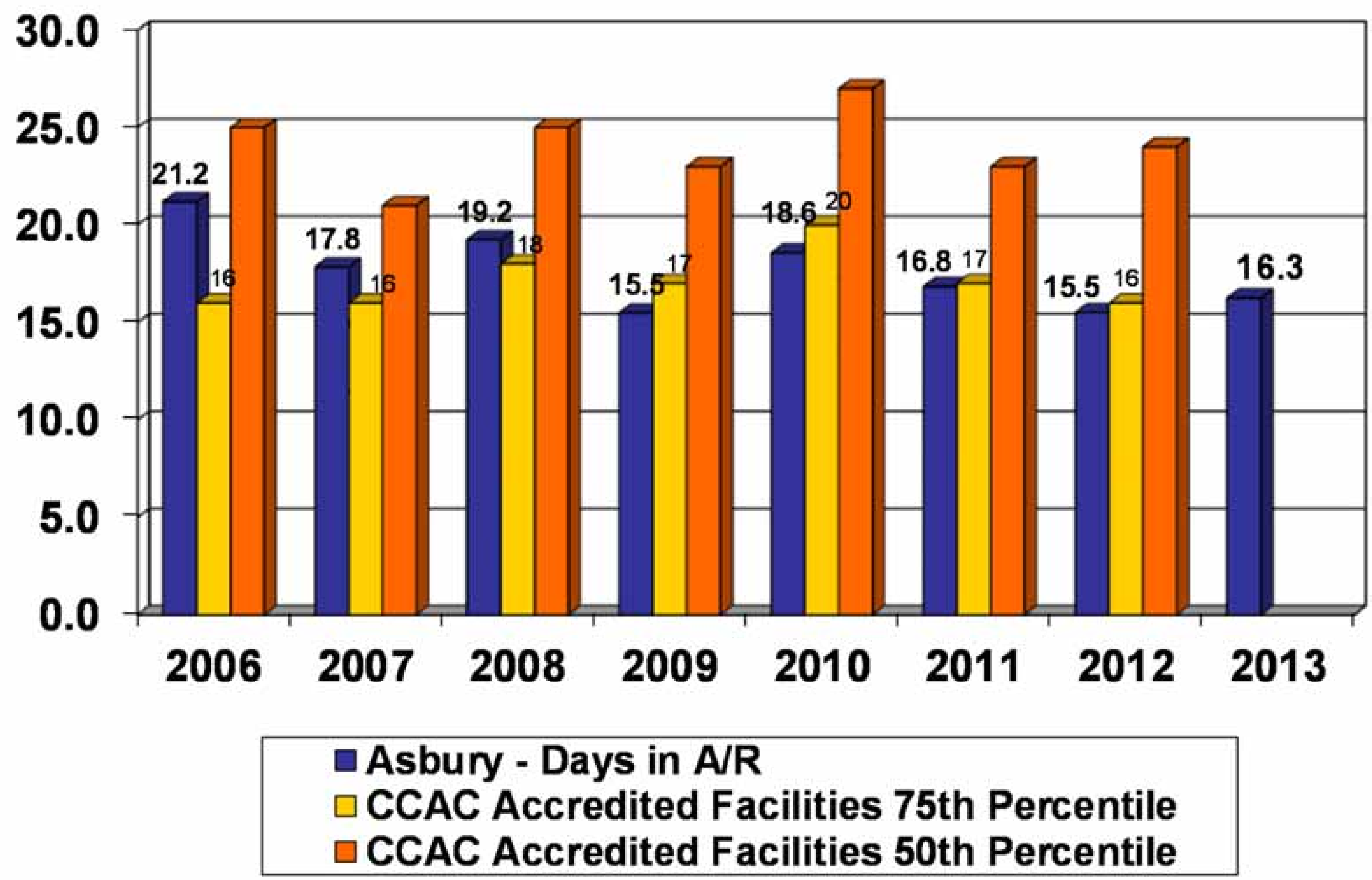
ASBURY COMMUNITIES CONSOLIDATED OPERATING RATIO



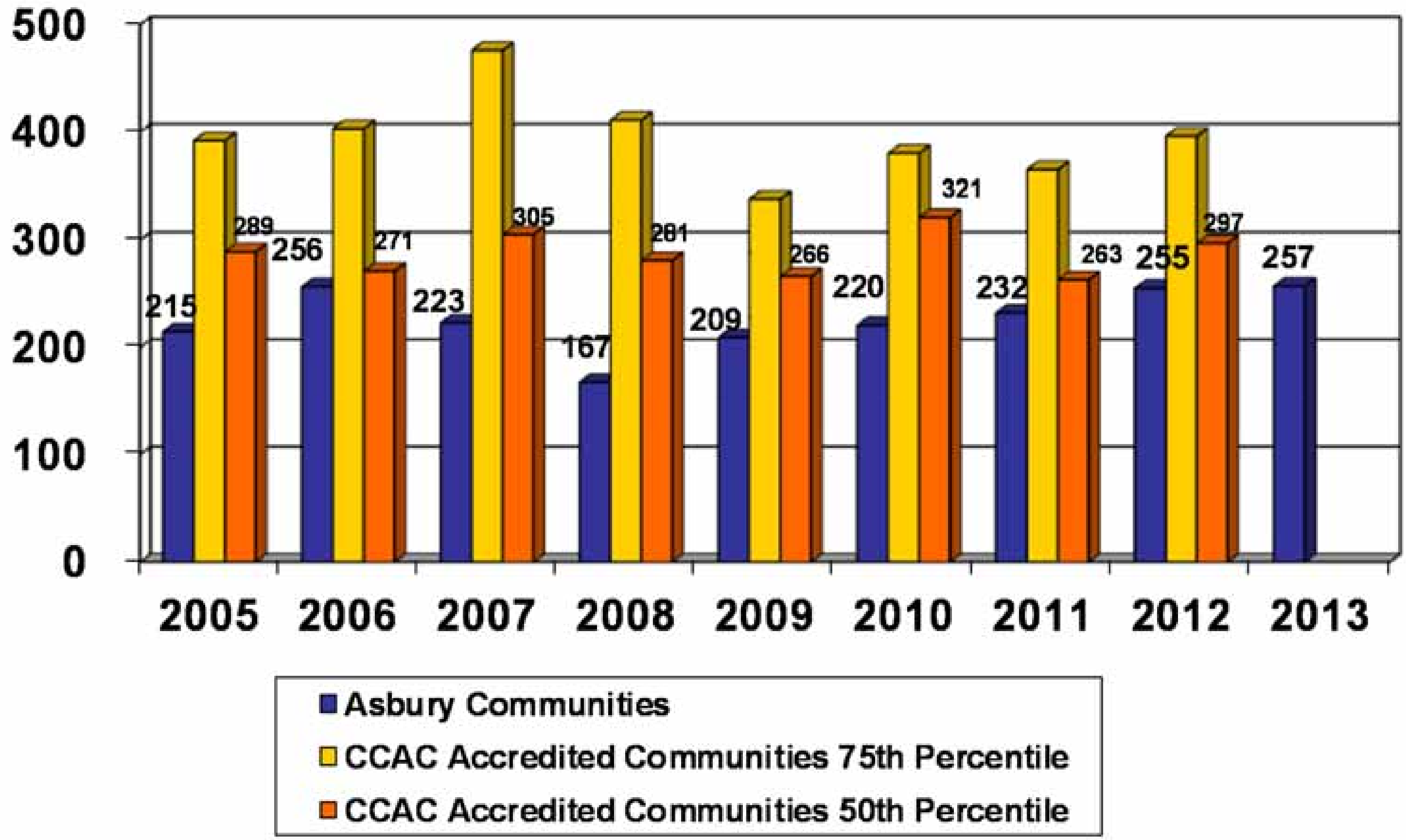
ASBURY COMMUNITIES NET OPERATING MARGIN RATIO



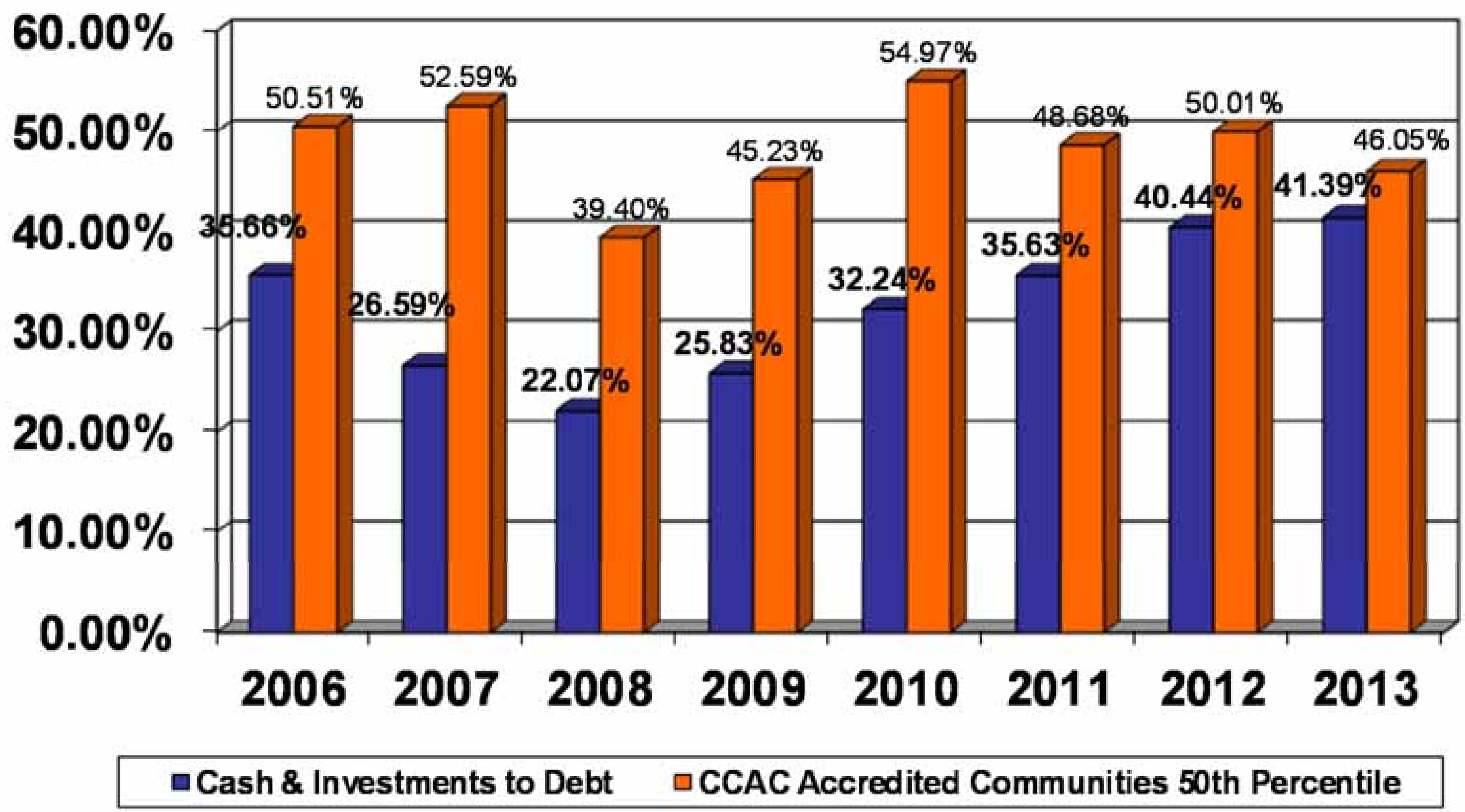
ASBURY COMMUNITIES
DAYS IN A/R RATIO



ASBURY COMMUNITIES
DAYS CASH ON HAND RATIO



ASBURY COMMUNITIES
CASH AND INVESTMENTS TO DEBT RATIO



SECTION 5B

REDEFINING AGE

FINANCIAL RATIOS
A SINGLE-SITE PERSPECTIVE

LeadingAge

BENJAMIN HOYLE
Chief Executive Officer
Pennswood Village

PENNSWOOD VILLAGE
Simply beautiful. Inspired living.

PENNSWOOD VILLAGE—BACKGROUND

- Located in Newtown, Bucks County, Pennsylvania.
- Founded by local Quakers many of whom were serving on the George School Committee.
- Desired to establish a CCRC on land owned by the school that had been used as its dairy farm.
- Incorporated in 1976, opened in June 1980.
- Acquired 82 acres from George School.
- Fill-up of 252 units was achieved in 6 months.
- Ties to George School remain strong.

PENNSWOOD VILLAGE—MISSION STATEMENT

"Pennswood Village, a caring community guided by Quaker principles and traditions, leading the way in the provision of residential and health care services to those age 65 and older."

May 2014

PENNSWOOD VILLAGE

Simply beautiful. Inspired living.

PENNSWOOD VILLAGE—THE EARLY YEARS

- Devoted to figuring out how to make PWV successful.
- Strong emphasis on health care management, wellness.
  - Early commitment to resident fitness.
  - Care coordination.
  - Built a team of health care professionals.
- Participated in the development of accreditation process.
  - First accredited in 1986.
- Resident engagement on the Board and Advisory Committees – three-legged stool concept evolves.

PENNSWOOD VILLAGE—MILESTONES

- **2002—Achieved 'BBB+' S&P rating on $36.4 million outstanding bonds**
- **2003—Opened 62 ILU expansion, Aquatics and Fitness Center**
- **2007—Issued $10.0 million variable LOC backed debt**
- **2008—Completed Personal Care renovation and expansion, reducing from 42 to 37 units**
- **2008-09—Economic downturn impacted occupancy:**
  - **Historically 98+%, ILU occupancy fell as low as 82%**
- **2011—Completed renovation to Community and Dining facilities**
- **New resident interest in larger units spurred combinations of original apartment stock**

PENNSWOOD VILLAGE—WHERE WE ARE TODAY

- 305 apartments
  - 243 units are original stock that are renovated top to bottom at turnover
  - 62 units from 2003 are now needing attention
  - Hallways are a focal point for renovation

- 37 Personal Care units
- 53 Skilled Nursing beds

PENNSWOOD VILLAGE—FINANCIAL SNAPSHOT

- Fitch ‘BBB’ rating secured in 2013

- Financial Summary:
  - Total Assets $90.7 million
    - Cash & Investments $33.3 million
  - Total Outstanding LTD $41.9 million
  - Total Revenues $28.8 million
  - Annual Capital Budget $4.0 - $5.0 million
  - Occupancy
    - ILU 89%
    - PC 99%
    - SNF 90%

PENNSWOOD VILLAGE—DRIVERS OF STRATEGIC PLANNING

- Highly competitive market (SE Pennsylvania)
  - Strong single site (Erickson) as well as multi site providers
  - Strong faith-based mission-driven communities:
    - Quaker
    - Mennonite
    - Presbyterian
    - Lutheran
  - All are either planning for the future or undergoing significant repositioning

PENNSWOOD VILLAGE—DRIVERS OF STRATEGIC PLANNING (CONT'D)

- Strong Balance Sheet and need to improve operating performance
- History of robust resident engagement
- Type A Contract and reputation for quality health care
  - 2 P/T physicians
  - 3 CRNPs
  - RN, LPN, CNA staff
  - 5-star CMS rating
- Aging nursing facility and desire to implement "culture change"
- Federal policy driving decisions about health care reimbursement – quality outcomes
  - ACO formation by local hospital
- Aging housing stock that is "traditional" in design

PENNSWOOD VILLAGE—PERSPECTIVE ON FINANCIAL RATIOS

- Financial ratios have been used regularly to:
  - Build budgets:
    - Operating ratios: measure achievement of goals.
    - Liquidity ratios: gauge use of reserves for capital improvements
    - Capital structure ratios: measure debt coverage requirements and investments in campus improvements
  - Historical view and perspective to understand critical elements to achieving budget goals—are goals realistic and attainable?
  - Compare against CARF-CCAC and others

PENNSWOOD VILLAGE—RATIOS AS DASHBOARDS

- Strategic focus by Board has included using ratios as "dashboards" toward achieving 3 R's:
  - **R**evenue generation
  - **R**enewal of campus
  - **R**ating by Fitch
- Dashboards prepared for each Board meeting and used to discuss financial performance

PENNSWOOD VILLAGE—REVENUE GENERATION

- Revenue Generation: how to mitigate the financial risk of over dependence on resident monthly fees
- Focus on Operating Ratios:
  - Operating Margin – realize improvements via new services and attention to ILU occupancy
  - Operating Ratio – reduce dependency on amortization to fund operations
  - Net Operating Margin Adjusted – reflect impact of entry fees and whether marketing strategies are effective
  - Total Excess Margin – indicates the impact of investment performance and role investment gains/losses play in supporting operations
- Assess impact of anticipated new services on Operating Ratios.

PENNSWOOD VILLAGE—RENEWAL OF CAMPUS

- Focus on Capital Structures Ratios:
  - Debt Service Coverage – measure for bond covenant compliance (1.25x required), debt capacity
  - Unrestricted Cash/Investment to LT Debt– measure of Balance Sheet health and flexibility to make renewal investments in campus using cash or assuming additional debt
  - Average Age of Facility – measure impact of capital improvements on 35 year-old campus (are we spending enough?)
  - Capital Expenditures as % of Depreciation – measure extent that renewal projects are being funded through depreciation and therefore operations.
- How effective is capital renewal plan?

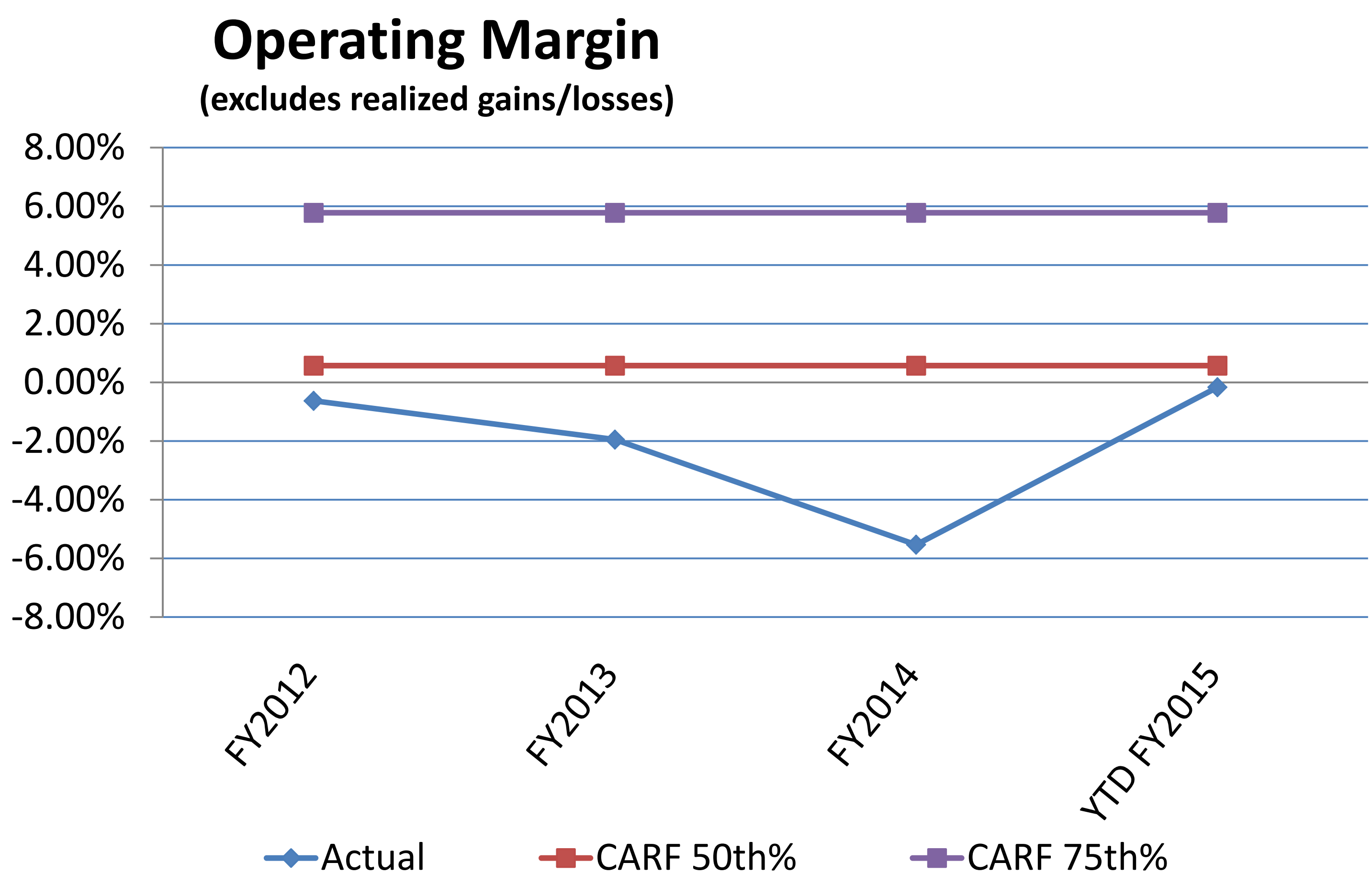
PENNSWOOD VILLAGE—RATING BY FITCH

- Rating by Fitch:
  - Shift from preserving rating to upgrade
  - 2012 downgrade from BBB+ to BBB as a result of the impact from the economic downturn
  - Impact of occupancy on operations and liquidity
  - Focus on multiple ratios:
    - Operating Performance Ratios – reverse negative operating margins; demonstrate strong total excess margins, operating margin adjusted.
    - Liquidity Ratios – rebuild days cash on hand to over 400 after major renovations
    - Capital Structures Ratios – ensure strong cash flow to sustain debt service coverage of 1.25X or better
- Assess trends that would affect rating

PENNSWOOD VILLAGE—RATIO DYNAMICS

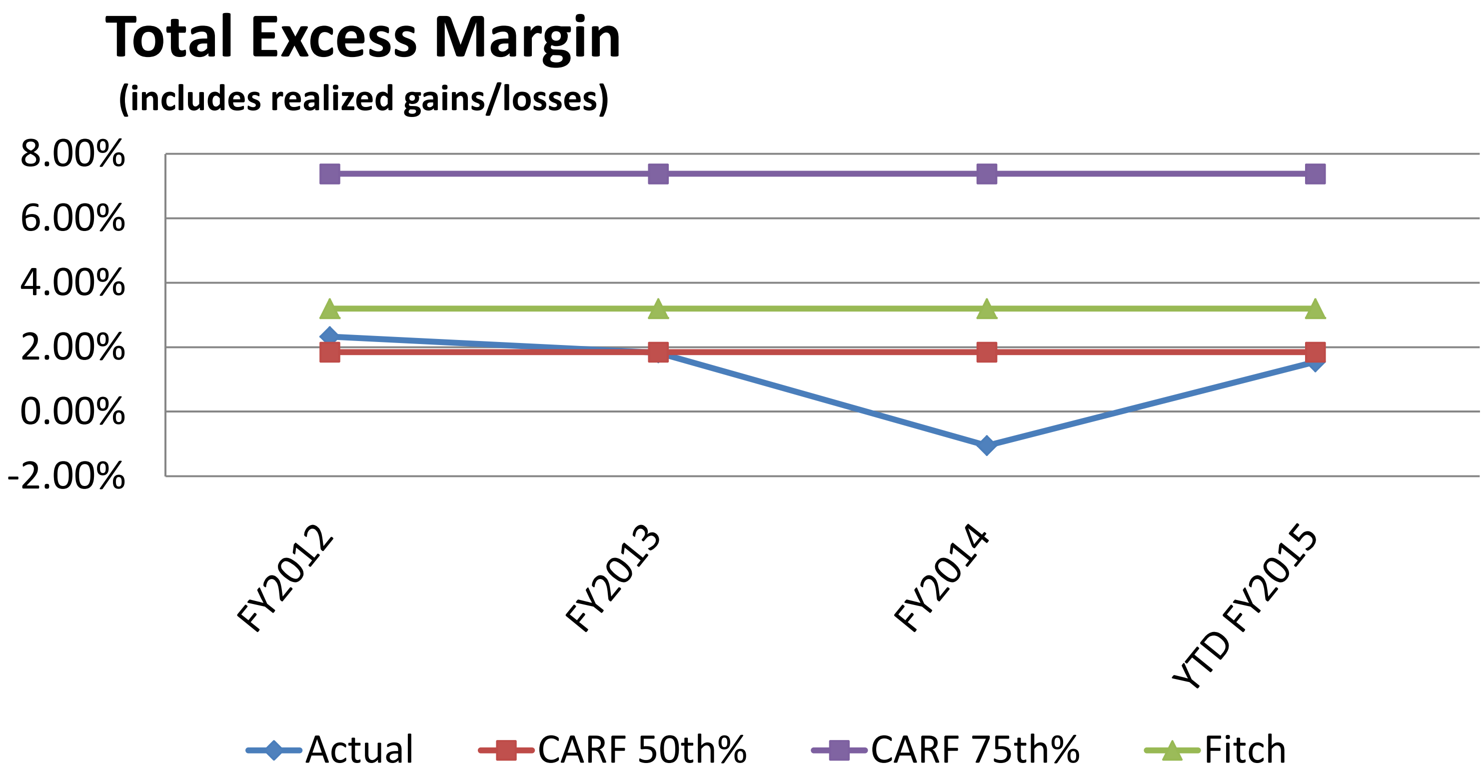
- Monthly review of key ratios that inform progress on 3 R's
- Use of ratio Dash Board at Board meetings
- Test budget planning assumptions

PENNSWOOD VILLAGE—OPERATING MARGIN RATIO



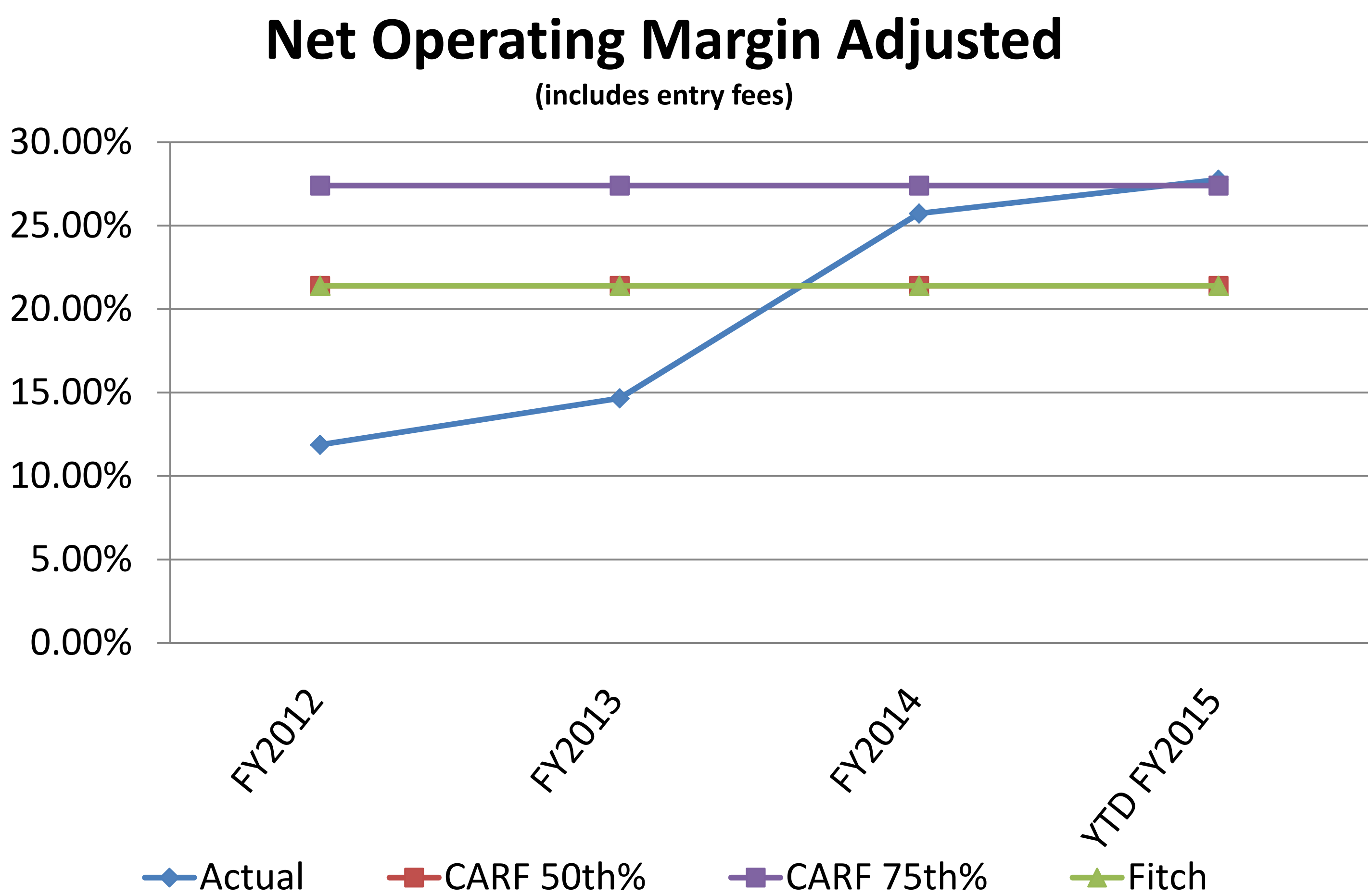
NOTE: FY 2014 reflects extraordinary loss on bond refinancing.

PENNSWOOD VILLAGE—TOTAL EXCESS MARGIN

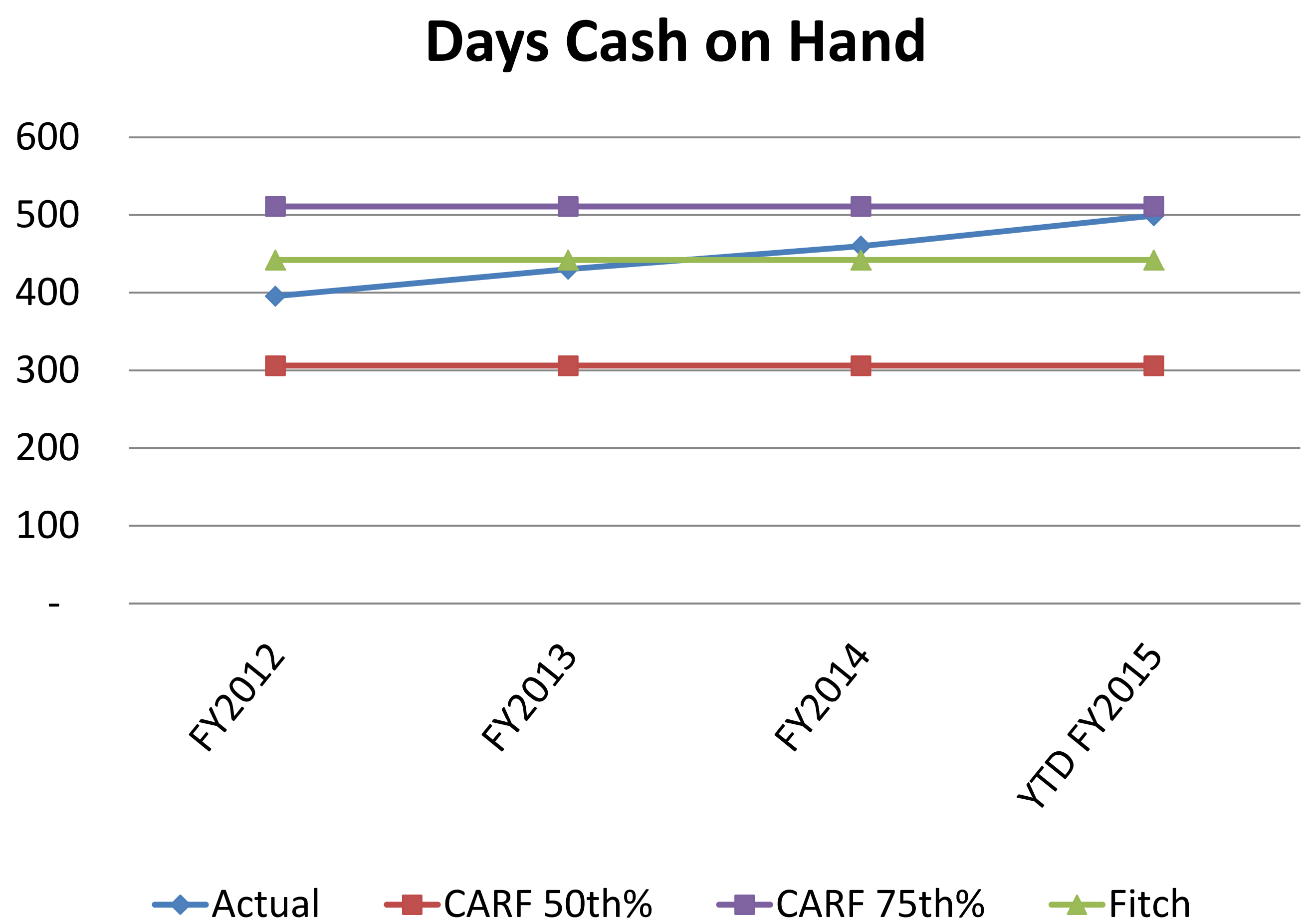


NOTE: FY 2014 reflects extraordinary loss on bond refinancing.

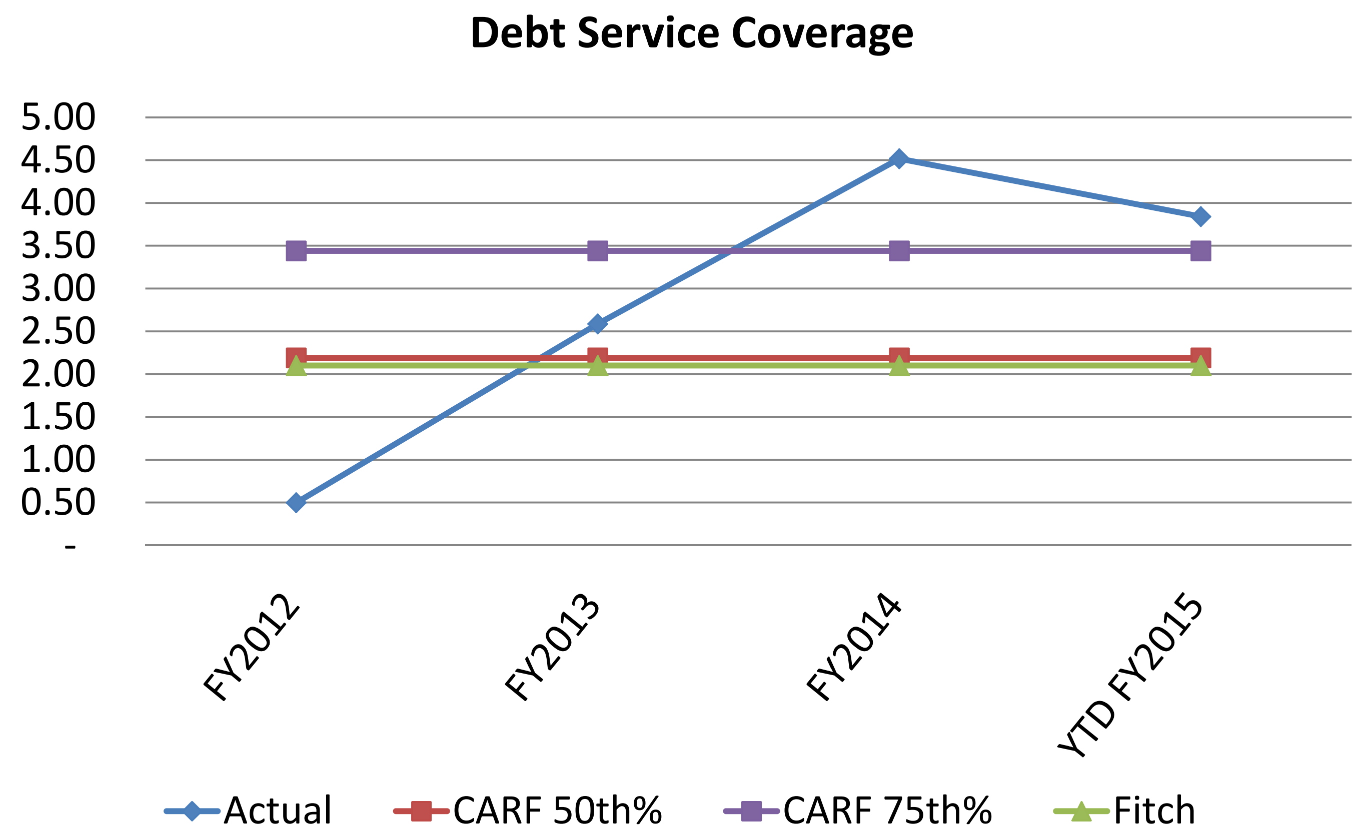
PENNSWOOD VILLAGE—NOM ADJUSTED



PENNSWOOD VILLAGE—DAYS CASH ON HAND



PENNSWOOD VILLAGE—DEBT SERVICE COVERAGE



NOTE: Bond covenants exclude realized/unrealized gains and losses.
Coverage remains in excess of 2.5X.

REDEFINING AGE

QUESTIONS & ANSWERS

LeadingAge