

State of California
Department of Social Services

Annual Report Instructions

January 1, 2007



Community Care Licensing Division
Continuing Care Contracts Branch
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State of California
Arnold Schwarzenegger, Governor

Health & Human Services Agency
Kim Belshé, Secretary

Department of Social Services
Cliff Allenby, Interim Director

Community Care Licensing Division
Continuing Care Contracts Branch

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*** NOTE: NEW REQUIREMENT FOR REPORTING RESERVES**

ANNUAL REPORT INSTRUCTIONS FOR CONTINUING CARE PROVIDERS

Every provider which has obtained a provisional certificate of authority or certificate of authority, must submit an annual report of its financial condition to the California Department of Social Services (Department). The Department will mail a forms package to each provider prior to its fiscal year end. These materials were developed to ensure standardized reporting. **Reserve reports must be submitted on the forms supplied by the Department.**

Within **four** months after the provider's fiscal year end, the provider must submit **THREE** copies of all items to:

**CONTINUING CARE CONTRACTS BRANCH
CALIFORNIA DEPARTMENT OF SOCIAL SERVICES
744 P STREET, M.S. 10-90
SACRAMENTO, CALIFORNIA 95814**

PLEASE NOTE:

LATE FEE

If the **complete** annual report is not received by the due date, the provider must pay a one thousand dollar (\$1000) late fee with the report, and an additional \$33 per day for each day over the first 30 days will be assessed. A check for the full amount of the late fee, payable to the Continuing Care Provider Fee Fund, must accompany the late report.

TRUST FUND ALTERNATIVE

Any provider that is no longer entering into continuing care contracts and currently cares for 10 or fewer continuing care residents, may request permission from the Department in lieu of filing the annual report, to establish a *trust fund* or to secure a *performance bond* to ensure performance of its continuing care contract obligations. Such requests shall be made within 30 days after the provider's fiscal year end. Form 1-1, Form 1-2, Form 5-1, Form 5-2, Form 5-3 and Form 5-4 must be completed and submitted with the request. Also, include evidence of the *trust fund* or *performance bond* in an amount determined by adding the required liquid reserve amount (the amount stated on Form 5-3, Line 4 plus the amount stated on Form 5-4, Line 6) and the amount, if any, required as a refund reserve.

If you have any questions, please call the Continuing Care Contracts Branch at (916) 657-2592.

ANNUAL REPORT INSTRUCTIONS

A **complete** report must include the provider's:

- **PART 1** – The provider's payment of the Annual Provider Fee and fee calculation forms.
- **PART 2** – Certification by the provider's chief executive officer that the reports are correct, that each continuing care contract form in use or offered to new residents has been approved by the Department, and that the provider is maintaining the required liquid reserve and, if applicable, the required refund reserve.
- **PART 3** – Evidence of the provider's fidelity bond.
- **PART 4** – The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- **PART 5** – The provider's audited reserve reports on Forms 5-1 through 5-5 with an accompanying certified public accountant's opinion thereon. All reconciliation schedules and all supplementing materials must be certified by a certified public accountant. (A sample auditor's opinion letter for the reserve reports is included in this instruction booklet on page 4.)
- **PART 6** – The provider's "Continuing Care Retirement Community Disclosure Statement" for *each* community.
- **PART 7** – The provider's "Report on CCRC Monthly Service Fees" form for *each* community.
- **PART 8** – Key Indicators Report
- **REFUND RESERVE REPORT FOR REFUNDABLE CONTRACTS**

NOTE: All providers that have entered into or assumed responsibility for refundable contracts must file a refund reserve report as part of their annual report. Contact the Department of Social Services, Continuing Care Contracts Branch for forms and instructions.

CAUTION:

If the Department determines a provider's annual audited report needs further analysis and investigation, as a result of incomplete and inaccurate financial statements, significant financial deficiencies, developing work out plans to stabilize financial solvency, or for any other reason, the provider shall reimburse the Department for reasonable actual costs incurred by the Department or its representative.

IMPORTANT READ FIRST

The Department requires the direct method for reporting cash flows. For required disclosures, see the American Institute of Certified Public Accountants' Audit and Accounting Guide, entitled, "Health Care Organizations" (June 1, 1996).

All entries made on the forms must reconcile directly with the amounts stated, on the face of, or in the notes to, the financial statements. If supporting schedules are used to show the amounts stated on the annual report forms, a two-way reconciliation is required; forms must reconcile to the applicable schedule and that schedule must reconcile to the financial statements.

SAMPLE AUDITOR'S REPORT
(for reserve report)

INDEPENDENT AUDITORS' REPORT

Board of Directors
Continuing Care Corporation

We have audited the accompanying continuing care reserve report ("Reports") of Continuing Care Corporation (the "Company") as of January 31, 2005. These Reports are the responsibility of the Company's management. Our responsibility is to express an opinion on the Reports based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Reports are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Reports, assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall presentation of the Reports. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Reports were prepared for the purpose of complying with California Health and Safety Code section 1792 and are not intended to be a complete presentation of the Company's assets, liabilities, revenues and expenses.

In our opinion, the Reports present fairly, in all material respects, the liquid reserve requirements of the Company as of September 30, 2004, in conformity with the report preparation provisions of California Health and Safety Code section 1792.

This report is intended solely for the use of the Company and for filing with the California Department of Social Services and is not intended to be and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Accountant's, Inc.
January 28, 2006

PART 1
ANNUAL PROVIDER FEES

Each provider that has obtained a provisional certificate of authority or certificate of authority shall submit an annual payment to the **Continuing Care Provider Fee Fund**. The amount of the fee shall be calculated as one-tenth of one percent of the portion of the total operating expenses, excluding debt service and depreciation, as reported on the provider's audited financial statements, allocated to continuing care contract residents. The allocation shall be based on the ratio of the mean number of continuing care residents to the mean number of total residents during the fiscal year. Amortized entrance fees are considered revenues and cannot be used as deductions from cash operating expenses. **Complete a separate Form 1-1 and a separate Form 1-2 for each community.**

Providers with 10 or fewer residents that have obtained permission to submit evidence of *trust fund* or *performance bond* in lieu of filing an annual report, must remit \$250 as a minimum annual provider fee.

I. FORM 1-1: RESIDENT POPULATION

PURPOSE OF FORM 1-1
RESIDENT POPULATION

This form determines the mean number of residents and the mean number of continuing care residents at the Provider's continuing care retirement community during the fiscal year. It then calculates the ratio of continuing care residents to total residents using the two means.

Complete a **Form 1-1**, for each community care retirement community operated by the provider. Instructions for **Form 1-1** are as follows:

- [1] On **Line 1**, enter the total number of continuing care residents, including all levels of care, residing at the provider's community at the beginning of the fiscal year.
- [2] On **Line 2**, enter the total number of continuing care residents, including all levels of care, residing at the provider's community at the end of the fiscal year.
- [3] Add **Line 1** and **Line 2**. Enter the results on **Line 3**.
- [4] Multiply the Total on **Line 3** by ".50" to calculate the mean number of continuing care residents for the fiscal year. Enter the result on **Line 5**.
- [5] On **Line 6**, enter the number of *all* residents, including all levels of care, residing at the provider's community at the beginning of the fiscal year.
- [6] On **Line 7**, enter the number of *all* residents, including all levels of care, residing at the provider's community at the end of the fiscal year.
- [7] Add **Line 6** and **Line 7**. Enter the results on **Line 8**.

[8] Multiply the total on **Line 8** by “.50” to calculate the mean number of *all* residents for the fiscal year. Enter the result on **Line 10**.

[9] Divide **Line 5** by **Line 10** to determine the share of operating expenses allocable to continuing care residents. Round the result to two decimal places and enter that number on **Line 11**.

NOTE: Repeat this process and complete a separate Form 1-1 for each continuing care retirement community operated by the provider.

II. FORM 1-2: ANNUAL PROVIDER FEE

PURPOSE OF FORM 1-2 ANNUAL PROVIDER FEE

This form determines the annual provider fee the provider must pay for each continuing care retirement community it operates. The form begins with the provider's total operating expenses for a single community and backs out depreciation and certain interest expenses. The form then determines the portion of the adjusted operating expenses that are allocable to the provider's continuing care residents. The provider fee is equal to .10% of those expenses.

Complete a **Form 1-2** for each continuing care retirement community operated by the provider. Instructions for **Form 1-2** are as follows:

- [1] Enter Total Operating Expenses for the community as reported on the provider's audited financial statements. This figure **MUST** include all expenses related to or allocated to the operation of the community, including depreciation and debt service (interest only). Principal payment should not be included on **Line 1**.
 - [a] Enter Depreciation.
 - [b] Enter Debt Service (interest only)
- [2] Add Line 1a and Line 1b.
- [3] Subtract **Line 2** from **Line 1**. Enter subtotal on **Line 3**.
- [4] Enter the percentage for allocating costs to continuing care residents stated in **Form 1-1, Line 11**, for the same community.
- [5] Multiply **Line 3** by **Line 4**, enter result on **Line 5**.
- [6] Multiply amount on **Line 5** by ".001", enter result on **Line 6**.

NOTE: A provider that operates more than one community must aggregate the amounts due for each community to determine its total provider fee obligation.

- [7] Attach a check, cashier's check, or money order in the amount shown on **Line 6** (or the aggregate of the amounts shown on **Line 6** for each community) payable to:

Continuing Care Provider Fee Fund
Account #84130

NOTE: Payment may be made with one check or separate checks for each community.

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	
[2]	Number at end of fiscal year	
[3]	Total Lines 1 and 2	
[4]	Multiply Line 3 by “.50” and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	
All Residents		
[6]	Number at beginning of fiscal year	
[7]	Number at end of fiscal year	
[8]	Total Lines 6 and 7	
[9]	Multiply Line 8 by “.50” and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	

FORM 1-2
ANNUAL PROVIDER FEE

Line		TOTAL
[1]	Total Operating Expenses (including depreciation and debt service-interest only)	
[a]	Depreciation	
[b]	Debt Service (Interest Only)	
[2]	Subtotal (add Line 1a and 1b)	
[3]	Subtract Line 2 from Line 1 and enter result.	
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	
[6]	Total Amount Due (multiply Line 5 by .001)	x .001 <hr style="border-top: 3px double black;"/>

PROVIDER: _____
COMMUNITY: _____

PART 2
CERTIFICATION BY CHIEF EXECUTIVE OFFICER

A certificate by the Chief Executive Officer (CEO) must be submitted with the annual report. This certificate must include the following:

- A statement that the annual report and any amendments thereto are correct to the best of his/her knowledge.
- A statement that each continuing care contract form in use or offered to new residents has been approved by the Department.
- A statement that, as of the date of the CEO's certification, the provider is maintaining the required liquid reserve and, if applicable, the required refund reserve.

PART 3
EVIDENCE OF FIDELITY BOND

The annual report shall include evidence that a fidelity bond or insurance policy is in force for any agent or employee, who, in the course of his or her agency or employment, has access to any substantial amount of funds. This requirement is separate from the bonding requirements of the residential care facility for the elderly regulations.

PART 4
AUDITED FINANCIAL STATEMENTS

Audited financial statements shall include the following:

Non-Profit Providers: Statement of Financial Position, Statement of Cash Flows, Statement of Activities with details of income and expenses by facility, and all required financial disclosures.

For-Profit Providers: Statement of Operations, Statement of Cash Flows, Balance Sheet, and all required financial disclosures.

Notes to the financial statements must include a statement that the calculation of the provider's obligation for future services has been performed, the nominal amount of the obligation, the discount rate used, and the results of the calculation, even if no liability is recorded.

Providers that own and operate other enterprises in addition to continuing care retirement communities shall include a consolidated statement of total operations in addition to financial statements for continuing care retirement communities.

Any provider that has a financial commitment from a parent organization, must also submit the audited financial statements of that organization.

PART 5

LIQUID RESERVES

I. GENERAL INFORMATION

THE LIQUID RESERVE REQUIREMENT

Each provider that has executed a continuing care contract or assumed obligations under a continuing care contract must maintain a liquid reserve. To maintain a liquid reserve, a provider is required to hold a certain amount or value of “qualifying assets”. The provider is not required to restrict, place into escrow, or set aside the qualifying assets it designates as its liquid reserve. The Department may under certain circumstances, however, require a provider to place the liquid reserve into an escrow.

REQUIRED AMOUNT

The amount a provider must hold as a liquid reserve is the sum of two amounts. The first is the amount that the provider must hold to cover its long-term debt service. This amount is referred to as a “debt service reserve” in the continuing care contract statutes. The second amount is the amount the provider must hold to cover 75 days net operating expenses. The continuing care contract statutes refer to this amount as the “operating expense reserve”. The debt service reserve and operating expense reserve amounts are calculated using Forms 5-1 through 5-4.

ANNUAL REPORT

All figures for the reserve calculations must be taken from the provider’s annual audited financial statements for its most recently completed fiscal year. Forms 5-1 through 5-5 must be filed by the provider as part of its annual report. The debt service reserve and operating expense reserve amounts determined on Forms 5-3 and 5-4 are then transferred to Form 5-5. Each provider must submit a Form 5-5 with its annual report to show the amount it must hold in liquid reserve for the next 12 months.

SPECIAL RULE FOR INACTIVE PROVIDERS

Providers who have voluntarily and permanently discontinued entering into continuing care contracts may apply to the Department to reduce the amount they must hold in their liquid reserve. If approved by the Department, the reduced liquid reserve amount shall be based upon the percentage of the provider’s residents who have continuing care contracts. Unless otherwise determined in writing by the Department, an inactive provider must file an annual report and comply with all of the requirements of these instructions.

NOTE: All figures entered on these forms must reconcile directly with the financial statements. If supporting schedules are used, a two-way reconciliation must be submitted showing how the forms reconcile to the schedules and how the schedules reconcile to the financial statements. If reconciliation schedules are not provided, the annual report will be considered incomplete and late fees (see note on page 1) may be assessed at the rate specified in Health and Safety Code section 1790.

II. FORMS 5-1 THROUGH 5-3: DEBT SERVICE RESERVE

PURPOSE OF FORMS 5-1 through 5-3 CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Forms 5-1 through 5-3 are three worksheets that determine the amount a provider must hold in its liquid reserve for debt service.

- Form 5-1 calculates the total amount paid during the fiscal year to service long-term debt incurred prior to the reporting fiscal year.
- Form 5-2 calculates a statutorily defined estimate of the annual debt service for new long-term debt (incurred during the fiscal year).
- Form 5-3 determines the total debt service reserve amount by adding the amounts calculated on Form 5-1 and Form 5-2 to the total community leasehold or rental payments paid by the provider during the fiscal year.

NOTE: Providers must complete Forms 5-1 through 5-3 to determine the amount of liquid reserves they must hold as a debt service reserve. These forms require each provider to list all its long-term debt, not just long-term debt associated with continuing care operations. For purposes of these forms, long-term debt includes any debt owed by the provider that is not required to be repaid in full within 12 months of being incurred.

A. FORM 5-1: Long-Term Debt Incurred in a Prior Fiscal Year

This worksheet must be completed by each provider that has one or more long-term debt obligations that were incurred prior to the fiscal year for which this annual report is filed. Providers that do not have any long-term debt obligations incurred in a prior fiscal year should enter “0” at the bottom of column (e) and skip to Form 5-2. For each long term debt obligation incurred prior to the subject fiscal year:

- [1] Enter the date the debt was incurred in **Column (a)**.

NOTE: Attach an additional sheet if additional space is necessary to list all pre-existing long-term debt obligations.

- [2] Enter the total principal paid during the fiscal year in **Column (b)**.

Note: Include only those principal payments the provider was required to pay under the terms of debt instrument, do not include voluntary payments made by the provider to pay down the principal.

- [3] Enter the total interest paid during the fiscal year in **Column (c)**.

- [4] Enter any credit enhancement premiums paid during the fiscal year in **Column (d)**.

- [5] For each debt obligation, add the amounts stated in **Column (b)**, **Column (c)**, and

Column (d), and enter the result in **Column (e)**.

[6] Add the amounts stated in **Column (e)** and enter the total at the bottom of that column.

[7] Repeat Step 6 for **Column (c)** and **Column (d)**.

IMPORTANT: Providers holding debt requiring a balloon payment that matures within 24 months of its just-ended fiscal year, must submit with its debt service reserve forms, a plan for refinancing or paying each such balloon debt obligation.

**FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)**

	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Principal Paid During Fiscal Year	Interest Paid During Fiscal Year	Credit Enhancement Premiums Paid in Fiscal Year	Total Paid (columns (b) + (c) + (d))
1					
2					
3					
4					
5					
6					
7					
8					
TOTAL:					

(Transfer this amount to Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: _____

B. FORM 5-2: Long-Term Debt Incurred During The Fiscal Year

This worksheet must be completed by each provider that has one or more long-term debt obligations that were incurred during the fiscal year for which the annual report is filed. Providers that did not incur any long-term debt obligations during the fiscal year should enter “0” at the bottom of column (e) and skip to Form 5-3. For each long term debt obligation incurred during the subject fiscal year:

- [1] Enter the date the debt was incurred in **Column (a)**.
- [2] Enter the total interest paid during the fiscal year in **Column (b)**.
- [3] Enter the amount of the most recent payment in **Column (c)**.

NOTE: If the provider has not yet made a payment for a long-term debt obligation, enter the amount of the first scheduled payment.

- [4] Enter in **Column (d)**, the number of payments the provider is scheduled to make during the first 12 months following the end of the fiscal year for which this annual report is filed.
- [5] Multiply the amount in **Column (c)** by the number stated in **Column (d)**. Enter the result in **Column (e)**. This is the estimate of the provider’s debt service payments required by the continuing care contract statutes to be used in calculating the provider’s debt service reserve.

NOTE: The actual amounts to be paid by the provider during the next 12 months are not used for determining debt service on new debt when calculating the reserve requirement.

- [6] Add the amounts stated in **Column (e)** and enter the total at the bottom of that column.
- [7] Repeat Step 6 for **Column (b)** through **Column (d)**.

IMPORTANT: Providers holding debt requiring a balloon payment that matures within 24 months of its just-ended fiscal year, must submit with its debt service reserve forms, a plan for refinancing or paying each such balloon debt obligation.

**FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)**

	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Total Interest Paid During Fiscal Year	Amount of Most Recent Payment on the Debt	Number of Payments over next 12 months	Reserve Requirement (see instruction 5) (columns (c) x (d))
1					
2					
3					
4					
5					
6					
7					
8					
TOTAL:					

*(Transfer this amount to
Form 5-3, Line 2)*

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: _____

C. FORM 5-3: Calculation Of Long-Term Debt Reserve Amount

This worksheet must be completed by all providers to compute the amount they must hold as a debt service reserve.

- [1] Enter on **Line 1**, the total amount stated at the bottom of **Column (e)** on Form 5-1 for debt service obligation related to long-term debt incurred in a prior fiscal year.

NOTE: This is the total estimated annual debt service obligation attributable to long-term debt incurred in a prior fiscal year.

- [2] Enter on **Line 2** the total amount stated at the bottom of **Column (e)** on Form 5-2 for debt service related to long-term debt incurred in the subject fiscal year.

NOTE: This is the total annual estimated debt obligation attributable to long-term debt incurred in the subject fiscal year.

- [3] Enter the amount paid by the provider during the fiscal year to lease or rent property or facilities.

- [4] Add **Lines 1** through **3** and enter the result on **Line 4**. **This is the total amount that the provider is required to hold in its liquid reserve for long-term debt service.**

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	_____
2	Total from Form 5-2 bottom of Column (e)	_____
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	_____
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	=====

PROVIDER: _____

III. FORM 5-4: CALCULATION OF NET OPERATING EXPENSE RESERVE AMOUNT

**PURPOSE OF FORM 5-4
CALCULATION OF NET OPERATING EXPENSE RESERVE AMOUNT**

The purpose of this form is to calculate the amount a provider must hold for operating expenses in its liquid reserve.

Form 5-4 calculates a provider's net operating expenses for the fiscal year by recognizing certain deductions from the operating expense amount stated in the provider's audited financial statements. Form 5-4 also calculates the amount of annual net operating expenses allocable to 75 days.

NOTE: Providers must complete Form 5-4 to determine the amount of liquid reserves they must hold to provide a reserve for operating expenses. For purposes of these worksheets, operating expenses include all the provider's expenses except those specified on Form 5-4.

A. FORM 5-4: Calculation Of Net Operating Expenses

IMPORTANT: Complete a Form 5-4 for *each* community operated by the provider.

This form must be completed by all providers as follows:

- [1] On **Line 1**, enter the provider's total operating expenses for the community. This figure should be taken from the provider's audited financial statements. It must include interest paid by the provider on its long-term debt allocable to the specified community as well as any amounts indicated on Lines 2a, 2b, 2c, 2d, and 2f taken as a deduction.

NOTE FOR NEW PROVIDERS: A new provider that has commenced operating or opened a continuing care retirement community during the reported fiscal year must calculate its net operating expenses for that community by combining: (1) its actual expenses for the months it has operated; and (2) the projected operating expenses (as submitted to the Department with the provider's application) for the balance of the provider's first 12 months of operations. The provider must attach a schedule showing the provider's calculation of its total operating expenses for purposes of Form 5-4.

- [2] On **Line 2a**, enter the interest paid by the provider on its long-term debt allocable to the specified community.

NOTE: The sum of the amounts shown on **Line 2a** may equal but not exceed the sum of the amounts stated on Form 5-1, **Column (c)** and Form 5-2, **Column (b)** as interest paid on long-term debt.

- [3] On **Line 2b**, enter any credit enhancement premiums paid by the provider in connection with its pre-existing long-term debt allocable to the specified community.

NOTE: The sum of the amounts shown on **Line 2b** may equal but not exceed the sum of the amounts stated on Form 5-1, **Column (d)**.

- [4] On **Line 2c**, enter the amount of depreciation recognized for the fiscal year on the provider's audited financial statements that is allocable to the specified community.

NOTE: The deduction for depreciation for each community is limited to the depreciation related to the operation of that continuing care retirement community.

- [5] On **Line 2d**, enter the amount of amortization attributable to the provider's continuing care retirement community recognized for the fiscal year on its audited financial statements.
- [6] On **Line 2e**, enter the amount the provider recognized as revenues received at its continuing care retirement community for services provided to persons who did not hold a continuing care contract.

NOTE: If a deduction is taken for this item, provide a detailed explanation of the deduction amount. This item should include service fees received from month-to-month residents and/or non-continuing care residents in assisted living units or the skilled nursing facility. It should also include reimbursements received for services provided to non-residents such as guest accommodations, meals, and parking.

- [7] On **Line 2f**, enter any extraordinary expenses attributed to the provider's continuing care retirement community incurred during the fiscal year that the Department has specifically authorized the provider to take as a deduction on this Form 5-4.
- [8] Add the amounts stated on **Lines 2a** through **2f** and enter the result on **Line 3**.
- [9] Subtract **Line 3** from **Line 1** and enter the result on **Line 4**. This is the provider's "net operating expenses" for purposes of determining the provider's operating expense reserve amount for the specified community.
- [10] Divide **Line 4** by 365 and enter the result on **Line 5**.
- [11] Multiply **Line 5** by 75 and enter the result on **Line 6**. **This is the amount the provider must maintain in its liquid reserve as an operating expenses reserve for the specified community.**

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		
2	Deductions		
a	Interest paid on long-term debt (see instructions)		
b	Credit enhancement premiums paid for long-term debt (see instructions)		
c	Depreciation		
d	Amortization		
e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract		
f	Extraordinary expenses approved by the Department		
3	Total Deductions		
4	Net Operating Expenses		
5	Divide Line 4 by 365 and enter the result.		
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve mount.		

PROVIDER: _____
COMMUNITY: _____

IV. FORM 5-5: ANNUAL RESERVE CERTIFICATION

**PURPOSE OF FORM 5-5
ANNUAL RESERVE CERTIFICATION**

The purpose of Form 5-5 is to report the amounts each provider must hold for both its debt service reserve and its operating expense reserve.

A. FORM 5-5: Annual Reserve Certification

Providers must file a Form 5-5 with their annual report.

NOTE: New requirement as of January 1, 2007

Providers must include an attachment that discloses the description and amount of all reserves that the provider currently designates and maintains. The disclosure must also include any funds accumulated for identified projects or purposes and any funds maintained or designated for specific contingencies.

Complete Form 5-5 as follows:

- [1] State the name of the provider and the provider's fiscal year end where indicated at the top of the form and in the first paragraph.
- [2] On **Line 1** enter the amount stated on Form 5-3, **Line 4**. This is the amount the provider is required to hold as a debt service reserve. **SEE FOLLOWING NOTE.**
NOTE: Providers that have the department's written authorization to specify any other amount, must submit a copy of such authorization.
- [3] On **Line 2** enter the amount stated on Form 5-4, **Line 6**. Providers who completed more than one Form 5-4 must add the amounts stated on **Line 6** for each Form 5-4 and enter the result here. This is the amount the provider is required to hold as an operating expense reserve. **SEE FOLLOWING NOTE.**
NOTE: Providers that have the department's written authorization to specify any other amount, must submit a copy of such authorization.
- [4] Total the amounts on **Lines 1 and 2** and enter the total on **Line 3**.
- [5] On **Lines 4 through 10** specify, for each type of qualifying asset held by the provider, the amount designated to satisfy the provider's debt service reserve obligation and the amount designated to satisfy the provider's operating expense reserve obligation. Amounts indicated for each qualifying asset must be the fair market value of the designated asset at the end of the reporting fiscal year.
NOTE: The definitions and rules related to each type of qualifying asset are located in the Appendix at the back of this instruction booklet.
NOTE: The aggregate amount of qualifying assets designated to satisfy the provider's debt service reserve amount must equal or exceed the amount of that obligation. Similarly, the aggregate amount of qualifying assets designated to satisfy the provider's operating expense reserve obligation must equal or exceed the amount of that obligation.
- [6] Add the qualified asset amounts stated on **Lines 4 through 10** in the *debt service* reserve column. Enter the result on **Line 11**.

- [7] Add the qualified asset amounts stated on **Lines 4 through 10** in the *operating expense* reserve column. Enter the result on **Line 12**.
- [8] On **Line 13**, enter the amount stated on **Line 1**.
- [9] On **Line 14**, enter the amount stated on **Line 2**.
- [10] Subtract **Line 13** from **Line 11**. Enter the result on **Line 15**. If **Line 15** is a negative number, put parentheses around the amount.
- [11] Subtract **Line 14** from **Line 12**. Enter the result on **Line 16**. If **Line 16** is a negative number, put parentheses around the amount.

NOTE: A negative number on **Line 15** indicates that the provider has not designated sufficient qualifying assets to satisfy its debt service reserve obligation. A negative number on **Line 16** indicates that the provider has not designated sufficient qualifying assets to satisfy its operating expense reserve obligation. In either event, the provider must designate additional qualifying assets to eliminate the deficiency.

If the provider is not able to immediately designate sufficient qualifying assets to cure its deficiency, the provider must submit a plan to eliminate the deficiency as soon as prudently possible by increasing the designated qualifying assets where necessary. Certain providers are eligible to apply to the Department for an extension of time to comply with the liquid reserve requirements.

- [12] The appropriate representative of the provider must complete the remainder of the form by signing, dating, and specifying their title where indicated.

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: _____

Fiscal Year Ended: _____

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended _____ and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	
[2] Operating Expense Reserve Amount	
[3] Total Liquid Reserve Amount:	

Qualifying assets sufficient to fulfill the above requirements are held as follows:

	<u>Amount</u> (market value at end of quarter)	
<u>Qualifying Asset Description</u>	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents		
[5] Investment Securities		
[6] Equity Securities		
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve		(not applicable)
[10] Other: _____ _____ (describe qualifying asset)		
Total Amount of Qualifying Assets Listed for Liquid Reserve:	[11] _____	[12] _____
Total Amount Required:	[13] _____	[14] _____
Surplus/(Deficiency):	[15] _____	[16] _____

Signature: _____

(Authorized Representative)

Date: _____

(Title)

PART 6
CONTINUING CARE RETIREMENT COMMUNITY
DISCLOSURE STATEMENT

All providers must deliver to depositors and prospective residents a copy of their **Continuing Care Retirement Community Disclosure Statement** before executing a deposit agreement or a continuing care agreement, or receiving any payment from a depositor or prospective resident.

A provider's Disclosure Statement must be updated by the provider when it completes its annual audited financial statements. The updated Disclosure Statement must be filed with the Department on or before the final filing date for the provider's annual report.

Providers are required to use the Disclosure Statement form provided by the Department. A copy of the Disclosure Statement form is included with these instructions and is also available from the Department upon request.

The Disclosure Statement requires two types of information: (1) information regarding the specific facility that is the subject of the Disclosure Statement, and (2) information pertaining to the provider. As a result, providers that operate more than one continuing care retirement community must complete a separate Disclosure Statement for each facility but on each Disclosure Statement the information pertaining to the provider should be the same.

CONTINUING CARE RETIREMENT COMMUNITY DISCLOSURE STATEMENT

This form must be completed by all providers as follows:

- [1] Complete page 1 of the form by providing the information specified. The information required on page 1 should describe or relate to the specific facility that is the subject of the disclosure. For example, the section entitled "number of units" requires information on the number of units at the subject facility, **not** the number of units the provider operates in all its facilities.
- [2] Page 2 of the form applies only to providers that operate a senior housing facility in addition to the continuing care retirement community that is the subject of the disclosure. Providers that meet this description must complete page 2 of the form by identifying each of their other facilities, as well as those facilities' respective addresses and phone numbers. For each CCRC listed indicate which, if any, offer life care contracts.
- [3] The first three sections of page three pertain to the provider. The required income and cash flow information, secured debt information, and financial ratio information must be completed by the provider on a consolidated basis. The last section on page three requires the provider to describe the monthly service fees charged at its subject continuing care facility. Multi-facility providers must submit a Disclosure Statement prepared for each of the continuing care facilities. This section does not include or apply to rates charged by the provider at any other facility.

**Continuing Care Retirement Community
Disclosure Statement
General Information**

Date Prepared: _____

FACILITY NAME: _____
 ADDRESS: _____ ZIP CODE: _____ PHONE: _____
 PROVIDER NAME: _____ FACILITY OPERATOR: _____
 RELATED FACILITIES: _____ RELIGIOUS AFFILIATION: _____
 YEAR OPENED: _____ NO. OF ACRES: _____ MULTI-STORY: _____ SINGLE STORY: _____ BOTH: _____
 MILES TO SHOPPING CTR: _____ MILES TO HOSPITAL: _____

NUMBER OF UNITS:	INDEPENDENT LIVING	HEALTH CARE
APARTMENTS - STUDIO _____	APARTMENTS - 1 BDRM _____	ASSISTED LIVING _____
APARTMENTS - 2 BDRM _____	COTTAGES/HOUSES _____	SKILLED NURSING _____
% OCCUPANCY AT YEAR END _____		SPECIAL CARE _____
		DESCRIBE SPECIAL CARE: _____

TYPE OF OWNERSHIP: NOT FOR PROFIT FOR PROFIT ACCREDITED: Y N BY: _____

FORM OF CONTRACT: LIFE CARE CONTINUING CARE FEE FOR SERVICE
 ASSIGN ASSETS EQUITY ENTRY FEE RENTAL

REFUND PROVISIONS (Check all that apply): 90% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$ _____ TO \$ _____ **LONG-TERM CARE INSURANCE REQUIRED?** Y N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: _____

ENTRY REQUIREMENTS: MIN. AGE: _____ PRIOR PROFESSION: _____ OTHER: _____

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input type="checkbox"/>	<input type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	_____	_____
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY	_____	_____
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	_____	_____
CARD ROOMS	<input type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input type="checkbox"/>	<input type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input type="checkbox"/>	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>
OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: _____

CCRCs

LOCATION (City, State)

PHONE (with area code)

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

MULTI-LEVEL RETIREMENT COMMUNITIES

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

FREE-STANDING SKILLED NURSING

_____	_____	_____
_____	_____	_____

SUBSIDIZED SENIOR HOUSING

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE.**

PROVIDER NAME: _____

	2004	2005	2006	2007
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	_____	_____	_____	_____
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	_____	_____	_____	_____
NET INCOME FROM OPERATIONS	_____	_____	_____	_____
LESS INTEREST EXPENSE	_____	_____	_____	_____
PLUS CONTRIBUTIONS	_____	_____	_____	_____
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	_____	_____	_____	_____
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	_____	_____	_____	_____
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	_____	_____	_____	_____

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

FINANCIAL RATIOS (see next page for ratio formulas)

	2005 CCAC Medians 50 th Percentile (optional)	2005	2006	2007
DEBT TO ASSET RATIO		_____	_____	_____
OPERATING RATIO		_____	_____	_____
DEBT SERVICE COVERAGE RATIO		_____	_____	_____
DAYS CASH-ON-HAND RATIO		_____	_____	_____

HISTORICAL MONTHLY SERVICE FEES

AVERAGE FEE AND PERCENT CHANGE

	2004	%	2005	%	2006	%	2007
STUDIO							
ONE BEDROOM							
TWO BEDROOM							
COTTAGE/HOUSE							
ASSISTED LIVING							
SKILLED NURSING							
SPECIAL CARE							

COMMENTS FROM PROVIDER: _____

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ \text{+ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ \text{-- Amortization of Deferred Revenue} \\ \text{+ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash} \\ \text{And Investments} \\ \text{+ Unrestricted Non-Current Cash} \\ \text{and Investments} \end{array}}{(\text{Operating Expenses – Depreciation} \\ \text{- Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

PART 7
REPORT ON CCRC MONTHLY SERVICE FEES

Complete **Form 7-1** to report increases in monthly service fees for *each* community operated by the provider. If no adjustments were made during the reporting period for a particular community, indicate by checking the box below **Line [2]**. Providers must complete a separate Form 7-1 for each of their continuing care retirement communities.

- [1] On **Line 1**, enter the amount of monthly service fees for each level of care at the *beginning* of the reporting period.
- [2] On **Line 2**, indicate the percentage(s) of increase in fees implemented during the *reporting* period.
- [3] On **Line 3**, indicate the date the fee increase was implemented. If more than one (1) increase was implemented, indicate the date(s) for each increase.
- [4] Check *each* of the appropriate boxes.
- [5] Provide a concise explanation for the increase in monthly service fees including the amount of the increase.

NOTE: Providers shall retain all documents related to the development of adjusted fees at their respective communities for a period of at least three years, i.e., budgets, statements of operations, cost reports, used near the end of the prior fiscal year to develop adjustments implemented in the current reporting period. These documents must be available for review upon request by the Department.

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	_____	_____	_____
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	_____	_____	_____

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: _____
 (If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: _____
COMMUNITY: _____

MARGIN (PROFITABILITY) INDICATORS

[2] On **Line 2**, for each of the years indicated, enter the provider’s “Net Operating Margin” ratio. This figure is calculated using the following formula:

$$\frac{\text{Resident Revenue} - \text{Resident Expense (based on the provider’s aggregated CCRC operations)}}{\text{Resident Revenue}} = \text{ ______ } \%$$

NOTE: Resident Revenue = Total Operating Revenue less Non-Resident Revenues
Resident Expense = Total Operating Expense less Non-Resident Expenses

This calculation examines the provider’s core business, i.e., the revenues and expenses realized solely in the delivery of services to residents. Certain items, regardless of the financial statement presentation of the provider, are treated as either operating or non-operating revenue. Net assets released from restriction for operations are not considered operating revenue. This ratio excludes net proceeds from entrance fees, interest/dividend income, interest expense, depreciation, amortization, taxes, contributions, and entrance fee amortization. Also, contributions (whether “donations” for a nonprofit, or “capital” for a for profit entity) are considered non-operating income. Realized gains on investments are non-operating revenue.

[3] On **Line 3**, for each of the years indicated, enter the provider’s “Net Operating Margin – Adjusted.” This figure is calculated using the same formula as the Net Operating Margin described for **Line 2** above, except that “Resident Revenues” in the numerator and denominator are increased by the provider’s “Net Proceeds from Entrance Fees.” The formula, subject to the same notes for **Line 2** above, is as follows:

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

NOTE: (a) Net Entrance Fees is equal to the provider’s entrance fees received – refunds paid.
(b) The “Net Proceeds from Entrance Fees” is a figure specifically disclosed on **Line 7** (see below).

LIQUIDITY INDICATORS

[4] On **Line 4**, for each of the years indicated, enter the provider’s “Unrestricted Cash and Investments” (in thousands). This figure should represent the provider’s total cash and investments available to management, with Board approval if necessary, to spend with relatively little outside-the-organization approval.

NOTE: For purposes of this calculation:
(a) Funds restricted by bond documents requiring outside action by a trustee are “restricted.”
(b) Funds requiring regulatory approval before they can be used by the continuing care retirement community are restricted.
(c) Funds that are either trustee-held or restricted (whether temporarily or permanently) by donors are considered restricted. Donor-restricted funds clearly identified for capital expansion/improvement are considered restricted.

- (d) Funds restricted by the Board are considered unrestricted.
- (e) Funds designated to satisfy the statutory liquid reserve requirements (that are not otherwise restricted) are considered unrestricted.
- (f) All funds that are unrestricted for purposes of this ratio are included in the calculation regardless of whether the funds are classified as current or non-current.

[5] On **Line 5**, for each of the years indicated, enter the provider’s “Days Cash on Hand (Unrestricted).” The ratio is calculated as follows:

$$\frac{\text{Unrestricted Cash and Investments (Current and Non-Current)}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization}) \div 365}$$

NOTE: (a) The numerator is the figure reported on **Line 4** (for each year).
 (b) Operating expenses in the denominator include all the provider’s cash operating expenses (including interest expenses and operating expenses related to CCRC residents).

CAPITAL STRUCTURE INDICATORS

[6] On **Line 6**, for each of the years indicated, enter the provider’s “Deferred Revenue from Entrance Fees” (in thousands). This figure is the provider’s total revenue from entrance fees deferred as of the end of the provider’s fiscal year.

[7] On **Line 7**, for each of the years indicated, enter the provider’s “Net Annual Entrance Fees” (in thousands). This figure is calculated as the provider’s Entrance Fees Received – Refunds Paid. It is the same amount that is calculated in **Line 3** to determine the Net Operating Margin – Adjusted.

[8] On **Line 8**, for each of the years indicated, enter the provider’s “Unrestricted net Assets” as of the end of its fiscal year (in thousands).

[9] On **Line 9**, for each of the years indicated, enter the provider’s “Annual Capital Asset Expenditure” (in thousands) ratio. This is the provider’s total expenditure for capital improvements during the fiscal year.

[10] On **Line 10**, for each of the years indicated, enter the provider’s “Annual Debt Service Coverage – Revenue Basis” ratio. This figure is calculated using the following formula:

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} - \text{Amortization of Deferred Revenue}}{\text{Annual Debt Service}}$$

NOTE: (a) The denominator “annual debt service” is the sum of all principal payment obligations, interest payment obligations, and capitalized interest for the fiscal year.
 (b) The numerator does not include the provider’s net proceeds from entrance fees.
 (c) The numerator does include all other cash revenue.

[11] On **Line 11**, for each of the years indicated, enter the provider’s “Annual Debt Service Coverage” ratio. (For providers using CARF-CCAC software or publication, this ratio is referred to as simply the ‘debt service coverage ratio’ in those materials.) This figure is calculated using the same formula described for **Line 10** except that net entrance fees are added to the numerator. The net entrance fees for each year are already stated on **Line 7**.

[12] On **Line 12**, for each of the years indicated, enter the provider’s “Annual Debt Service-to-Revenue” ratio (stated as a percentage). This calculation is made using the following formula.

$$\frac{\text{Annual Debt Service}}{\text{Total Operating Revenues + Net Non-Operating Gains and Losses}}$$

- NOTE:**
- (a) In this ratio, the numerator “Annual Debt Service” DOES NOT INCLUDE capitalized interest cost recognized for the period. This is different from the calculation of the “Annual Debt Service” amount for the ratios on **Lines 10** and **12**. In this ratio, Annual Debt Service is the sum of all principal payment obligations and interest payment obligations for the fiscal year.
 - (b) The denominator includes all operating revenues (from all levels of care), net assets released from restriction for operations, contributions, and gain (loss) on sale of investments.

[13] On **Line 13**, for each of the years indicated, enter the provider’s “Average Annual Effective Interest Rate.” This calculation is made using the following formula.

$$\frac{\text{Total Interest Expense on Long Term Debt}}{\text{Total Long Term Debt}}$$

- NOTE:**
- (a) In this ratio, the denominator is equal to the provider’s long term debt owed at the end of the fiscal year plus any long term debt principal paid during the fiscal year.
 - (b) The numerator includes any interest paid on long term debt during the fiscal year.

[14] On **Line 14**, for each of the years indicated, enter the provider’s “Unrestricted Cash and Investments to Long Term Debt” ratio. This calculation is made using the following formula.

$$\frac{\text{Unrestricted (Current & Non-Current) Cash and Investments}}{\text{Long Term Debt, less Current Portion}}$$

- NOTE:**
- (a) In this ratio, the numerator includes all cash and investments (excluding trustee-held funds) that are in any way available to retire debt or to pay operating expenses.
 - (b) Board-designated assets and assets temporarily restricted by donors for operating purposes are included in the numerator. Trustee-held funds and assets restricted by donors for purposes other than operations are excluded.

[15] On **Line 15**, for each of the years indicated, enter the provider’s “Average Age of Facility” ratio. This calculation is made using the following formula.

$$\frac{\text{Accumulated Depreciation}}{\text{Annual Depreciation Expense}}$$

- NOTE:**
- (a) In this ratio, the numerator “Accumulated Depreciation” should be taken from the provider’s statement of financial position.
 - (b) The denominator should be calculated using depreciation expense only (without amortization expense).

VERIFICATION SIGNATURE

A provider's KIR must be signed by the CEO or CFO of the provider. For provider entities that do not have a CEO or CFO, the authorized person who signed the provider's annual report must also sign the KIR.

KEY INDICATORS REPORT

[insert provider's name here]

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

						Projected	Forecast				Preferred Trend Indicator	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		
OPERATIONAL STATISTICS												
1. Average Annual Occupancy by Site (%)												N/A
MARGIN (PROFITABILITY) INDICATORS												
2. Net Operating Margin (%)												↑
3. Net Operating Margin - Adjusted (%)												↓
LIQUIDITY INDICATORS												
4. Unrestricted Cash and Investments (\$000)												↑
5. Days Cash on Hand (Unrestricted)												↑
CAPITAL STRUCTURE INDICATORS												
6. Deferred Revenue from Entrance Fees (\$000)												N/A
7. Net Annual E/F proceeds (\$000)												N/A
8. Unrestricted Net Assets (\$000)												N/A
9. Annual Capital Asset Expenditure (\$000)												N/A
10. Annual Debt Service Coverage Revenue Basis (x)												↑
11. Annual Debt Service Coverage (x)												↑
12. Annual Debt Service/Revenue (%)												↓
13. Average Annual Effective Interest Rate (%)												↓
14. Unrestricted Cash & Investments/ Long-Term Debt (%)												↑
15. Average Age of Facility (years)												↓

APPENDIX

DEFINITIONS OF QUALIFYING ASSETS FOR RESERVES

1. CASH

2. CASH EQUIVALENTS [1771(c)(4)]

Means certificates of deposit and United States treasury securities with a maturity of five years or less.

3. EQUITY SECURITIES [1771(e)(7)]

Refers generally to large and midcapitalization corporate stocks that are publicly traded and readily liquidated for cash, and shall include shares in mutual funds that hold portfolios consisting predominantly of these stocks and other qualifying assets, as defined by Section 1792.2. Equity securities shall also include other similar securities that are specifically approved by the department.

4. INVESTMENT SECURITIES [1771(I)(2)]

Means any of the following:

(A) Direct obligations of the United States, including obligations issued or held in book-entry form on the books of the United States Department of the Treasury, or obligations the timely payment of the principal of, and the interest on, which are fully guaranteed by the United States.

(B) Obligations, debentures, notes, or other evidences of indebtedness issued or guaranteed by any of the following:

(i) The Federal Home Loan Bank System.

(ii) The Export-Import Bank of the United States.

(iii) The Federal Financing Bank.

(iv) The Government National Mortgage Association.

(v) The Farmer's Home Administration.

(vi) The Federal Home Loan Mortgage Corporation of the Federal Housing Administration.

(vii) Any agency, department, or other instrumentality of the United States if the obligations are rated in one of the two highest rating categories of each rating agency rating those obligations.

(C) Bonds of the State of California or of any county, city and county, or city in this state, if rated in one of the two highest rating categories of each rating agency rating those bonds.

(D) Commercial paper of finance companies and banking institutions rated in one of the two highest categories of each rating agency rating those instruments.

(E) Repurchase agreements fully secured by collateral security described in subparagraph (A) or (B), as evidenced by an opinion of counsel, if the collateral is held by the provider or a third party during the term of the repurchase agreement, pursuant to the terms of the agreement, subject to liens or claims of third parties, and has a market value, which is determined at least every 14 days, at least equal to the amount so invested.

(F) Long-term investment agreements, which have maturity dates in excess of one year, with financial institutions, including, but not limited to, banks and insurance companies or their affiliates, if the financial institution's paying ability for debt obligations or long-term claims or the paying ability of a related guarantor of the financial institution for these obligations or claims, is rated in one of the two highest rating categories of each rating agency rating those instruments, or if the short-term investment agreements are with the financial institution or the related guarantor of the financial institution, the long-term or short-term debt obligations, whichever is applicable, of which are rated in one of the two highest long-term or short-term rating categories, of each rating agency rating the bonds

of the financial institution or the related guarantor, provided that if the rating falls below the two highest rating categories, the investment agreement shall allow the provider the option to replace the financial institution or the related guarantor of the financial institution or shall provide for the investment securities to be fully collateralized by investments described in subparagraph (A), and, provided further, if so collateralized, that the provider has a perfected first security lien on the collateral, as evidenced by an opinion of counsel and the collateral is held by the provider.

(G) Banker's acceptances or certificates of deposit of, or time deposits in, any savings and loan association that meets any of the following criteria:

(i) The debt obligations of the savings and loan association, or in the case of a principal bank, of the bank holding company, are rated in one of the two highest rating categories of each rating agency rating those instruments.

(ii) The certificates of deposit or time deposits are fully insured by the Federal Deposit Insurance Corporation.

(iii) The certificates of deposit or time deposits are secured at all times, in the manner and to the extent provided by law, by collateral security described in subparagraph (A) or (B) with a market value, valued at least quarterly, of no less than the original amount of moneys so invested.

(H) Taxable money market government portfolios restricted to obligations issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States.

(I) Obligations the interest on which is excluded from gross income for federal income tax purposes and money market mutual funds whose portfolios are restricted to these obligations, if the obligations or mutual funds are rated in one of the two highest rating categories by each rating agency rating those obligations.

(J) Bonds that are not issued by the United States or any federal agency, but that are listed on a national exchange and that are rated at least "A" by Moody's Investors Service, or the equivalent rating by Standard and Poor's Corporation or Fitch Investors Service.

(K) Bonds not listed on a national exchange that are traded on an over-the-counter basis, and that are rated at least "Aa" by Moody's Investors Service or "AA" by Standard and Poor's Corporation or Fitch Investors Service.

5. LINES OF CREDIT/LETTERS OF CREDIT [1792.2(a)(5)]

Lines of credit and letters of credit that meet the requirements of this paragraph. The line of credit or letter of credit shall be issued by a state or federally chartered financial institution approved by the department or whose long-term debt is rated in the top three long-term debt rating categories by either Moody's Investors Service, Standard and Poor's Corporation, or a recognized securities rating agency acceptable to the department. The line of credit or letter of credit shall obligate the financial institution to furnish credit to the provider.

(A) The terms of the line of credit or letter of credit shall at a minimum provide both of the following:

(i) The department's approval shall be obtained by the provider and communicated in writing to the financial institution before any modification.

(ii) The financial institution shall fund the line of credit or letter of credit and pay the proceeds to the provider no later than four business days following written instructions from the department that, in the sole judgment of the department, funding of the provider's minimum liquid reserve is required.

(B) The provider shall provide written notice to the department at least 14 days before the expiration of the line of credit or letter of credit if the term has not been extended or renewed by that time. The notice shall describe the qualifying assets the provider will use to satisfy the liquid reserve requirement when the line of credit or letter of credit expires.

(C) A provider may satisfy all or a portion of its liquid reserve requirement with the available and unused portion of a qualifying line of credit or letter of credit.

6. RESTRICTED ASSETS HELD IN A DEBT SERVICE RESERVE [1792.2(a)(6)]

For purposes of satisfying all or a portion of a provider's debt service reserve requirement described in Section 1792.3, restricted assets that are segregated or held in a separate account or escrow as a debt service reserve under the terms of the provider's long-term debt instruments are qualifying assets, subject to all of the following conditions:

(A) The assets are restricted by the debt instrument so that they may be used only to pay principal, interest, and credit enhancement premiums.

(B) The provider furnishes to the department a copy of the agreement under which the restricted assets are held and certifies that it is a correct and complete copy. The provider, escrow holder, or other entity holding the assets must agree to provide to the department any information the department may request concerning the debt service reserve it holds.

(C) The market value, or guaranteed value, if applicable, of the restricted assets, up to the amount the provider must hold as a debt reserve under Section 1792.3, will be included as part of the provider's liquid reserve.

(D) The restricted assets described in this paragraph will not reduce or count towards the amount the provider must hold in its liquid reserve for operating expenses.

7. RESTRICTED ASSETS HELD IN AN OPERATING EXPENSE RESERVE [1792.2(a)(7)]

For purposes of satisfying all or a portion of a provider's operating expense reserve requirement described in Section 1792.4, restricted assets that are segregated or held in a separate account or escrow as a reserve for operating expenses, are qualifying assets subject to all of the following conditions:

(A) The governing instrument restricts the assets so that they may be used only to pay operating costs when operating funds are insufficient.

(B) The provider furnishes to the department a copy of the agreement under which the assets are held, certified by the provider to be a correct and complete copy. The provider, escrow holder, or other entity holding the assets shall agree to provide to the department any information the department may request concerning the account.

(C) The market value, or the guaranteed value, if applicable, of the restricted assets, up to the amount the provider is required to hold as an operating expense reserve under Section 1792.4, will be included as part of the provider's liquid reserve.

(D) The restricted assets described in this paragraph shall not reduce or count towards the amount the provider is required to hold in its liquid reserve for long-term debt.