



**2008 GLOSSARY OF  
SENIOR LIVING FINANCE TERMS**



ZIEGLER SENIOR LIVING FINANCE + STRATEGY CONFERENCE

**2008**  
**Senior Living Finance + Strategy**  
**Glossary of Terms**

***This is the fifth edition of a glossary of terms created to assist those who desire to learn about senior living and the tax-exempt bond financing process for senior living providers. We appreciate the feedback and comments we received on earlier editions. We've made many changes in this edition and hope you'll find this the glossary even more comprehensive and tailored further to meet the very specific needs of those who work in the provision of senior living or its financing.***

***The glossary is divided into two sections: Finance and Senior Living. Some terms are replicated in both sections. Is the glossary missing a term you'd like to see defined? Do you have an edit to propose? Let us know.***

Senior Living Finance Team  
Ziegler Capital Markets  
September, 2008



# 2008

## Senior Living Finance + Strategy

### Terminology

## *Finance*<sup>1</sup>

---

**Actuarial Study:** a study, the results of which indicate whether a retirement community is in “satisfactory actuarial balance” as defined by actuarial standards of practice. These standards of practice determine whether the cash and reserves held by the community are sufficient to cover its future obligations to current residents, whether the combination of monthly and entry fees charged to new entrants covers their costs over their expected lifetimes, and whether projected cash flows are positive and will meet any financing covenants or regulatory requirements. The Board and management of CCRCs use this study as a guide for annual fee adjustments and to determine whether their communities are solvent. Positive results from a comprehensive actuarial study are often shared with residents to assure them of the financial health of the community and to educate them about how fee increases are determined.

**Actuary:** a statistician who computes insurance risks and premiums.

**Adjustable Rate Bonds:** a type of variable rate bond. Ziegler’s EXTRAS<sup>SM</sup> (Extendable Rate Adjustable Securities) are unrated adjustable rate bonds with long-term amortization, but with several interest rate resets prior to maturity. The typical interest rate period (known as the “interest rate mode” or “mode”) is a three-to-seven-year term with the corresponding interest rates falling between the long-term fixed rates and short-term variable rate bonds. For example, at a time when fixed, unrated, tax-exempt rates are approximately 5.75% and variable rates are in the 3.0-4.0% range, adjustable rates may be around 4.75% to 5.50%. At the interest rate reset date, the **borrower** can either reset the rate for the same period, reset the rate for a different mode or retire the bonds. EXTRAS<sup>SM</sup> are generally issued in amounts small enough that the borrower is projected to be able to repay the bonds on demand so that a liquidity facility is not required. Unlike

variable rate bonds, the bondholders of EXTRAS<sup>SM</sup> may not have the absolute right to “put” the bond if they do not like the reset interest rate. Instead, the bondholder has a “soft put”, meaning that if the bond cannot be remarketed to a new investor and the borrower has insufficient “excess cash” to redeem the bond, the bondholder must retain the bond. In addition to interest rate flexibility, EXTRAS<sup>SM</sup> have short call protection periods based on their interest rate period. This combination of features makes EXTRAS<sup>SM</sup> an excellent tool for **borrowers** seeking to blend the stability of long-term debt with the flexibility provided by short-term interest rates and early call provisions.

**Advance Refunding:** for purposes of certain tax and securities laws and regulations, a refunding in which the refunded issue remains outstanding for a period of more than 90 days after the issuance of the refunding issue. The proceeds of the refunding issue are placed in an escrow account and generally invested in Treasury securities, federal agency securities, or SLGs (although other instruments are sometimes used), with principal and interest from these investments being used (with limited exceptions) to pay principal and interest on the refunded issue to the first call date, at which time the bonds are redeemed with the remaining escrowed funds. Bonds are “escrowed to maturity” when the proceeds of the refunding issue are sufficient to pay the principal of and interest on the issue being refunded on the original interest payment and maturity dates, although in some cases an issuer may expressly reserve its right (pursuant to certain procedures delineated by the SEC) to exercise an early call of bonds that have been escrowed to maturity. Advanced refunded bonds are also called “prerefunded” after the refunding bonds have been issued, but before the advance refunded bonds have been redeemed. The Internal Revenue Code and regulations thereunder restrict the yield that may be earned on investment of the proceeds of a refunding issue.<sup>1</sup> See **Current Refunding and Defeasance**.

**Arbitrage:** refers to the difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds of the bonds in higher-yielding taxable securities. Federal income tax laws generally restrict the ability to earn arbitrage in connection with proceeds of tax-exempt bonds.

**Auction Rate Securities:** variable rate bonds whose interest rate is reset periodically under the **Dutch auction process**.<sup>1</sup>

---

<sup>1</sup> See sub-section on page 11 for terms related to Interest Rate Management and Derivatives.

**Bolded terms are defined within this glossary.**

**Audited Financial Statement:** the report prepared by an independent certified public accountant following its audit or investigation of an entity's financial position and results of operations for a given period of time. As a general rule, the report should include: (a) a statement of the scope of the audit; (b) explanatory comments concerning exceptions from generally accepted accounting principles and auditing standards; (c) expression or disclaimer of opinions; (d) explanatory comments concerning verification procedures; (e) financial statements and schedules; and (f) statistical tables, supplementary comments and recommendations. Also called "the audited."

**BAN (Bond Anticipation Note):** a short-term municipal debt security to be paid from the proceeds of long-term debt when it is issued. BANs have had limited and specific use in senior living financings; most often associated with preconstruction costs related to new campus financings. Typically, BANs are unsecured instruments.

**Basis Point:** 1/100th of 1 percent. When a bond yield increases from 5 percent to 5.5 percent is said to increase by 50 basis points. Alternatively, a fee of 0.75% is equal to 75 basis points.

**Bond:** the legal obligation of a **borrower** to repay the principal of a loan to bond investors at a specified future date. Bonds are usually issued in denominations or par values of \$5,000 and increments of \$5,000 for **fixed interest rate bonds** and \$100,000 for **variable interest rate bonds**. The **issuer** promises to pay a percentage of the par value as interest on the borrowed funds for fixed rate bonds. The interest payment is stated on the face of the bond at issue. The interest payment is set periodically for variable interest rate bonds.

**Bond Counsel:** legal counsel responsible for drafting the **bond documents** and issuing the approving opinion regarding the validity and tax-exempt status of the bonds.

**Bond Documents:** refers to all documents necessary for a bond offering. Principal documents include the Bond Indenture, Loan Agreement, etc.

**Bond Insurance:** a form of **credit enhancement**; an insurance policy issued for the benefit of bondholders, insuring full and timely payment of all interest and principal over the life of the bonds, thereby resulting in the assignment of the bond insurer's rating to the bonds. Bond Insurers are typically paid an up-front premium that is calculated on total interest and principal paid over the life of the bonds. Until the recent capital market disruption brought on by the sub-prime mortgage crisis, Radian Asset Assurance was the most active bond insurer in the senior living sector; currently, however, Radian and other bond insurers are "on the sidelines" due to ratings downgrades.

**Bolded terms are defined within this glossary.**

**Bond Purchase Agreement:** the commitment by the **underwriter** to purchase the bonds.

**Bond Trustee:** a bank trust department that acts as a fiduciary on behalf of the bondholders. The trustee controls certain funds created for the bond issue (including the debt service [or bond] fund and the debt service reserve fund), controls disbursement of bond proceeds and is responsible for enforcing remedies and taking actions in the event of **default**.

**Book Running Manager:** the designation given to the **Underwriter** of a negotiated bond issue responsible for setting the interest rates and allocating the bonds among the various underwriting parties. Other managers (or selling group members) may be involved in the floating and selling of the debt issue, but they do not play the key role of the book running manager.

**Borrower:** the organization borrowing the money, normally, a charitable organization, exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. Generally speaking, only tax-exempt Section 501(c)(3) entities may be the beneficiaries of a tax-exempt bond issue and may use the proceeds thereof to finance capital projects or to refinance certain debt but cannot use such proceeds primarily for working capital.

**Borrower's or Corporation's Counsel:** represents the **borrower** in the transaction, frequently drafts necessary disclosure statements about the borrower and issues opinions on behalf of the borrower regarding its 501(c)(3) status, and the legality of its actions regarding the bond issue. This counsel ensures that the appropriate documentation of board approval is obtained, ensures that the appropriate people are signing the correct documents, etc., and issues the opinion regarding the borrower's compliance with any outstanding regulations and/or laws.

**BPS (or bps):** abbreviation for **basis points**.

**Capital Expenditure:** any cost of a type that is properly chargeable to a capital account and expensed over time through annual depreciation expense.

**Capital Structure Ratios:** one of three types of ratios (Liquidity, Profitability and Capital Structure ratios) used to evaluate the financial strength of a senior living provider. Capital Structure ratios measure a provider's ability to access capital. See **Liquidity ratios** and **Profitability ratios**. Summary of Capital Structure ratios in Exhibit A.

**Cash flow:** the cash received by a senior living provider less the cash paid out. There are four primary categories by which cash is received by a not-for-profit senior living provider: **monthly fees** paid by residents, **entrance fee** receipts, earnings on investments, and contributions.

**Change in Tax Law Risk:** the risk that there will be an unanticipated structural change to current tax laws, which would impact the spread between tax-exempt and taxable rates.

**Co-manager:** a broker dealer that enters into a formal agreement with the senior manager (**book running manager**), of a financing to share a defined portion of the underwriting liabilities and profits.

**Conduit Authority or Issuer:** the governmental entity that issues the bonds so that they are exempt from federal and/or state income tax. The issuer loans the money to the borrower. The issuer can be a special government entity created solely to issue tax-exempt bonds (e.g., Economic Development Authority, Health and Higher Education Facilities Authority) or a local city, town or county.

**Continuing Disclosure:** disclosure of material information relating to municipal securities provided to the marketplace from time to time by the issuer of the securities or any other entity obligated with respect to the securities. Securities & Exchange Commission Rule 15c2-12 mandates certain continuing disclosure by **issuers** of tax-exempt debt.

**Contract Types:** general reference to the types of contracts that describe the services offered by continuing care retirement communities: **Extensive Contract, Modified Contract, Fee-for-service Contract, Rental Contract, Equity Contract.** CCRCs may offer more than one type of contract.

**Credit Enhancement:** a form of guarantee of payment issued by a **Credit Enhancer** on behalf of a borrower that assures the payment of interest and repayment of principal on bond issues. See **Bond Insurance** and **Letter of Credit**.

**Credit Enhancers:** financial institutions willing to use their credit and financial strength to enhance the financial or credit strength of a bond issue. The typical credit enhancer is a **Letter of Credit Bank** or **Bond Insurer** (either a private company or governmental insuring body).

**Current Refunding:** a refunding transaction where the municipal securities being refunded will all mature or be redeemed within 90 days or less from the date of issuance of the refunding issue. Certain federal income tax rules relating to permitted yields of invested proceeds of the refunding issue, rebate of arbitrage earnings and the ability to refund certain types of municipal securities are significantly less restrictive in the case of current refundings as contrasted with **advance refundings**. In addition, **underwriters** are not obligated to submit refunding documents to the MSRB under Rule G-36 in the case of current refundings.<sup>1</sup>

**CUSIP:** identification number assigned by the Committee of Uniform Security Identification Procedures to each maturity of a bond issue.

**D**ebt Service Reserve: see **Reserves**.

**Default:** either 1) a missed payment to a bondholder and/or 2) a Federal Bankruptcy filing. A default on an underlying monthly, quarterly or semi-annual loan payment by the **borrower** to the **Bond Trustee**—with a resulting invasion of the Debt Service Reserve Fund to make the scheduled Bond payment—IS NOT considered a default in Ziegler’s most recent CCRC default research study.

**Defeasance:** termination of the rights and interests of the bondholders and of their lien on the pledged revenues or other security in accordance with the terms of the bond contract for an issue of securities. This is sometimes referred to as a “legal defeasance.” Defeasance usually occurs in connection with the refunding of an outstanding issue after provision has been made for future payment of all obligations under the outstanding bonds through funds provided by the issuance of a new series of bonds. In some cases, particularly where the bond contract does not provide a procedure for termination of these rights, interests and lien other than through payment of all outstanding debt in full, funds deposited for future payment of the debt may make the pledged revenues available for other purposes without effecting a legal defeasance. This is sometimes referred to as an “economic defeasance” or “financial defeasance.” If for some reason the funds deposited in an economic or financial defeasance prove insufficient to make future payment of the outstanding debt, the issuer would continue to be legally obligated to make payment on such debt from the pledged revenues.<sup>1</sup> See **Advance Refunding**.

**Deposit or Entrance Fee Deposit:** amount paid by a prospective resident to reserve a unit in a continuing care retirement community. Typically, a 10 percent deposit of the **entrance fee** is required to reserve a specific unit within a community.

**Derivative:** a product, whose value is derived from an underlying security, structured to deliver varying benefits to different market segments and participants. The term encompasses a wide range of products offered in the marketplace including **interest rate swaps, caps, floors, collars** and other synthetic variable rate products.

**Designated Funds or Board Designated Funds:** term applied to cash and investments shown on a balance sheet that the Board of Directors of a senior living provider has set-aside for specific purposes. What a board designates, a board can “un-designate”, meaning, unlike **Restricted funds**, designated funds are available for the discretionary use of the senior living provider. Designated funds are, therefore, ultimately, **Unrestricted**.

**Bolded terms are defined within this glossary.**

**Developer:** the individual, team, or firm engaged to bring a senior living project from conception to or through opening through the provision of development, marketing and/or management services. Nationally-recognized senior living developers include CRSA, Greystone Communities Inc., Life Care Services, New Life, and RLS.

**Dutch Auction Process:** process by which securities are sold at the highest price at which sufficient bids are received to sell all securities offered. Generally, the securities will be sold at the clearing price established by the Dutch auction to all investors placing bids at or above the clearing price. In the municipal securities market, Dutch auctions may be used as a method of distributing or remarketing variable rate demand obligations. Dutch auctions also are sometimes used in the secondary market to sell out an investor's large position in a security.<sup>i</sup>

**E**ndowment Fee: see Entrance Fee.

**Entrance Fee:** a fee paid by a CCRC resident prior to move-in to cover capital costs and/or future health care benefits. Amount is normally based on size of resident's living unit and refund policy.

**Equity Contract:** contract that involves the actual purchase of real estate or membership. Includes condominiums and cooperatives.<sup>ii</sup>

**Equity:** money invested in a senior living project by interested parties or indirectly through the planned non-payment of fees to parties involved in the project development (contractor, architect, developer, etc.); typically unsecured, returns paid to equity contributors are typically significantly higher than bond yields.

**Escrow Deposit Agreement:** an agreement that typically provides for the deposit of monies or securities in an escrow account to refund an outstanding issue of municipal securities. The agreement sets forth the manner in which funds are to be invested (generally in eligible securities) pending their expenditure and the schedule on which ongoing debt service payments are to be made and early redemptions, if any, of securities are to occur.<sup>i</sup> See **Advance Refunding** or **Current Refunding**.

**Escrow Funds:** State and Local Government Securities that are sufficient to redeem outstanding bonds at a future date. These funds are typically held by a third party until the agreed upon obligations of a contract are met.

**Extensive Contract:** contract between a CCRC and a resident of the CCRC that has an **entrance fee** and includes housing, residential services amenities and unlimited, specific health-related services with little or no substantial increase in monthly charges, except for normal

operating costs and inflation adjustments; also called Type A contracts.<sup>ii</sup>

**EXTRAS<sup>SM</sup> (Extendable Rate Adjustable Securities<sup>SM</sup>):** bonds issued exclusively by Ziegler that have adjustable interest rates and variable terms. They can be used as temporary debt to be repaid with entrance fees or as permanent debt. See **Adjustable Rate Bonds**.

**F**ASB (Financial Accounting Standards Board): promulgates accounting protocols that affect non-governmental entities. Most nonprofit healthcare and senior living providers are governed by this board's pronouncements. Auditors must follow the rules of FASB. **Note:** GASB (Governmental Accounting Standards Board) issues pronouncements affecting state and local entities' accounting and financial reporting.

**FASB Statement 133:** issued by the Financial Accounting Standards Board (FASB), Statement 133 requires companies that report according to GAAP to include the fair value (i.e. mark-to-market) of their derivative positions on their balance sheets.

**Feasibility Study:** a study of the financial feasibility of a proposed senior living project, typically prepared according to standards of the AICPA and based on a set of assumptions provided by the developer or sponsoring organization regarding number of units to be constructed, entrance and monthly fee pricing, age at entry. Study encompasses a review of the market demographics, establishing the primary market area, secondary market area, and sometimes a tertiary market area. A feasibility study is prepared just prior to a financing. The largest and most active senior living feasibility study preparer firms in the country are Dixon Hughes, LarsonAllen and Parente Randolph. Financial slang (!): "the feaso"

**Fee-for-service Contract:** an entrance fee contract that includes housing, residential services, and amenities for the fees stated in the resident agreement. Access to healthcare services is guaranteed, but it may be required at full fee-for-service rates; also called Type C contracts.<sup>ii</sup>

**Fill Period (or Fill-Up):** the time it takes units in a new campus construction or expansion to reach stabilized occupancy rates (typically, 90 to 95 percent occupancy).

**Financial Advisor:** may be retained by either the **borrower, conduit authority** or **issuer** to assist in developing a plan of finance or preparing legal documents, and to evaluate the pricing and final structure of the bond issue. A financial advisor can become involved in a financing at various points in the financing process and sometimes is retained by a borrower prior to the selection of the **underwriter**. Financial advisors may be paid hourly,

**Bolded terms are defined within this glossary.**

on a flat fee basis, or at closing, based on a negotiated fee arrangement.

**Fitch Ratings:** one of two rating agencies that actively rates senior living debt. See also **Rating Agency**.

**Fixed Rate Bonds:** many tax-exempt bonds are issued as fixed rate, where the interest rate is set for the entire life of the bonds. This allows the **borrower** to fix its debt service requirements for the life of the project. In a fixed rate financing, there is frequently a combination of **serial bonds** and **term bonds**. Typically, fixed rate bonds are structured to create level annual debt service for the borrower.

**Forward Delivery Agreement (FDA):** a fixed rate Agreement between a borrower and a highly rated financial institution, usually an investment bank or commercial bank. An FDA allows a borrower to purchase permitted investment securities from a financial institution and lock in a fixed, guaranteed yield over the life of the Agreement. FDAs eliminate the uncertainty of future investment earnings and funds are guaranteed with 100% collateralization of cash and securities.

**Fronting Bank:** that Bank which provides the **LOC**, associated rating, **credit enhancement** and **liquidity** support to a **Variable Rate Demand Bond** issue.

**GASB:** Governmental Accounting Standards Board.

**Guaranteed Investment Contract (GIC):** A fixed rate investment agreement between a **borrower** and a highly rated financial institution, usually an insurance company, investment bank or commercial bank. The financial institution agrees to pay a fixed guaranteed yield in exchange for receiving the bond fund proceeds. A GIC can be structured with a flexible draw schedule that would allow the borrower to make indenture permitted withdrawals in accordance with the actual project development.

**Institutional Investor:** a person or an organization that trades securities in large enough share quantities or dollar amounts that it qualifies for preferential treatment and lower commissions. An institutional order can be of any size. A list of institutional investors active in senior living includes, but is not limited to: AIM Capital Management, Inc., Allstate Investments, Capital Research, Citigroup Asset Management, Eaton Vance Management, Evergreen Financial Services, Federated Investors, Fidelity Investments, Merrill Lynch Investment Managers, MFS Investment Management, Northern Trust, Nuveen Investments, Oppenheimer Funds, Putnam Investment Management, SIT Investment Associates, Stamper Capital, T. Rowe Price Associates, The Vanguard Group and Van Kampen Advisors.

**Interest Rate Risk:** the risks associated with changes in interest rates (i.e., the risk that changes in interest rates will adversely effect the position of a **borrower** with respect to borrowing costs, re-investment opportunities, at-market investment termination, etc.)

**Inverted Yield Curve:** an unusual situation that occurs when interest rates in the short term are higher than longer-term rates causing the slope to decline from high to low, i.e. "invert".

**Investment Bank or Underwriter:** an institution in the business of raising capital for senior living providers. Responsibilities include managing the financing and selling the bonds; e.g., Ziegler Capital Markets. The underwriter buys the bonds from the **conduit authority** or **issuer** (also called underwriting the bonds) and sells the bonds to investors. Although these terms are frequently used interchangeably, a distinction should be made between the investment banker and underwriter. The investment banker structures the project financing; the underwriter distributes the securities to the investing public. Ziegler functions as both.

**Investment Grade:** a credit designation given by a **rating agency** to municipal securities that have a high probability of being paid. Bonds rated "BBB" or higher by **Standard & Poor's** or **Fitch Ratings** or "Baa" or higher by **Moody's Investors Service** are generally deemed to be investment grade.

**Issuance Costs:** costs incurred in connection with, and allocable to, the issuance of a bond issue. Federal tax law permits up to 2% of the par amount of tax-exempt bond proceeds to be utilized to pay for qualified issuance costs. These issuance costs include (but only to the extent incurred in connection with, and allocable to, the borrowing): **underwriters' discount**; counsel fees; financial advisory fees; **rating agency** fees; trustee fees; paying agent fees; bond registrar, certification, and authentication fees; accounting fees; printing costs for bonds and offering documents; public approval process costs; engineering and **feasibility study** costs; guarantee fees, and other similar costs.

**Issue Date:** in reference to a bond issue, the first date on which the issuer receives the purchase price in exchange for delivery of the evidence of indebtedness representing any bond included in the issue. Issue date means, in reference to a bond, the date on which the issuer receives the purchase price in exchange for that bond. In no event is the issue date earlier than the first day on which interest begins to accrue on bonds for federal income tax purposes.

**Issuer:** the entity that issues or sells debt securities. When a governmental body acts as a **conduit authority** and issues tax-exempt bonds on behalf of a not-for-profit senior living provider, the conduit authority is called the "Issuer" and the senior living provider is typically referred to

**Bolded terms are defined within this glossary.**

as the “borrower” (since, technically, the senior living provider is borrowing the bond proceeds from the governmental Issuer, whose involvement is essential to securing the tax-exempt status of the bonds). However, a senior living provider may also be considered an “Issuer” when, for instance, it issues obligations under a **Master Trust Indenture** to secure its various forms of indebtedness (including indebtedness in the form of “Related Bonds”).

**Issuer’s Counsel:** represents the **conduit authority** or **issuer** (issuing authority). **Bond counsel** may also act as issuer’s counsel.

**Letter of Credit (LOC):** a form of **credit enhancement** provided by a commercial bank that can be drawn on to purchase tendered bonds and to pay related interest on **variable rate demand bonds**. It is normally for an amount sufficient to cover the full par of the outstanding bond it is enhancing, plus at least one month’s interest on those bonds. A letter of credit provides credit (bondholders can rely on the credit of the bank rather than the credit of the borrower) and liquidity (the bank will purchase all of the bonds, if necessary).

**Letter of Credit Bank (LOC Bank):** provides a **letter of credit** for an issue of bonds, typically VRDB’s, resulting in the credit rating of the LOC Bank being assigned to the bonds. Nationally active LOC Banks: Allied Irish Bank, Bank of America, Bank of Scotland, HSH Nordbank AG, KBC Bank, Key Bank, National Cooperative Bank, Sovereign Bank. Other banks are active locally or regionally.

**Letter of Credit Bank Counsel:** represents the **LOC Bank**, and reviews all documents involving the LOC Bank. Drafts the LOC reimbursement agreement.

**LIBOR:** London Inter-Bank Offered Rate (LIBOR) is the interest rate banks charge each other for short-term money, up to a 12-month term. LIBOR is commonly used as the underlying rate for the **Floating Leg** of a swap. The British Bankers Association (BBA) sets the rates daily. See also **swap index**.

**Life Care:** a term often used interchangeably with “continuing care”, as in life care (or lifecare [one word]) community. Sometimes refers to a contract type, namely, the **Extensive Contract**, in order to distinguish the care it provides (for life, without additional fees by level of care) from that of the other contract types (**Modified Contracts** and **Fee-for-service Contracts**) that require additional fees for living at higher levels of care.

**Liquidity:** a measure of the liquid investments, normally cash and investments, available to an organization to meet its financial needs. May also refer to the need to provide

funds to pay the purchase price of tendered **VRDBs** for which a **letter of credit** may be required.

**Liquidity Facility:** an agreement by a bank to provide liquidity for the purchase of tendered bonds; different from a letter of credit because the bank providing the liquidity facility does not take credit risk. Used most frequently with **bond insurance** and **variable rate bonds**. See **Variable Rate Demand Bonds** for more discussion.

**Liquidity Ratios:** one of three types of ratios (Liquidity, Profitability and Capital Structure ratios) used to evaluate the financial strength of senior living providers. Liquidity ratios measure the strength of a provider’s unrestricted cash and investment balances to meet its financial needs. See **Profitability ratios** and **Capital Structure ratios**. Summary of Liquidity ratios in Exhibit A.

**Management Letter:** a phrase typically used to describe an auditor’s communication with an audit client’s board of directors and management.<sup>vi</sup>

**Manager:** individual or firm that receives a fee (typically a percentage of operating revenues) for managing the day-to-day operations of a senior living provider. Multi-site providers typically receive a management fee for services they provide at the facilities they own or manage.

**MAP™ (Market Area Profiles):** program developed by **NIC** that collects a variety of key statistics (revenues, occupancy, construction starts, etc.) quarterly from senior living providers in 100 Metropolitan Statistical Areas (MSAs). The raw data and metrics of the MSAs, the eight regions they cover and an aggregate of all of the MSAs are available on a subscription basis. The **MAP Monitor™** interprets the quarterly data. Additional information available at [www.nicmap.org](http://www.nicmap.org).

**Master Trust Indenture:** the document stating the general terms and conditions under which a **borrower** can offer multiple types of debt obligations.

**Materiality:** the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.<sup>vii</sup>

**Material Weakness in Internal Control:** a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.<sup>vi</sup>

**Bolded terms are defined within this glossary.**

**MMD:** a reference to "Municipal Market Data," primarily with respect to proprietary yield curves for municipal market (tax-exempt) issues published daily by Thomson Financial Services and widely used as a benchmark for determining interest rates on new issue and secondary market tax-exempt issues.

**Modified Contract:** contract between a CCRC and a resident of the community that has an **entrance fee** and includes housing, residential services amenities and a specific amount of long-term nursing care with no substantial increase in monthly fees (reductions in fees may occur for a specified period of time [e.g., 30 days per year] or the resident's monthly charges may increase as the level of care increases but at a discount from the posted fees for the services); also called Type B contracts.<sup>ii</sup>

**Monthly Fee:** fees paid on a monthly basis by residents of senior living communities to cover operating expenses of the community. Entrance fees together with monthly fees are typically the fee arrangement for residents who enter CCRCs.

**Moody's Investor Service:** one of three ratings agencies that rates senior living debt (not currently active). See also **Rating Agency**.

**Multi-site or Multi-facility (Provider):** a senior living organization that provides or manages care at more than one site. Also called **System provider**.

**NIC:** National Investment Center for the Seniors Housing & Care Industries facilitates efficient capital formation for the seniors housing and care industries through research, networking, and providing business and financial information.

**Non-refundable Fees:** the portion of **entrance fee** paid by a CCRC resident that is not refundable.

**Obligated Group:** a group of corporations (**borrowers**) that are jointly obligated for each other's debts; each member shares the responsibility for repayment of all of the other members' debts. Obligated groups are normally created under bond documents (including a **Master Trust Indenture**).

**Official Statement:** a disclosure instrument published by an **issuer** of securities (essentially mandated by federal and state securities laws) to provide full and fair disclosure of all facts and information that may be material to an investor's decision to invest in such securities.

**Participant or Participation (LOC Participants):** one, typically a Bank, which effectively purchases a risk participation in a LOC from the **Fronting Bank**. The Participant commits to a pro-rata sharing of the subject financing and shares pro-rata in collateral and security. The rights of the Participant are governed by a **Participation Agreement** by and among the **Fronting Bank** and Participant(s).

**Participation Agreement:** The document governing the voting rights, terms and conditions between a **Fronting Bank** and Participant(s).

**Permanent Debt:** debt not expected to be repaid with proceeds from initial **entrance fees** for new independent living units but expected to remain in place and to be amortized or repaid over an extended time period. Permanent Debt can consist of bonds or other types of conventional financing.

**Preliminary Official Statement:** an **Official Statement** in preliminary form circulated prior to the formal pricing of an offering of securities in order to gauge investor interest; often referred to as a "red herring" due to the legend printed on the cover page in red ink stating that the information contained therein is preliminary and subject to change.

**Profitability Ratios:** one of three types of ratios (Liquidity, Profitability and Capital Structure ratios) used to evaluate the financial strength of senior living providers. Profitability ratios measure a provider's ability to generate surpluses. See **Liquidity ratios** and **Capital Structure ratios**. Summary of Profitability Ratios in Exhibit A.

**Purchaser's Counsel:** represents institutional investors or purchasers on certain unenhanced and unrated issues that are to be considered riskier or more complex by the investor community. Counsel is responsible for reviewing all documents and sometimes negotiates terms, covenants and other items on behalf of the investors.

**RBI:** see **Revenue Bond Index**.

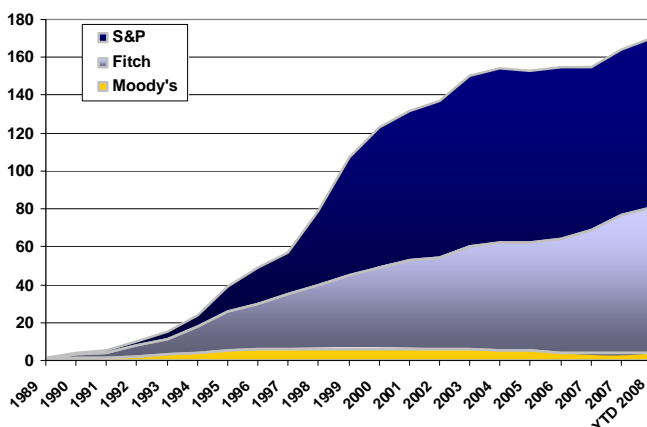
**Rated Bonds:** ratings on bonds can be achieved in several ways. Bonds can be rated based on the strength of the borrower or they can be rated because they have **Credit Enhancement** from another organization that already has a rating. The most common example of bonds backed by another organization is letter-of-credit enhanced bonds. If a bank with a debt rating agrees to stand behind an organization's bonds, the bonds will receive the same rating as the bank's debt.

**Rating Agency:** makes an independent determination as to the likelihood that the bond will be repaid in accordance

**Bolded terms are defined within this glossary.**

with its terms. There are three major rating agencies, but only two, **Standard & Poor's** and **Fitch Ratings**, actively rate long-term care bonds. (The third agency is **Moody's Investor Service**). Rating agency guidelines consider the market, management and finances of an organization. Stronger senior living borrowers have the financial strength to obtain an **Investment Grade** rating, which allows investors to assess the borrowers' financial strength without having to study the borrowers' financial statements. Prior to 1990, senior living borrowers had difficulty securing ratings. More recently, ratings have increased dramatically.

Ratings fall into two general categories: **Investment Grade** and non-investment grade. In the bond world, these groupings are significant since many bond funds and institutional investors can only purchase Investment Grade securities. That means that there is a broader market for a bond that has an Investment Grade rating which generally results in a lower interest rate.



**Ratios:** one or more of a group of financial measures defined to evaluate the financial health of senior living organizations. See also **Capital Structure ratios**, **Liquidity ratios**, and **Profitability ratios**. See Exhibit A for details on each of the ratios used in senior living within each category. There are several sources for benchmarking ratios. **Standard & Poor's**, **Fitch Ratings** and **CARF-CCAC** each distribute financial ratios for the senior living providers they monitor.

**Refundable Fees:** the portion of entrance fee paid by a resident upon entry to a CCRC that is refundable to the resident or resident's estate upon their death or withdrawal from the community. Typically refers to the *minimum* amount of entrance fee refundable. Many communities today offer contracts that are 90 or 100 percent refundable.

**Refunding:** a procedure whereby an issuer refinances outstanding bonds by issuing new bonds. There are

generally two major reasons for refunding: to reduce the issuer's interest costs or to remove a burdensome or restrictive covenant imposed by the terms of the bonds being refinanced. The new bonds are referred to as the "refunding bonds," and the outstanding bonds being refinanced are referred to as the "refunded bonds" or the "prior issue." **Current refundings** redeem bonds at closing or within 90 days. **Advance refundings** redeem bonds more than 90 days after closing. Generally, advance refunded bonds are not considered a part of the issuer's debt because the lien of the holders of the refunded bonds is on the escrowed funds, not on the originally pledged source of revenues.<sup>i</sup> See **Advance Refunding** and **Current Refunding**.

**Remarketing:** the process of reselling securities to the public that have been tendered for purchase by the previous owners thereof.

**Remarketing Agent:** a broker-dealer responsible for reselling to new investors securities (such as **Variable Rate Demand Bonds** and other tender option bonds) that have been tendered for purchase by their owner. The Remarketing Agent also typically is responsible for resetting the interest rate for a variable rate issue and also may act as tender agent.

**Rental Contract:** contracts between a senior living provider and a resident that do not require an **entrance fee**, and the resident's monthly fees increase directly with the level of care provided; also called Type D Contracts. Typically, residents are guaranteed access to health care services.<sup>ii</sup>

**Reportable Condition:** a matter coming to the auditor's attention that, in the auditor's judgment, should be communicated to the audit committee of the organization because it represents a significant deficiency in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.<sup>vi</sup>

**Reserves:** one or more of a series of cash requirements a borrower must maintain according to stipulations of the bond documents, regulators or board designations. May also be used generally to refer to the availability of various types of cash and investments.

**Restricted:** typically used to describe reserves required by **bond documents** in a tax-exempt bond financing that cannot be used at the discretion of the board and management. In senior living the two most common types of restricted funds are donor-restricted funds and trustee-held funds. Trustee-held funds relate to reserves established by bond documents in a tax-exempt bond financing; these reserves are held by a trustee and are unavailable for use by the borrower unless approved by bond holders. Donor-restricted funds are funds restricted

**Bolded terms are defined within this glossary.**

by the donor's stipulation as to the purpose(s) for which the contribution can be used. See **Unrestricted**.

**Retail Investor:** a direct purchaser of securities who is an individual person, as opposed to a mutual fund, bank, insurance company or other "**Institutional Investor**." Retail Investors typically purchase securities (such as tax-exempt bonds) in amounts anywhere from \$5,000 to \$100,000 (or higher), whereas Institutional Investors generally purchase a minimum of \$500,000 of any one security (and often much higher). Generally speaking, because Retail Investors purchase much smaller blocks of a tax-exempt bond offering, the result can be a measurable, often significant, interest rate advantage to an issuer; similarly, Retail Investors often require less demanding covenants (Debt Service Coverage Ratio, Liquidity Ratio, etc.-see Exhibit A for definitions) than Institutional Investors for the same or comparable issues.

**Revenue Bond Index (RBI):** an index of 25 average yields of selected "AA"-rated revenue bonds with 30-year maturities consisting of bonds issued by a municipality to finance either a project or an enterprise in which the issuer pledges to the bondholders the revenues generated by the operation of the projects financed. The Index is computed on Thursday of each week and posted on Friday in the *Daily Bond Buyer*, a nationally recognized Municipal Finance publication.

**Ring-Fencing:** a dynamic process for determining whether and to what extent a rated organization (such as a hospital system or **multi-facility** senior living system) may be sufficiently insulated ("ring-fenced") from credit risks arising from "off-balance sheet" debt of a related organization (such as a **start-up** CCRC) that is not otherwise part of the rated organization's "**Obligated Group**," with the result that the Obligated Group's rating can be higher than that of the consolidated enterprise. A "ring-fencing" analysis hinges on both legal and strategic factors, such as whether the non-obligated entity furthers the mission and strategic intent of the rated entity, physical location of the enterprises, co-branding activities, and historical and prospective financial commitments between the rated and non-obligated entities, all leading to a judgment by the **Rating Agency** that the rated organization would let the non-obligated community fail in a worst-case scenario.

**S****erial Bonds:** short-term bonds (generally with maturities of less than 15 years) on which interest is paid regularly, but the principal is not repaid until maturity. They can reduce the interest rate on the entire bond issue because short-term debt usually carries a lower interest rate than long-term debt.

**Single-site (Senior Living Provider):** a senior living provider that provides care at one facility (or campus). Single-sites are in contrast to **Multi-Sites** or **Systems** (providers).

**Bolded terms are defined within this glossary.**

**SLGs:** State and Local Government securities are a special form of Treasury security offered to state and local governments for investment of their bond proceeds at restricted yield. The interest rates on SLGs are set by the state or local government purchaser in subscribing for them, up to SLG maximums that the Treasury sets daily at .05 percent below current market rates for regular Treasury securities of comparable maturity. SLGs have a special exemption from the fair market pricing requirement (they need this exemption, since by definition they always yield less than a market priced security would yield).

**Specialty State or Specialty State Pricing:** one of several states in which an in-state tax advantage accrues to the retail purchase of tax-exempt bonds issued within that state, due to the exemption of interest on such bonds from state and local income taxes, in addition to federal income taxation; results in a significantly lower interest rate as compared to a comparable security in the "general" (non-Specialty State) market. Prime examples of "Specialty States" are California, Maryland, New Jersey, New York, North Carolina and Virginia. Typical characteristics of a Specialty State include significant population density, high per capita income and high state (and local) income taxes; these factors result, not surprisingly, in strong retail demand for in-state bonds that are "double" (or even "triple") tax-exempt because of the higher "after tax yield" enjoyed by investors in such bonds. Because of its large population and high per capita income, for example, Florida would seemingly be an ideal "Specialty State;" however, the absence of a state income tax means that Florida tax-exempt bonds generally trade at higher interest rates than comparable securities issued in New Jersey or North Carolina.

**Standard & Poor's:** one of two rating agencies that actively rates senior living debt. See also **Rating Agency**.

**Start-up:** term used to describe a new **continuing care retirement community**.

**Stub Period Financials:** unaudited financial statements covering the interim period since the most recent audited financial statement for the **borrower**.

**System (Provider):** a senior living organization that provides or manages care at more than one site. A system may include as few as two facilities on neighboring sites to as many as hundreds of facilities across a state, region or the nation. Also called **multi-site** provider. **Systems** are in contrast to **single-site** providers. See **AAHSA Ziegler 100** in the Senior Living section of this glossary.

**T****emporary debt:** debt expected to repaid with proceeds from initial **entrance fees** received for new independent living units being financed as a new or

expanded project. It typically consists of **Variable Rate Demand Bonds** backed by a **Letter of Credit** or Ziegler's proprietary **Extendable Rate Adjustable Securities<sup>SM</sup>** (EXTRAS<sup>SM</sup>). It can also consist of a conventional loan from a commercial bank or can be fixed rate intermediate term bonds.

**Term:** length of time bonds are scheduled to be outstanding, most often ranging from one to thirty years, depending on the borrower's specific goals and constraints.

**Term Bonds:** bonds that are longer in duration than **serial bonds** and are retired through regular principal payments (called sinking fund payments) similar to a mortgage.

**Trustee:** see **Bond Trustee**.

**Underwriter:** the party responsible for working with an issuer to market and sell the bonds. The underwriter actually buys the bonds from the **conduit authority** or issuer (also called underwriting the bonds) and then sells the bonds to investors. The leading underwriters of senior living bonds are shown in the table below.

Top Lead Managing Underwriters Senior Living Finance Issues 2007			
Rank	Underwriter	# of Issues	\$ Millions
1	Ziegler Capital Markets	52	\$ 3,052.1
2	Herbert J. Sims & Company	17	946.5
3	Cain Brothers	14	644.1
4	Piper Jaffray & Company	22	542.0
5	BB&T Capital Markets	13	449.6
6	Wachovia Securities	10	254.0
7	MLCM	2	142.4
8	RBC Capital Markets	8	141.4
9	Northland Securities	11	116.3
10	Dougherty & Company	7	100.9

**Underwriter's Counsel:** represents the **underwriter**, drafts the **Official Statement** and drafts the **bond purchase agreement**.

**Underwriter's Discount:** the investment banker's fee. Also known as the underwriter's "spread".

**Unrated Bonds:** historically most of the tax-exempt bonds issued to finance long-term care and senior housing have been unrated bonds, meaning they have no **Credit Enhancement** and no **Rating Agency** has made an independent determination of the borrower's ability to repay the bonds. **Rated bonds** and credit-enhanced bonds are becoming more prevalent for senior living borrowers.

**Unrestricted:** typically used to describe an organization's cash and investment balances available for use at its discretion. Unrestricted reserves are used in measurements (ratio calculations) of an organization's **liquidity**.

**Upfront Entry Fee:** see **Entrance Fee**.

**Variable Rate Demand Bonds (VRDBs):** variable rate demand bonds differ from fixed rate bonds in that their interest rate fluctuates periodically (most frequently, weekly) and the investors typically can tender or demand purchase of the bonds when the interest rate is reset (usually by a Remarketing Agent). The bondholders are given a right to tender or "put" their bonds if they are not willing to accept the new interest rate. If these bonds cannot be remarketed to new investors, most senior living borrowers will not have adequate liquid reserves to purchase the bonds from the investors. To offset this liquidity risk to bondholders, borrowers frequently obtain a **Liquidity Facility** or **Letter of Credit**. The most common type of Liquidity Facility is an LOC provided by a bank. When backed by an LOC, the bonds are given the same **rating** as the Letter of Credit bank. The combination of the right to tender or put the bonds and the bonds' rating allow these bonds to carry a very low rate of interest. For example, weekly variable rate tax-exempt bonds have had interest rates between 1.50 and 3.00 percent for most of 2008. For the past decade, weekly variable rate tax-exempt bonds have had average interest rates approximately 2.50-3.00 percent.

Variable rate demand bonds have most commonly been used to provide the short-term **temporary debt** portion of the financing for **start-up** continuing care retirement communities, where debt is to be retired as **entrance fees** are received. In addition, a number of senior living borrowers have utilized variable rate demand bonds as a portion of the overall **permanent debt** structure, in particular, when an organization has substantial cash reserves to offset potential interest rate risk. Recently, with the increased availability of derivative products such as interest rates **swaps** and interest rate **caps**, it is possible to synthetically fix interest rates or cap the maximum interest on variable rate demand bonds. Variable rate demand bonds are being used for more senior living projects.

**VRDBs:** see **Variable Rate Demand Bonds**.

**Working Capital:** when used in connection with a bond issue, describes bond proceeds not used for project costs or **capital expenditures**. Generally, current operating expenses are working capital expenditures.

**Yield Curve:** graph that shows debt interest rates starting from very short maturities, say 3 months, to 30-year maturities. The slope of the graph is generally rising, reflecting the risks associated with debt investments having longer maturities. The most common yield curve graph depicts the rates on U.S. Government securities, as they are considered essentially risk-free. **An Inverted Yield Curve** is an unusual situation that occurs when

**Bolded terms are defined within this glossary.**

interest rates in the short term are higher than longer-term rates causing the slope to decline from high to low, i.e. "invert".

**Ziegler Capital Markets:** nation's leading investment banking firm for tax-exempt senior living financings.

**ZieglerResearch.com:** a free website created to catalogue disclosure information about bonds sold to finance senior living and hospital projects. Designed specifically with the needs of **Institutional Investors** and **borrowers** in mind, the secure site provides authorized users with **Official Statements** and other original offering documents, as well as **continuing disclosure** on occupancy/utilization, audited and interim financial statements and other credit-related information.

## Interest Rate Management & Derivatives

---

**Additional Termination Event:** the occurrence of an event (i.e. rating downgrade below a specified level, failure to meet certain liquidity covenants) at any time with respect to a party of an **Interest Rate Swap** which results in an early termination of the transaction.

**Adjustable Start Date Swap:** a variation on a forward starting **Interest Rate Swap**, this swap has an effective date based on a certain time (or "window") period rather than one single date. The borrower has the option to start the swap on any date during this time period. This is an effective hedge for projects with uncertain start dates.

**Authorizing Resolution:** a corporate document which authorizes a party to borrow or to execute **derivative** transactions.

**Basis Risk:** the risk of a mismatch between a borrower's floating rate receipt (or payment) on a **swap** and its floating rate payment (or receipt) on the underlying debt (or asset) as a result of different indices or terms being used to determine payments and receipts.

**Basis Spread:** the difference in interest rates between a borrower's floating rate received (or paid) on a **swap** and its floating rate paid (or received) on the underlying debt (or

asset), which results from different indices or terms being used to determine payments and receipts.

**Basis Swap:** a **floating-rate swap** in which one variable rate index is swapped for another; commonly used to modify **basis risk**.

**Bid Date:** in a competitive bid transaction, the date on which swap **Providers** submit bids and the swap entered into with the winning Provider is priced.

**Bid Package:** documentation package distributed by or on behalf of a **borrower** to qualified **providers**, detailing the terms and structure of the swap desired by the borrower, which the Providers will use to formulate their bid on the scheduled bid date.

**BMA (Bond Market Association):** a reference to the "Bond Market Association Municipal Swap Index" or "BMA Index," which serves as the primary benchmark interest rate for seven-day tax-exempt variable rate demand bonds (VRDB's). The BMA Index was renamed **SIFMA**, which stands for Securities Industry and Financial Markets Association. SIFMA (formerly the BMA Index) is a national rate based on a market basket of approximately 200 high-grade, seven-day tax-exempt VRDB issues of \$10 million or more. Other seven-day VRDB interest rate indices include the J.J. Kenny 7-Day Index (published by Standard & Poor's) and VariFact (published by Ponder & Company and weighted heavily toward health care issues). VRDB's enhanced by a **Letter of Credit Bank** will price in relation to SIFMA depending upon the market's evaluation of that particular bank's credit, *e.g.*, in a market environment in which SIFMA is 3.0%, a bank said to price at "SIFMA + 7-10 bps" will normally see the weekly interest rate on its VRDB's established at 3.07 to 3.10%. VRDB's issued in **Specialty States** with the same Letter of Credit may have a benefit in that the interest rate may price closer to or even below SIFMA.

**Cap (Interest Rate Cap):** an agreement entered into by the **borrower** or obligor of variable rate debt in which the **borrower** or **counter-party** agrees to pay any portion of the interest to be paid on the debt that exceeds a specified interest rate. A cap creates an upper limit on the interest rate cost to the borrower or obligor of variable rate debt without establishing a maximum interest rate payable to the holders of the debt.

**Collar:** an agreement entered into by the borrower or obligor of variable rate debt combining an interest rate **cap** and an interest rate **floor**.

**Collateralization Risk:** risk that the circumstances under which a borrower would have to post collateral pursuant to certain swap agreement provisions will arise in the future.

**Bolded terms are defined within this glossary.**

**Competitive Bid:** process of entering into a **swap** agreement where interested swap **Providers** submit bids to the borrower on a specified date, and the swap is entered into with the winning Provider; usually the Provider offering the interest rate terms most favorable to the borrower.

**Confirmation:** document governed by the **ISDA Master Agreement** that is executed for an individual transaction, itemizing the specific terms and conditions for that particular transaction.

**Constant Maturity Swap (CMS):** an interest rate **basis swap** that involves both a **swap** of interest rate periods or terms and a **swap** of the basis of the payment calculations. Standard interest rate **swaps** normally involve a fixed rate payment from one party to another based on a fixed term and for a fixed rate. If the **swap** is a **basis swap**, one of the payments is based on **SIFMA** and one of the payments is based on **LIBOR** but the payments are based on approximately the same term or maturity (weekly floating rate vs. monthly floating rate). A Constant Maturity Swap normally has a payment based on **SIFMA** and a payment based on **LIBOR** but payments based on different terms (weekly floating rate vs. five-year floating rate or ten-year floating rate). A Constant Maturity Swap provides economic benefits as yield curves steepen and short-term rates fall relative to longer term rates. (See **Extended Tenor Swap** definition for product example)

**Cost of Funds Swap:** a swap under which the **Floating Leg** receipts match the interest payments due on the underlying debt exactly.

**Counterparty:** organization or financial institution that provides capital markets or financial products access to end-users (typically **borrowers**) of financial contracts or agreements. Also known as “the other side” of a financial contract.

**Counterparty Credit Risk:** the risk that a party will not be able to meet all of its financial obligations under the **swap**.

**Credit Support:** collateral that can be in the form of cash and/or marketable securities posted by one party to another which is designed to reduce the credit exposure.

**Credit Support Annex:** document governed by the **ISDA Master Agreement** which states the provisions and circumstances under which posting of collateral is required.

**Credit Support Document:** agreement or instrument that is executed by either counterparty to a swap or a third party (on a party's behalf) that supports or otherwise provides credit enhancement with respect to the obligations of such party to the **ISDA Master Agreement**.

**D**erivative: a product, whose value is derived from an underlying security, structured to deliver varying benefits to **Bolded terms are defined within this glossary.**

different market segments and participants. The term encompasses a wide range of products offered in the marketplace including **interest rate swaps, caps, floors, collars** and other synthetic variable rate products.

**E**ffective Date: the first date on which swap payment obligations begin to accrue, including the date any upfront payment is exchanged. In the case of a **forward swap**, payment accruals may not begin for months or even years into the future. When a **swap** is entered into in connection with an issue of bonds, the Effective Date is often set to coincide with the issue date of the bonds.

**Enforceability Opinion:** a legal opinion validating that the execution of an **Interest Rate Swap** is within the borrower's corporate power and has been duly authorized by the borrower's board of directors.

**Exercise Period:** in an option contract, the period of time in which a party has the right to exercise its option.

**Extended Tenor Swap:** an **Interest Rate Swap** that allows a **borrower** to expose itself to a steepening, flattening or inverting yield curve to generate cash flow savings.

**F**ixed Leg: in a swap transaction, the payments made by one party to another based on a pre-determined fixed interest rate.

**Fixed Rate Swap:** a **swap**, under which a borrower pays a Provider a fixed rate in exchange for receiving a floating rate; most commonly used to convert **variable rate demand bonds** into synthetically fixed rate obligations.

**Fixed-to-Floating Rate Swap:** see **Floating Rate Swap**.

**Floating Leg:** in a swap transaction, the payments made by one party to another based upon a pre-determined floating (variable) rate index.

**Floating Rate Swap:** a **swap**, under which a **borrower** pays a **provider** a variable rate and receives a fixed interest rate; usually associated with an issue of fixed rate bonds that a **borrower** wishes to convert to a synthetic floating rate.

**Floating-to-Fixed Rate Swap:** see **Fixed Rate Swap**.

**Floor:** a financial contract under which a borrower will make a payment to the Provider when the **Underlying** falls below the pre-determined strike rate, or floor rate.

**Forward Delivery Agreement (“FDA”):** is a contractual agreement between a borrower, the trustee and a financial institution where the financial institution agrees to deliver

permitted investment securities at a guaranteed agreed upon yield. The long term nature of the agreement combined with the certainty of the deposits make an FDA suitable for a debt service reserve fund.

**Forward Rate Curve:** the yield curve, as of a future (or forward) date, constructed using currently prevailing rates on instruments settling in the future; commonly used to price many interest rate derivative instruments.

**Forward Swap:** an **Interest Rate Swap** under which the accrual and exchange of cash flows commences at a later date, rather than the current date.

**G**uaranteed Investment Contract (“GIC”) or **Investment Agreement:** is a contractual agreement between a borrower, the trustee and a financial institution where the financial institution agrees to pay a fixed guaranteed yield in exchange for receiving the bond fund proceeds. A GIC can be structured with a flexible draw schedule that would allow the borrower to make indenture permitted withdrawals in accordance with the actual project development making this product appropriate for a project fund.

**H**edge: a financial product used to limit potential losses or gains associated with an existing financial position, asset or liability. See also **Perfect Hedge**.

**I**ndex: floating rate reference—typically **SIFMA** (tax-exempt) or **LIBOR** (taxable).

**In the Money:** refers to a party’s financial position if it would be owed a payment by the other party if a **swap** were terminated at the prevailing market price.

**Integration:** for tax law purposes, the ability of an issuer of bonds to take into account (or “integrate”) payments made or received on a swap in the determination of bond yield.

**Interest Rate Swap:** a contractual agreement between two parties to exchange future net cash flows based on predetermined interest rate indices calculated on an agreed notional amount. The **swap** is not a debt instrument between the **borrower** and the **counterparty**, and there is no exchange of principal.

**ISDA:** International Swaps and Derivatives Association, Inc., the global trade association with over 575 member institutions representing leading participants in the derivatives industry.

**ISDA Master Agreement:** the standardized master legal agreement for all derivative transactions between a borrower and a Provider that states standardized definitions, terms, and representations governing the swap transactions.

**M**ark-to-Market: calculation of the value of a financial instrument (e.g., an **interest rate swap**) or security based on the current market rates or prices of the **underlying** instrument or security.

**Minimum Transfer Amount:** In the event a party to the **Interest Rate Swap Agreement** is required to post collateral, a minimum amount is set to reduce the number of transfers.

**N**atural Hedge: the concept that cash and short-term investments ‘naturally’ hedge short-term variable rate debt.

**Negotiated Bid:** method of entering into a **swap** agreement where the terms, including the rates, are negotiated between a borrower and the Provider.

**Notional Amount:** used to determine the amount of the cash flows exchanged (rate x notional amount = payment) based on a contract; most commonly used with **swap** contracts.

**O**ff-Market Swap: a variation of an interest rate swap in which one or both of the referenced rates are priced above or below the market, usually resulting in an upfront payment from one party to the other.

**Option Premium:** the amount paid by a party in exchange for an option.

**Optional Termination:** the right of a party to terminate a **swap** at any time at the prevailing market price. In most swap agreements only the **borrower** has this right.

**Out of the Money:** refers to a party’s financial position if it would “owe” a payment to the other party if a **swap** were terminated at the prevailing market price.

**P**articipation Swap: the combination of a **swap** and a **cap**, set at the same rate. This structure allows the borrower to “participate” in floating rates (below the cap strike rate) on the portion capped. The cap/swap ratio can vary depending on current market conditions.

**Perfect Hedge:** a hedge that completely eliminates any possible future gain or loss on the hedged asset or liability.

**Bolded terms are defined within this glossary.**

**Pledgor:** The party which posts collateral under the terms of an **Interest Rate Swap Agreement**.

**Provider:** the financial institution that enters into a **swap** agreement with a **borrower**, usually a commercial bank, investment bank, or insurance company

**Qualified Hedge** (relating to the Treasury Reg

1.148(h)(2)): An **Interest Rate Swap** jointly executed with a tax-exempt bond issuance allowing the borrower to take into account the payments made or received on the swap in the determination of the bond yield for purposes of the arbitrage rules of Code Section 148. Treatment of a qualified hedge under Sections 1.148 (h)(2) is commonly referred to as "simple" integration. *Section 1.148-4(h)(5) contains several additional requirements to be met when the hedge is entered into prior to the issue date of the hedged bond.*

**Repurchase Agreement ("Repo"):** is a contractual agreement between a borrower, the trustee and a financial institution where the financial institution agrees to pay a fixed guaranteed yield in exchange for receiving the bond fund proceeds. A repurchase agreement can be structured with a flexible draw schedule that would allow the borrower to make indenture permitted withdrawals in accordance with the actual project development making this product appropriate for a project fund. Unlike the GIC, this agreement is collateralized by the provider typically with United States Government Securities.

**RMA:** Ziegler's Risk Management Advisory group which advises clients on balance sheet and interest rate management and acts as placement agent for **derivatives** and investment contracts.

**Safe Harbor:** for establishing fair market value for investment contracts and investments purchased for a yield restricted defeasance escrow. The purchase price of a investment contract and the purchase price of an investment purchased for a yield restricted defeasance escrow will be treated as the fair market value of the investment on the purchase date if certain requirements are satisfied.

**Schedule to the Master Agreement:** schedule amending or supplementing the **ISDA Master Agreement** which sets out the specific business terms and conditions governing the transactions executed under the agreement.

**Secured Party:** The party which benefits from the collateral posted by the **Pledgor** under the terms of an **Interest Rate Swap Agreement**.

**SIFMA:** Securities Industry and Financial Markets Association. See **BMA**.

**Strike Rate:** in an interest rate **cap** or interest rate **floor**, the pre-determined interest rate that, when reached in the market, automatically triggers a payment under contract.

**Super Integration:** In contrast to simple **integration** which calls for the inclusion of payments made or received on a swap in the determination of bond yield, *super integration* simply includes the stated fixed rate of the swap.

**Swap Counterparty:** other side of the **swap**; typically a larger financial services organization that runs a proprietary "swap book." See more under **Swap**.

**Swap (Interest Rate Swap):** a contract between a borrower and a financial institution in which each agrees to make regular payments to the other, based on either fixed or variable interest rates. In a fixed payor swap, the senior living borrower agrees to make regular payments to the financial institution (or **Swap Counterparty**) based on a fixed interest rate in exchange for receiving payments from the swap counterparty based on variable rates, normally measured by the **SIFMA**, or Securities Industry and Financial Markets Association municipal index. The variable payments received from the Swap Counterparty offset the variable interest rate costs of the senior living provider's variable rate debt. See also **Fixed Rate Swap** and **Floating Rate Swap**.

**Swap Index:** floating rate reference—typically **SIFMA** when swapping against tax-exempt bonds and LIBOR when swapping against taxable bonds.

**Swap Insurance:** insurance policy purchased to guarantee obligations on a **swap**, which can be underwritten to insure only the regularity scheduled payments under the swap, or also any termination payment that may be required under the swap.

**Swaption:** a type of **swap** in which the terms of the swap are agreed to in advance and where one party has the right, but not the obligation, to enter into that swap on a future date or during a specified period.

**Synthetic Fixed Rate:** the resulting rate a borrower will pay on an issue of variable rate obligations after entering into a **fixed rate swap**.

**Synthetic Floating Rate:** the resulting rate a borrower will pay on an issue of fixed rate obligations after entering into a **floating interest rate swap**.

**Tax Risk:** the risk that the spread between taxable and tax-exempt rates will change as a result of changes in income tax laws or other conditions.

**Bolded terms are defined within this glossary.**

**Termination Date:** the scheduled maturity date of the **swap**, when the final payment obligation is made (barring an early termination of the swap). When a swap is entered into in connection with an issue of bonds, the termination date is often set to coincide with the maturity date of the bonds.

**Termination Risk:** the risk that a **swap** will be terminated by the counterparty before maturity, possibly requiring the **issuer** to make a cash termination payment to the counterparty.

**Threshold Amount:** The amount that the Interest Rate Swap market value must reach before collateral is posted is referred to as the Threshold Amount.

**Trade Date:** the date on which swap terms are set and the agreement is priced; formal documents are sometimes exchanged some time later.

**U**nderlying: the variable interest rate or index on which the **derivative's** payments are based. A derivative's payment is based on the interaction of the **Underlying** and the **Notional Amount**.



# Ziegler

## Senior Living

---

**A**ctive Adult Communities (AAC): for-sale single family homes, townhomes, cluster homes, mobile homes and condominiums with no specialized services, restricted to adults at least 55 years of age or older. Rental housing is not included in this category. Residents generally lead an independent lifestyle; projects are not equipped to provide increased care as the individual ages. May include amenities such as clubhouse, golf course and recreational spaces. Outdoor maintenance is normally included in the monthly homeowner's association or condominium fee.<sup>iii</sup>

**AAHSA:** American Association of Homes and Services for the Aging is committed to advancing the vision of healthy, affordable, ethical aging services for America. The association represents adult day services, home health, community services, senior housing, assisted living residences, continuing care retirement communities, and nursing homes.

**AAHSA Ziegler 100 (AZ 100):** AAHSA Ziegler 100 (AZ 100): listing of the largest not-for-profit senior living multi-sites, government-subsidized housing multi-sites, health-care-sponsored multi-sites and single campuses. This annual publication is released jointly by AAHSA and Ziegler, based on research conducted by the Ziegler Senior Living Finance research team.

**Accreditation:** a process that demonstrates a provider has met standards for the quality of its services. Standards are used to evaluate how well a provider is serving people and how they can improve. Examples: JACHO and CARF-CCAC.

**ACLF (adult congregate living facility):** an arrangement offering housing and support services but no skilled or intermediate nursing care.

**ADL:** activity of daily living, such as bathing, dressing, or walking.

**Absorption Rates:** the actual or expected period of time required from the time a property is initially offered for purchase or use until all portions have been sold or

stabilized occupancy has been reached. The absorption period includes two phases: the 'pre-lease' period and the net absorption period.<sup>iv</sup>

**Adult Day Care:** community-based group programs designed for functionally and/or cognitively impaired adults through an individual plan of care.

**Affordable housing:** housing designed to meet the senior living needs of the low and middle-to-low income population. Typically the costs of the housing are subsidized by some form of governmental program.

**AHCA:** the American Health Care Association (AHCA) is a non-profit federation of affiliated state health organizations, together representing more than 10,000 non-profit and for-profit assisted living, nursing facility, developmentally-disabled, and subacute care providers that care for more than 1.5 million elderly and disabled individuals nationally.

**ALFA:** the Assisted Living Federation of America (ALFA) is the largest national association exclusively dedicated to professionally-operated assisted living facilities for seniors. ALFA's member-driven programs promote business and operational excellence through national conferences, research, publications and executive networks. ALFA works to influence public policy by advocating for informed choice, quality care and accessibility for all Americans seeking assistance with long-term care.

**All-inclusive Contract:** see Extensive Contract.

**Alzheimer's Association:** the world leader in Alzheimer's research and support, advancing research, improving services and care, creating awareness of the disease and mobilizing support through a national network of advocates and chapters.

**Ancillary Services:** tests, procedures, imaging and support services provided in a healthcare setting.

**ASHA:** American Seniors Housing Association. Members of ASHA are executives involved in the operation, development and finance of the entire spectrum of seniors housing - senior apartments, independent living communities, assisted living residences, and continuing care retirement communities.

**Assisted Living Residences/Facilities (ALFs):** state regulated rental properties that provide the same services as independent living communities, but also provide, in a majority of the units, supportive care from trained employees to residents who are unable to live independently and require assistance with activities of daily living (ADLs) including management of medications, bathing dressing, toileting, ambulating and eating. These properties may have some nursing beds, but the majority of

**Bolded terms are defined within this glossary.**

units are licensed for assisted living. Many of these properties include wings or floors dedicated to residents with Alzheimer's or other forms of dementia. A property that specializes in the care of residents with Alzheimer's or other forms of dementia that is not a licensed nursing facility should be considered an assisted living facility.<sup>iii</sup>

**A2ZCCRC.com:** a web-based site developed by AV Powell & Associates and Ziegler to assist CCRCs benchmark internally against their own performance or against the operating performance of other providers.

**CARF-CCAC:** the Commission on Accreditation of Rehabilitation Facilities (CARF) is an independent, not-for-profit accrediting body promoting quality, value and optimal outcomes of services through a consultative accreditation process that centers on enhancing the lives of the persons served. The Continuing Care Accreditation Commission (CCAC), a not-for-profit organization founded in 1985, is the nation's only accrediting body for aging services continuums, including **continuing care retirement communities** and other organizations that meet its standards. CARF-CCAC is the entity resulting after the 2003 merger of the Rehabilitation Accreditation Commission (formerly the Commission on Accreditation of Rehabilitation Facilities) and the Continuing Care Accreditation Commission.

**Capitation:** [managed care] a payment structure where a caregiver is paid a set amount per patient in advance, regardless of how many procedures are performed later. Opposite of fee-for-service.

**Center for Medicare & Medicaid Services (CMS) :** (previously known as the Health Care Financing Administration (HCFA)) the branch of the U.S. Health Department and Human Services that administers Medicare and federal portions of Medicaid.

**CCRC:** see **Continuing Care Retirement Community**.

**Continuing Care Retirement Community (CCRC):** an entity that provides for or arranges for the provision of housing and health-related services for an older person under an agreement effective for the life of the person or for a specified period greater than one year, and may be licensed or certified.<sup>iii</sup>

**CMS:** see **Center for Medicare & Medicaid Services**.

**Condominium ownership:** an organizational structure that gives residents the opportunity to share in the ownership of a **continuing care retirement community** by owning a condominium interest rather than paying an **entrance fee**.

**Contract Types:** general reference to the types of contracts that describe the services offered by **continuing**  
**Bolded terms are defined within this glossary.**

**care retirement communities: Extensive Contract, Modified Contract, Fee-for-service Contract, Rental Contract, Equity Contract.** CCRCs may offer more than one type of contract.

**Developer:** the individual, team, or firm who brings a senior living project from conception to or through opening. Nationally-recognized senior living developers include CRSA, Greystone Communities Inc., Life Care Services, New Life, and RLS.

**Deposit:** amount paid by a resident to reserve a unit in a **continuing care retirement community**. Typically, 10 percent of the **entrance fee** is required to reserve a specific unit within a community.

**Endowment Fee:** see **Entrance Fee**.

**Entrance Fee:** an upfront fee paid by a CCRC resident to cover capital costs and/or future health care benefits. Amount is normally based on size of resident's living unit and refund policy.

**Equity Contract:** contracts that involves the actual purchase of real estate or membership. Includes condominiums and cooperatives.<sup>ii</sup>

**Extensive Contract:** contract between a CCRC and a resident of the CCRC that has an entrance fee and includes housing, residential services amenities and unlimited, specific health-related services with little or no substantial increase in monthly fees, except for normal operating costs and inflation adjustments; also called Type A contracts.<sup>ii</sup>

**Feasibility Study:** a study of the financial feasibility of a proposed senior living project, typically prepared according to a set of assumptions provided by the developer or sponsoring organization regarding number of units to be constructed, entrance and monthly fee pricing, age at entry. Study encompasses a review of the market demographics, establishing the primary market area, secondary market area, and sometimes a tertiary market area. A feasibility study is prepared just prior to a financing. The largest and most active senior living feasibility study preparer firms in the country are Dixon Hughes, LarsonAllen and Parente Randolph. Financial slang (!): "the feaso."

**Fee-for-service:** the most common U.S. healthcare payment system. A physician declares his or her own rates and is paid after each medical service delivered, as opposed to a flat-rate plan such as **capitation**.

**Fee-for-service Contract:** an entrance fee contract that includes housing, residential services, and amenities for the fees stated in the resident agreement. Access to healthcare services is guaranteed, but it may be required at full fee-for-service rates; also called **Type C contracts**.<sup>ii</sup>

**Fill Period (or Fill-up):** the time it takes independent living units in a new campus construction or expansion to reach **stabilized occupancy** rates (typically, 90 to 95 percent occupancy).

**Focus Group:** a small group of individuals used to determine what people in a target market think about a product.<sup>v</sup>

**Gross Absorption:** the number of beds or units occupied in a residence from the beginning of marketing efforts until **stabilized occupancy**.<sup>iii</sup>

**HCFA:** see **Center for Medicare & Medicaid Services**.

**Health Care Financing Administration (HCFA):** see **Center for Medicare & Medicaid Services**.

**Health Insurance Portability and Accountability Act of 1996 (HIPAA):** a complex law that protects a person's credit for previous healthcare insurance to cover preexisting conditions when changing health plans and instituted mandates concerning electronic healthcare transactions and data in order to protect the privacy of an individual. HIPAA requires that the Department of Health and Human Services adopt standards for electronic health transactions, including health claims and attachments, enrollment/dis-enrollment, eligibility, payments and premiums, claims status, referral authorizations and digital signatures. HIPAA also requires the creation of unique identifiers and standards for data confidentiality. Healthcare organizations had to be in compliance by 4/14/03. See National Provider Identifier and [www.HIPAA.org](http://www.HIPAA.org).

**HIPAA:** see **Health Insurance Portability and Accountability Act**.

**Instrumental Activities of Daily Living (IADL):** activities related to independent living and include preparing meals, managing money, shopping for groceries or personal items, performing light or heavy housework, and using a telephone.

**Independent Living Communities:** age-restricted multifamily rental properties with central dining facilities that provide residents, as part of their monthly fee, access to meals and other services such as housekeeping, linen

service, transportation, and social and recreational activities. Such properties do not provide, in a majority of the units, assistance with activities of daily living (ADLs) such as supervision of medication, bathing, dressing, toileting, etc. There are no licensed skilled nursing beds in the property.<sup>iii</sup>

**Joint Commission on Accreditation of Healthcare**

**Organizations (JCAHO):** an independent, non-profit group that accredits healthcare organizations. Some of the healthcare network criteria in JCAHO's accreditation manual includes heightened attention to patient education and management information.

**Licensed:** has official or legal permission to do or own a specified facility or service.

**Life Care:** a term often used interchangeably with "continuing care," as in life care community. Sometimes refers to a contract type, namely, the **Extensive Contract**, in order to distinguish the care it provides (for life, without additional fees by level of care) from that of other contract types (**Modified Contracts** and **Fee-for-service Contracts**) that require additional fees for living at higher levels of care.

**Long-Term Care:** also called custodial care. Assistance, expected to be provided over a long period of time, to people with chronic health conditions and/or physical disabilities who are unable to care for themselves without the help of another person.

**Long-Term Care Insurance:** Insurance available through private insurance companies as a means for individuals to protect themselves against the high costs of long-term care; contrast with Medicaid, a means-tested program supported by federal, state, and local funds and administered by each state to provide health care for eligible low-income individuals.

**Manager:** individual or firm that receives a fee (typically a percentage of operating revenues) for managing the day-to-day operations of a senior living provider. **Multi-site** providers typically receive a management fee for services they provide at their sites.

**MAP™ (Market Area Profiles):** program developed by NIC that collects a variety of key statistics (revenues, occupancy, construction starts, etc.) quarterly from senior living providers in 100 Metropolitan Statistical Areas (MSAs). The raw data and metrics of the MSAs, the eight regions they cover and an aggregate of all of the MSAs are available on a subscription basis. The MAP Monitor™

**Bolded terms are defined within this glossary.**

interprets the quarterly data. Additional information available at [www.nicmap.org](http://www.nicmap.org).

**Market Rate:** a term referring to the affordability of a project. Market rate projects use only resident-generated revenues to support the community and do not rely on special third-party subsidization (other than possibly accepting Medicare or Medicaid reimbursement for the costs of caring for residents receiving nursing care), nor do they rely on special government financing programs to make the project accessible to the target market residents.

**Modified Contract:** contract between a CCRC and a resident of the community that has an entrance fee and includes housing, residential services amenities and a specific amount of long-term nursing care with no substantial increase in monthly fees (reductions in fees may occur for a specified period of time [e.g., 30 days per year] or the resident's monthly charges may increase as the level of care increases but at a discount from the posted fees for the services); also called Type B contracts.<sup>ii</sup>

**Monthly Fee:** fees paid on a monthly basis by residents of senior living communities to cover operating expenses of the community. **Entrance fees** together with monthly fees are typically the fee arrangement for residents who enter **Continuing Care Retirement Communities**.

**Morbidity:** a measurement of illness or accident risk, based on categories of age, region, occupation, and other factors.

**Mortality:** statistical death rates, usually broken down by age or gender.

**Multi-site or Multi-facility (Provider):** a senior living provider that provides or manages care at more than one site. Also called **System** provider.

**NCAL:** the National Center for Assisted Living (NCAL) is the assisted living voice of the American Health Care Association (AHCA), the nation's largest organization representing long term care. Through a national federation of state affiliates, NCAL supports lobbying efforts at the state level. While NCAL primarily focuses on federal issues, it provides the support that state affiliates need to impact policy decisions regarding assisted living issues.

**Net Absorption:** the number of beds or units in a residence filled from the first day the property opens until stabilized occupancy is reached.

**NIC:** National Investment Center for the Seniors Housing & Care Industries facilitates efficient capital formation for the seniors housing and care industries through research, networking, and providing business and financial

information.

**Non-refundable fees:** the portion of entrance fee paid by a resident that is not refundable.

**Nursing Facility:** a facility for patients to receive 24-hour medical care of a nurse without stay in a hospital.

**P<sub>MA</sub>:** see **Primary Market Area**.

**Payor:** a company or an agency that purchases health services.

**Penetration Rates:** a ratio that calculates the number of existing and expected senior living units (supply) relative to the number of age- and income-qualified residents (demand) for a particular product type (typically independent living units and assisted living units).

**Pre-lease period:** period of time during which the sales staff of a senior living community is accepting **deposits**.

**Pre-sale Requirements:** the number of signed residency agreements with deposits (typically 10 percent deposits) that must be signed before a financing can be completed.

**Primary Market Area:** the geographic area from which a seniors housing property will draw most (70 to 90 percent) of its residents. Generally within a 5-10 mile radius.

**R<sub>efundable</sub> fees:** the portion of entrance fee paid by a resident upon entry to a CCRC that is refundable to the resident or resident's estate upon their death or withdrawal from the community. Typically refers to the *minimum* amount of entrance fee refundable. Many communities today offer contracts that are 90 or 100 percent refundable.

**Renovation:** a project that involves capital improvements to the current facility's campus.

**Rental Contract:** contracts that do not require an entrance fee and the resident's monthly fees increase directly with the level of care provided; also called Type D contracts. Typically, residents are guaranteed access to health care services.<sup>ii</sup>

**Repositioning:** the act of changing a senior living campus. Repositionings can range from modest changes ("light" repositionings that add units to existing levels of care), to "moderate" repositionings (those that change multiple areas of the campus or add significantly to an existing level of care), and, finally, to substantial repositionings ("dramatic" changes that add a new level of care and, typically, require a **feasibility study** to complete a financing).

**Bolded terms are defined within this glossary.**

**Sarbanes Oxley Act:** referred to also as “Sarbox” or “SOX”. The Sarbanes-Oxley Act of 2002, signed into law by President Bush on July 30, 2002, was enacted by Congress in response to the outcry against Enron, WorldCom, Merck and others. The law specifically governs publicly traded for-profits but its contents address the conduct of CFOs and CEOs and apply to both for-profit and not-for-profit organizations in three areas: Whistleblower protections, Document destruction prohibition and Wire fraud prohibition. Other provisions of the Act are being adopted by a number of not-for-profits as best practices (e.g., having an independent audit committee, reviewing auditors’ responsibilities).

**SMA:** see **Secondary Market Area**.

**Secondary Market Area:** the geographic area immediately beyond the **Primary Market Area** from which a seniors housing property will draw its residents.

**Senior Apartments:** multifamily residential rental properties restricted to adults at least 55 years of age or older. These properties do not have central kitchen facilities and generally do not provide meals to residents, but may offer community rooms, social activities and other amenities.<sup>iii</sup>

**Single-site (Provider):** a senior living provider that provides care at one facility (or campus). Single-site providers are in contrast to **System** providers.

**Skilled Nursing:** services for elderly who are certified to receive Medicare reimbursement for their nursing stay.

**Stabilized Occupancy:** generally the assumed final occupancy level identified in a financial feasibility study forecast. Typically, stabilized occupancy rates range from 93%-95% for independent living units and from 90%-95% for assisted living units, memory support units and nursing care beds.

**Supportive Living Facilities (SLFs):** developed in Illinois, properties that provide an alternative to nursing home care for low-income seniors and persons with disabilities under Medicaid. By combining apartment-style housing with personal care and other services, these facilities allow individuals to live independently and take part in the decision-making process of their personal care.

**System (Provider):** a senior living organization that provides or manages care at more than one site. A system may include as few as two facilities on neighboring sites to as many as hundreds of facilities across a state, region or the nation. Also called **multi-site** provider. **Systems** are in contrast to **single-site** providers.

**Third Party Reimbursement:** payment received from a party other than the resident or resident’s family or source related to the resident (trust, etc.). Typically refers to Medicare, Medicaid or other non-private source.

**Transfer:** term used to describe the movement of a resident between levels of care within a **Continuing Care Retirement Community**, e.g., from independent living to assisted living, from assisted living to nursing.

**Upfront Entry Fee:** see **Entrance Fee**.

# Exhibit A.

## LIQUIDITY RATIOS

<b>Days Cash on Hand</b>	$\text{Unrestricted Cash and Investments} / [(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization}) \text{divided by } 365]$
<b>Days in Accounts Receivable</b>	$\text{Resident Receivables} / (\text{Operating Expenses divided by } 365)$
<b>Cushion Ratio</b>	$\text{Unrestricted Cash and Investments} / \text{Max Annual Debt Service}$

## CAPITAL STRUCTURE RATIOS

<b>Debt Service Coverage Ratio</b>	$(\text{Net Operating Income} + \text{Depreciation} + \text{Amortization} + \text{Interest Expense} - \text{Earned Entrance Fees} + \text{Net Entrance Fee Receipts}) / \text{Maximum Annual Debt Service}$
<b>Debt Service Coverage Ratio-Adjusted</b>	$(\text{Net Operating Income} + \text{Depreciation} + \text{Amortization} + \text{Interest Expense} - \text{Earned Entrance Fees}) / \text{Annual Debt Service}$
<b>Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio</b>	$\text{Annual Debt Service} / (\text{Total Operating Revenues} + \text{Net Nonoperating Gains and Losses})$
<b>Unrestricted Cash and Investments to Debt</b>	$(\text{Unrestricted Cash and Investments} + \text{Unrestricted Non-current Cash and Investments}) / (\text{Long-term Debt, less Current Portion})$
<b>Long-term Debt as a Percentage of Total Capital Ratio</b>	$(\text{Long-term Debt, less Current Portion}) / (\text{Long-term Debt, less Current Portion} + \text{Unrestricted Net Assets})$
<b>Long-term Debt as a Percentage of Total Capital Ratio-Adjusted</b>	$(\text{Long-term Debt, less Current Portion}) / (\text{Long-term Debt, less Current Portion} + \text{Unrestricted Net Assets} + \text{Deferred Revenue from Entrance Fees})$ <small>note: Nonrefundable Entry Fees Only</small>
<b>Long Term Debt to Total Assets</b>	$(\text{Long Term Debt, less Current Portion}) / \text{Total Assets}$
<b>Average Age of Facility</b>	$\text{Accumulated Depreciation} / \text{Annual Depreciation Expense}$

## PROFITABILITY RATIOS

<b>Operating Margin</b>	$(\text{Income or Loss from Operations} - \text{Contributions}) / \text{Total Operating Revenues}$
<b>Operating Ratio</b>	$(\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization}) / (\text{Total Operating Revenues} - \text{Earned Entrance Fees})$
<b>Total Excess Margin Ratio</b>	$\text{Total Excess of Revenues over Expenses} / \text{Total Operating Revenue and Net Nonoperating Gains and Losses}$
<b>Net Operating Ratio Margin Ratio</b>	$(\text{Resident Revenue} - \text{Resident Operating Expenses} + \text{Interest, Depreciation, Taxes, and Amortization Expenses}) / \text{Resident Revenue}$
<b>Net Operating Margin Ratio-Adjusted</b>	$(\text{Resident Revenue} + \text{Net Proceeds from Entry Fees} - \text{Operating Expenses} + \text{Interest, Depreciation, Taxes, and Amortization Expenses}) / (\text{Resident Revenue} + \text{Net Proceeds from Entry Fees})$

END NOTES:

---

<sup>i</sup> **Municipal Securities Rulemaking Board.** (2004) *Glossary of Municipal Securities Terms, Second Edition*. Retrieved February 19, 2004, from <http://www.msrb.org/msrb1/glossary/>

<sup>ii</sup> **Financial Ratios & Trend Analysis for Accredited Communities**, CARF-CCAC, 2007.

<sup>iii</sup> **National Investment Center**, Classifications for Seniors Housing Construction Starts, August 2004.

<sup>iv</sup> **Seniors Housing Absorption Trends (Edition III)**, ASHA, 1999.

<sup>v</sup> **Analyzing Senior Living Markets**, Susan B. Brecht. Urban Land Institute, 2002.

<sup>vi</sup> **AICPA Professional Standards**, AICPA, 2006.

<sup>vii</sup> **Statement of Financial Accounting Concepts No. 2**, Financial Accounting Standards Board, May 1980.