

Cracking the Code to Skilled Nursing Profitability

February 27, 2019

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor



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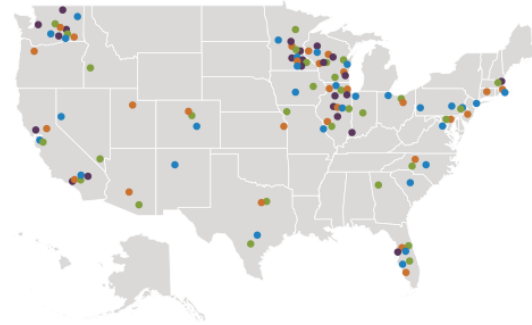


Housekeeping

- If you are experiencing technical difficulties, please dial: **800-422-3623**.
- **Q&A session will be held at the end of the presentation.**
 - Your questions can be submitted via the **Questions Function at any time during the presentation.**
- The **PowerPoint presentation**, as well as the **webinar recording**, will be sent to you within the next 10 business days.
- Please complete our online survey.

About CLA

- A professional services firm with three distinct business lines
 - Wealth Advisory
 - Outsourcing
 - Audit, Tax, and Consulting
- More than 6,100 employees
- Offices coast to coast
- Serving 8,700+ health care organizations



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Speaker Introductions

- Cory Rutledge is a principal with CLA's health care group. He has more than 16 years of experience providing professional services to health care clients. Cory specializes in a variety of strategic, financial, and operational services for health care clients across the care continuum. He enjoys serving organizations delivering solutions to older adults, which has provided him the opportunity to serve as CLA's national senior living leader. In this capacity, Cory is responsible for overseeing and guiding the strategic direction of CLA's senior living practice.
- Matt Wocken is a principal with CLA's health care group, specializing in consulting and assurance services for senior health organizations. Matt has more than 11 years of experience devoted entirely to the health care industry. He serves a variety of health care clients including senior health organizations, HUD housing organizations, organizations providing services to the developmentally disabled, and health care related associations.



33rd Edition Skilled Nursing Facility Cost Comparison Report — An Industry in Transition

Totals	Quartiles		
	25th	Median	75th
2014	-3.8%	1.3%	6.0%
2015	-4.2%	1.2%	5.9%
2016	-5.4%	0.6%	5.5%
2017	-6.0%	0.0%	4.7%

“ It is particularly alarming that the median operating ratio is now 0 percent, which is a 60 basis point decrease from 2016. ”

The Headlines

McKnight's LONG-TERM CARE NEWS

October 8, 2018

There's hope for better-performing SNFs that embrace change, but signs are ominous for continued poor-performers, new analysis says

March 7, 2018

Skilled nursing facility 'haves' and 'have nots' – a financial journey

Source: McKnight's Long-Term Care News

<https://www.mcknights.com/news/theres-hope-for-better-performing-snfs-that-embrace-change-but-signs-are-ominous-for-continued-poor-performers-new-analysis-says/>
<https://www.mcknights.com/marketplace/skilled-nursing-facility-haves-and-have-nots-a-financial-journey/>



The Headlines



Predicting Skilled Nursing Winners, Losers Has Never Been Tougher for Lenders

By **Alex Spanko** | January 21, 2019

Source: Skilled Nursing News

<https://skillednursingnews.com/2019/01/predicting-skilled-nursing-winners-losers-has-never-been-tougher/>



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Learning Objectives

Explore the trends of key operational drivers of SNF profitability

Understand the linkage between CMS Five-Star ratings to SNF financial performance

Identify the operational and quality profile of top performing SNFs



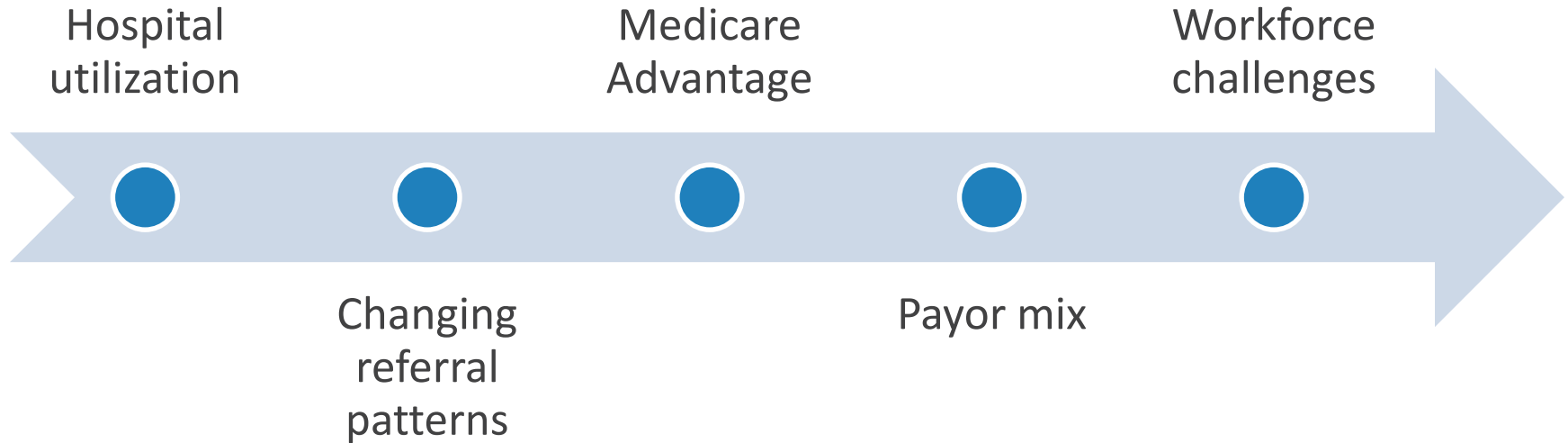


Drivers of SNF Profitability

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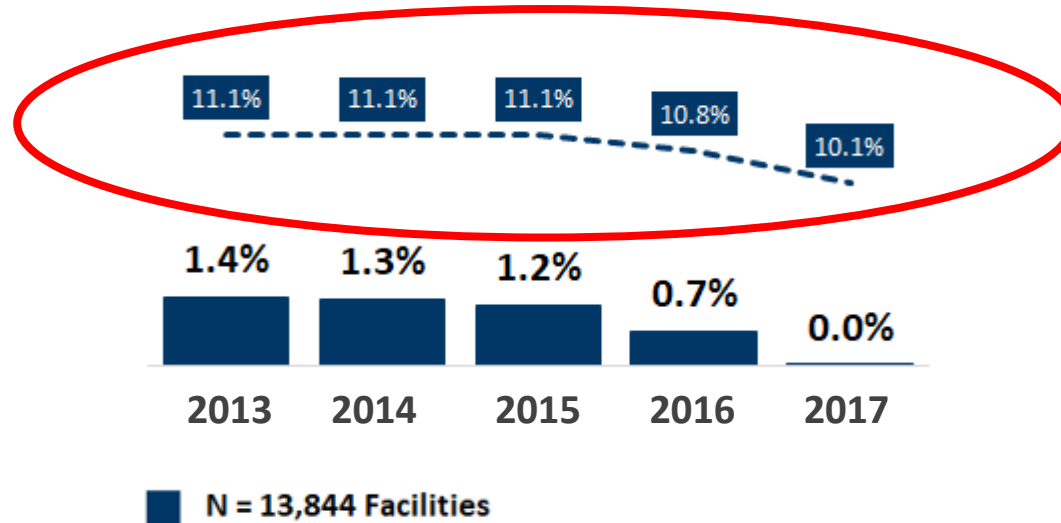
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Factors Influencing Reduced SNF Profitability

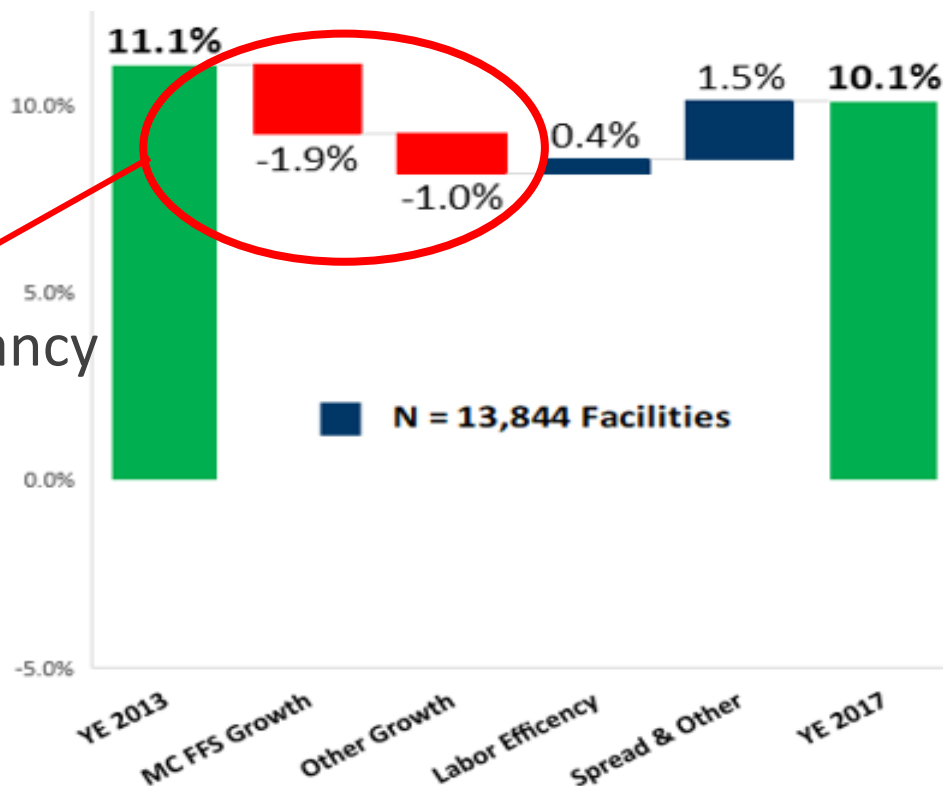


National Trends in SNF Profitability

Operating EBITDA and Operating Margin %

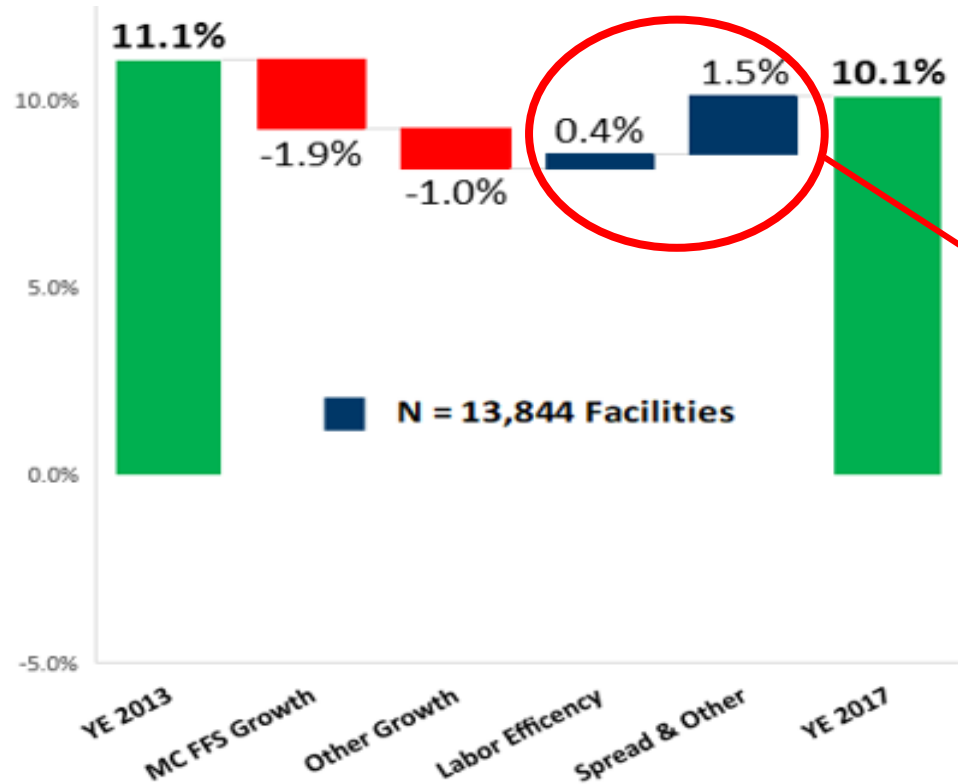


Operating EBITDA Drivers



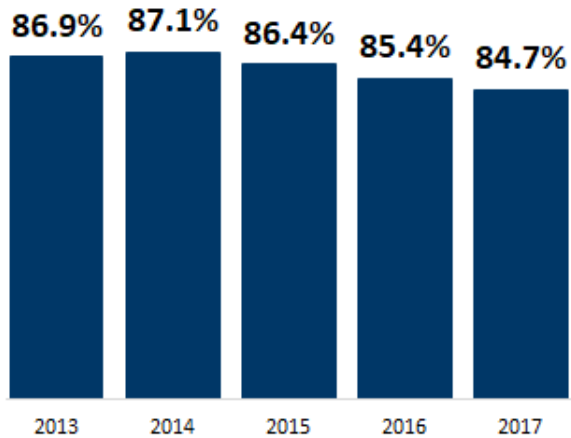
Decreased occupancy

Operating EBITDA Drivers

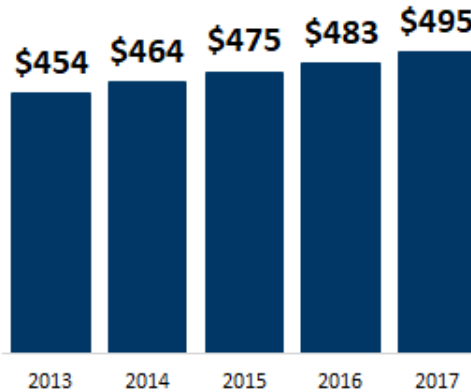


National Trends in SNF Operations

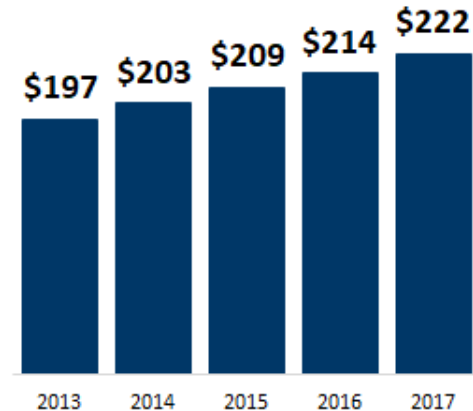
Occupancy %



MC FFS Rate PPD

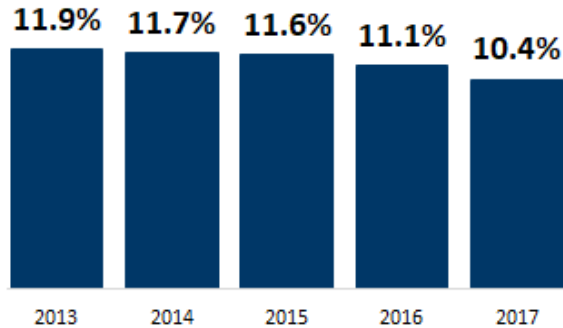


All Other Rate PPD

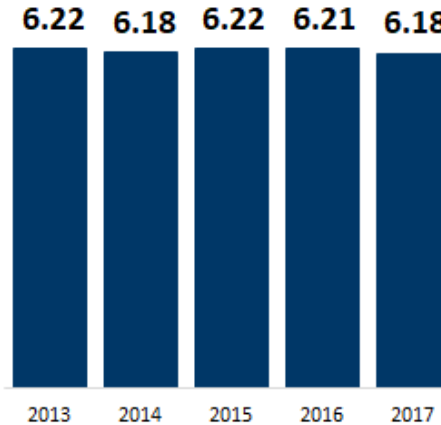


National Trends in SNF Operations

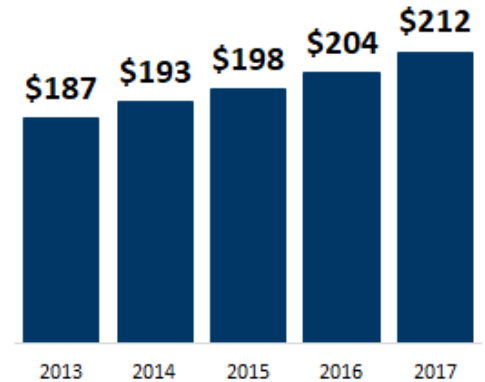
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



Key Factors Impacting Profitability

Decreasing
Occupancy

Payor Mix

Managing
Operating
Costs



CMS Five-Star Rating and Financial Performance

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CMS Five-Star Overall Rating

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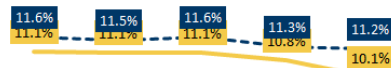
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Overall Star Rating

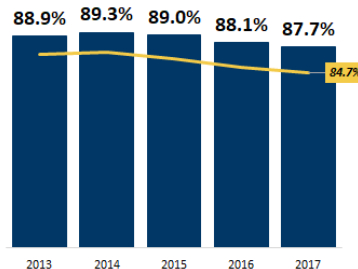


25% OP EBITDA and Margin %

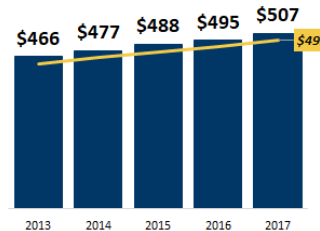
% of Total
Portfolio
Sites (Nat'l)



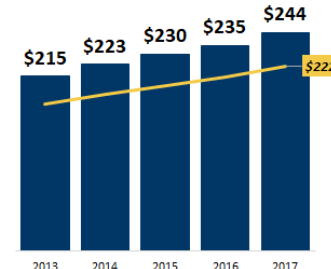
Occupancy %



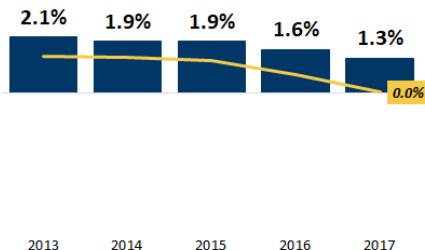
MC FFS Rate PPD



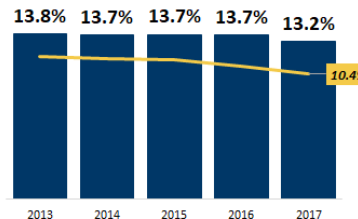
All Other Rate PPD



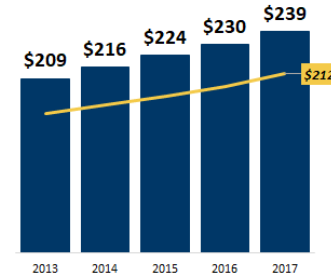
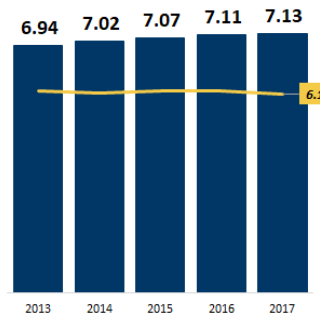
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 3,455 Facilities

N = 13,844 Facilities



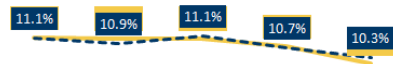
Create Opportunities

Overall Star Rating

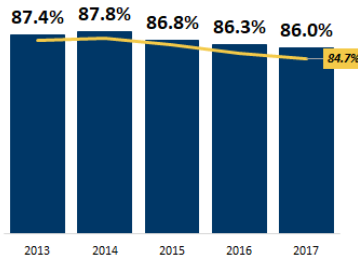


21% OP EBITDA and Margin %

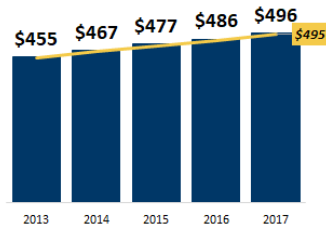
% of Total
Portfolio
Sites (Nat'l)



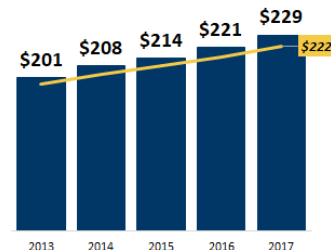
Occupancy %



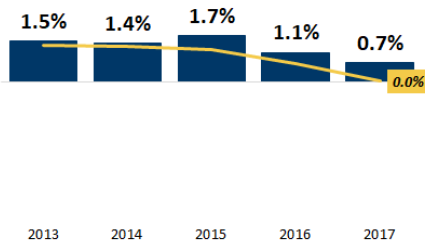
MC FFS Rate PPD



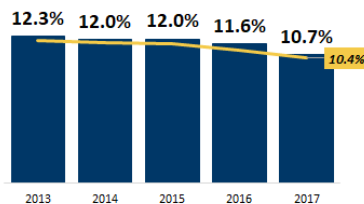
All Other Rate PPD



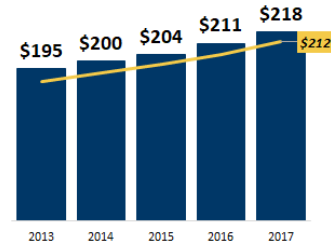
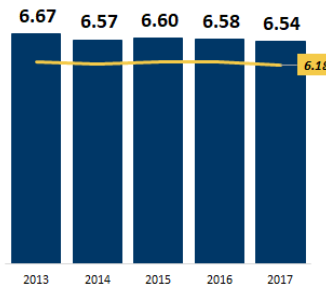
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 2,919 Facilities

N = 13,844 Facilities



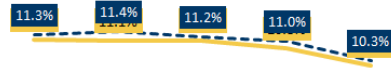
Create Opportunities

Overall Star Rating

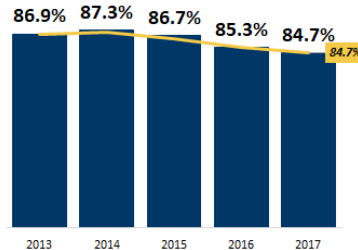


16% OP EBITDA and Margin %

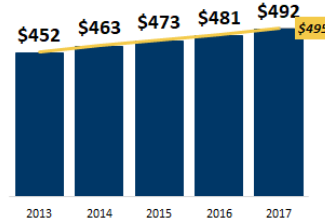
% of Total
Portfolio
Sites (Nat'l)



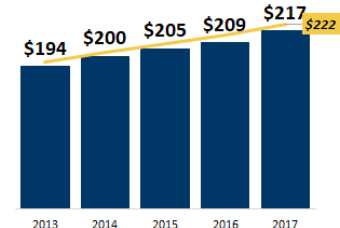
Occupancy %



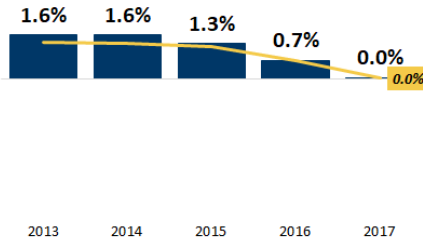
MC FFS Rate PPD



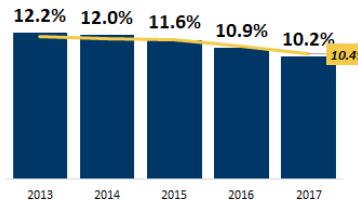
All Other Rate PPD



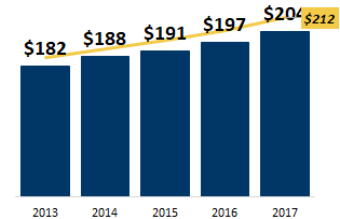
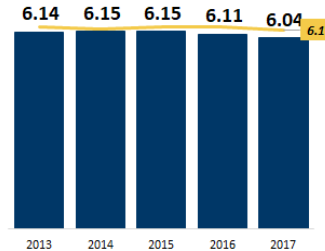
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 2,250 Facilities

N = 13,844 Facilities

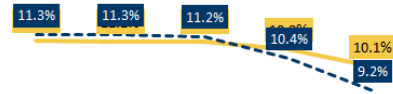


Create Opportunities

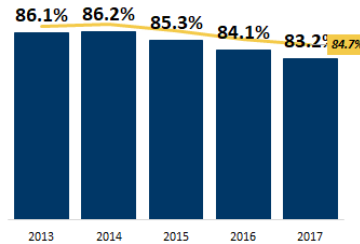
Overall Star Rating

18% OP EBITDA and Margin %

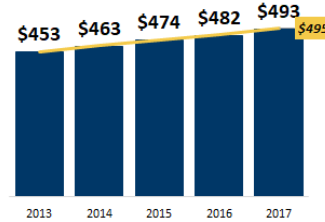
% of Total
Portfolio
Sites (Nat'l)



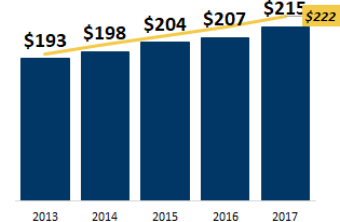
Occupancy %



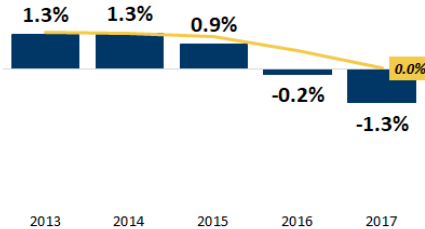
MC FFS Rate PPD



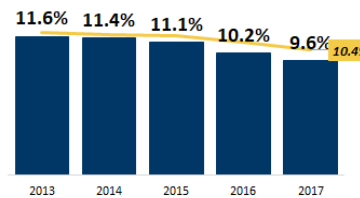
All Other Rate PPD



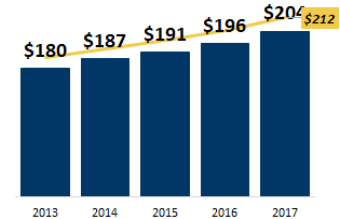
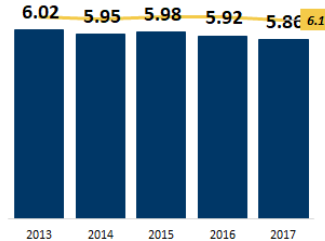
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 2,506 Facilities

N = 13,844 Facilities

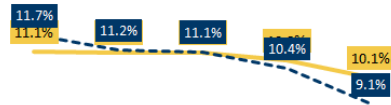


Create Opportunities

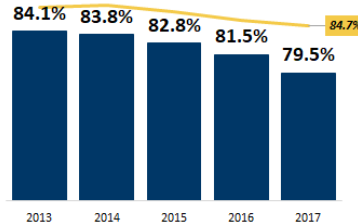
Overall Star Rating ★

13% OP EBITDA and Margin %

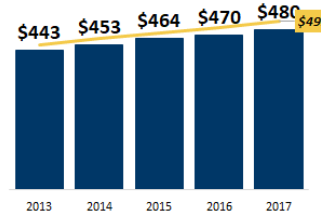
% of Total
Portfolio
Sites (Nat'l)



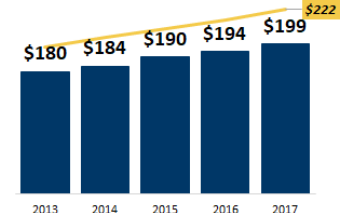
Occupancy %



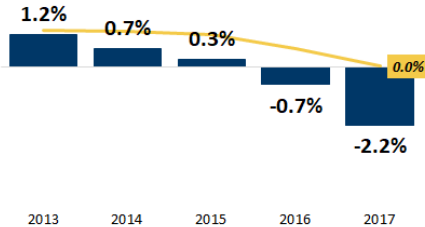
MC FFS Rate PPD



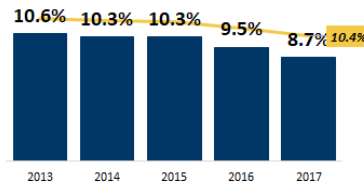
All Other Rate PPD



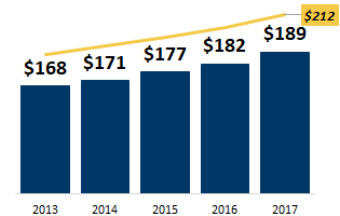
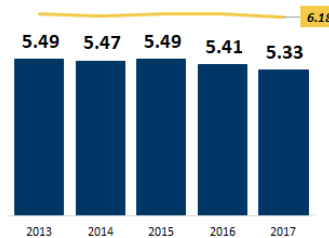
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 1,780 Facilities

N = 13,844 Facilities



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CMS Five-Star Survey Rating

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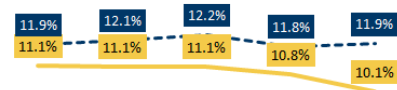
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Survey Star Rating

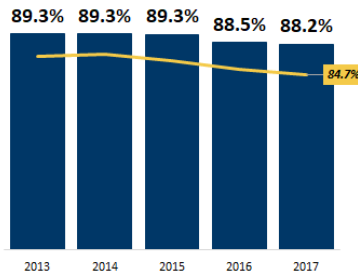


9% OP EBITDA and Margin %

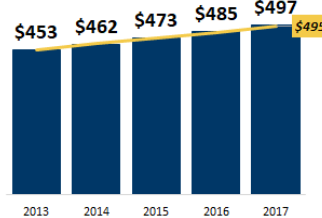
% of Total
Portfolio
Sites (Nat'l)



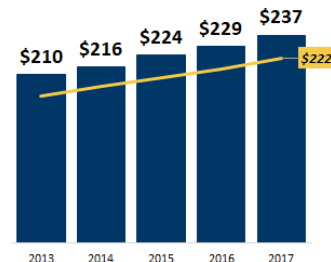
Occupancy %



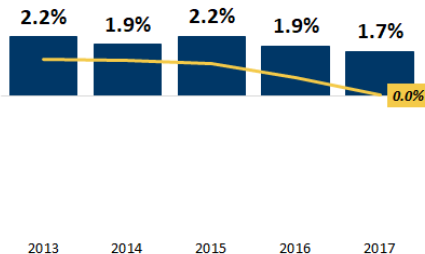
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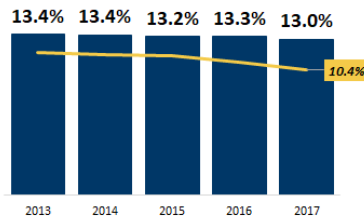
All Other Rate PPD



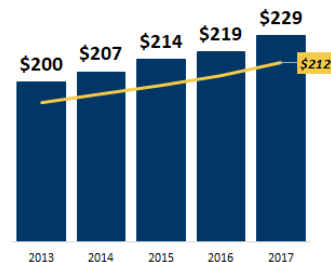
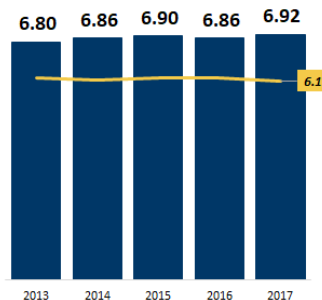
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 1,279 Facilities

N = 13,844 Facilities



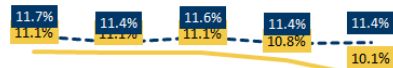
Create Opportunities

Survey Star Rating

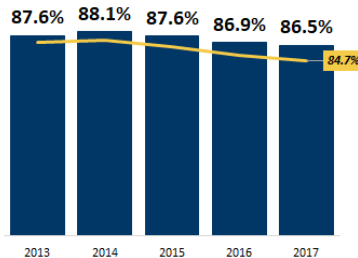


22% OP EBITDA and Margin %

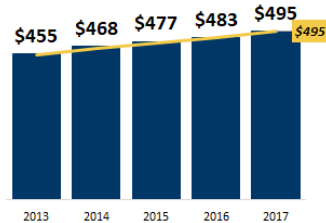
% of Total
Portfolio
Sites (Nat'l)



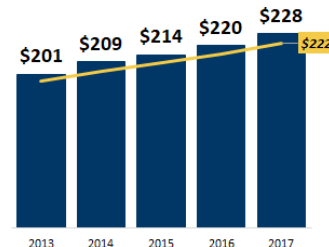
Occupancy %



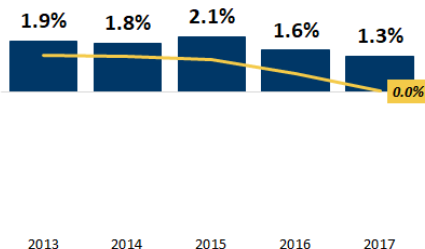
MC FFS Rate PPD



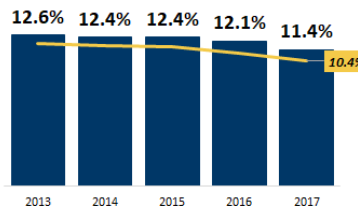
All Other Rate PPD



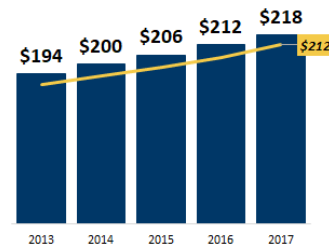
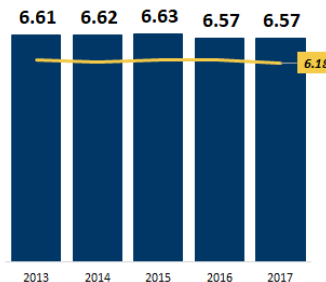
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 3,040 Facilities

N = 13,844 Facilities



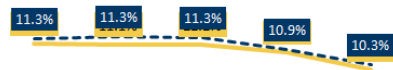
Create Opportunities

Survey Star Rating

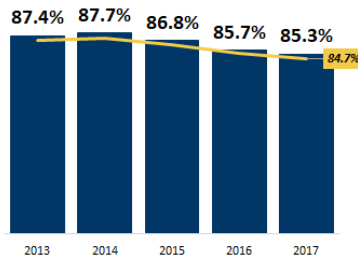


23% OP EBITDA and Margin %

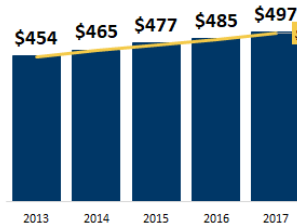
% of Total
Portfolio
Sites (Nat'l)



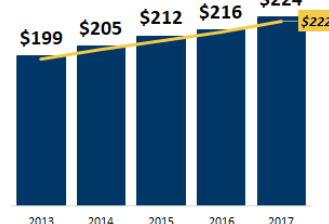
Occupancy %



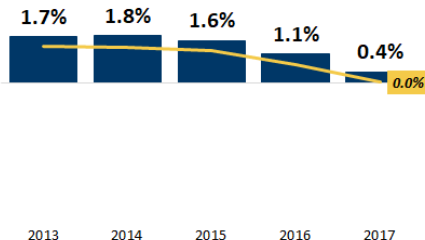
MC FFS Rate PPD



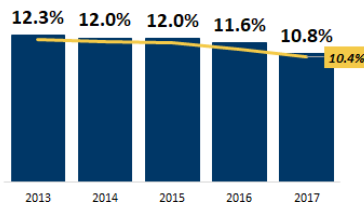
All Other Rate PPD



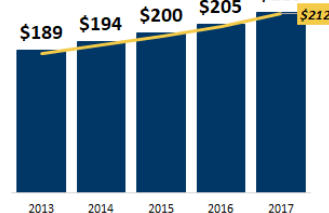
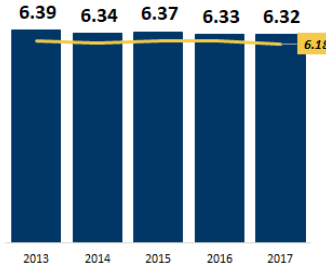
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 3,123 Facilities

N = 13,844 Facilities



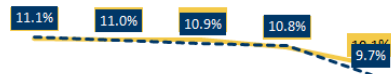
Create Opportunities

Survey Star Rating

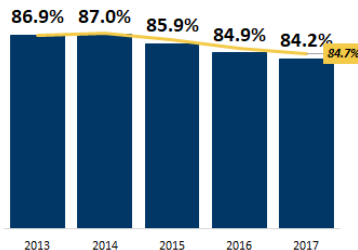


22% OP EBITDA and Margin %

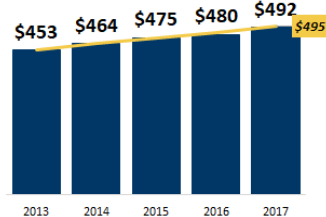
% of Total
Portfolio
Sites (Nat'l)



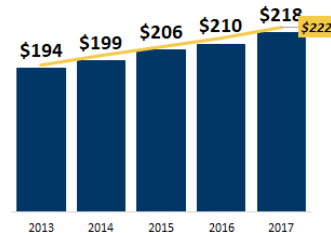
Occupancy %



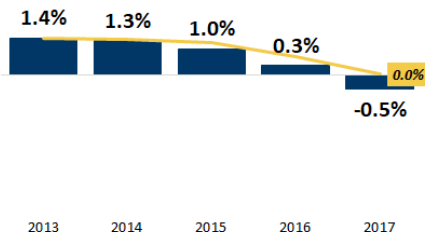
MC FFS Rate PPD



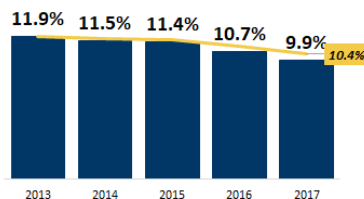
All Other Rate PPD



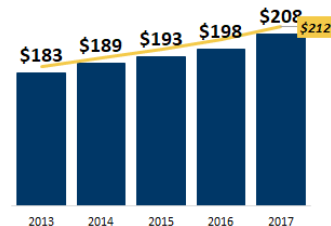
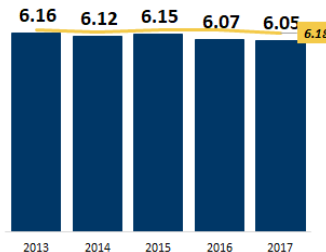
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 3,060 Facilities

N = 13,844 Facilities

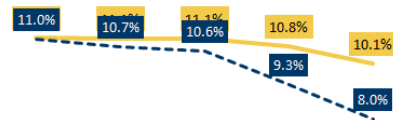


Create Opportunities

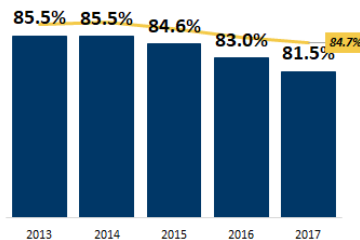
Survey Star Rating

19% OP EBITDA and Margin %

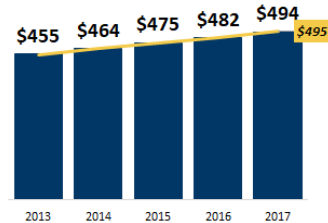
% of Total
Portfolio
Sites (Nat'l)



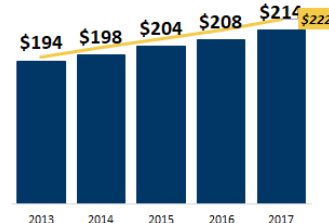
Occupancy %



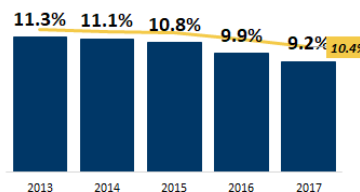
MC FFS Rate PPD



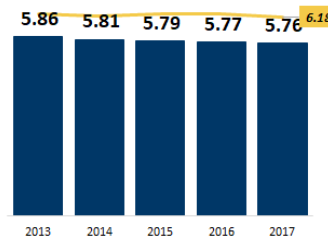
All Other Rate PPD



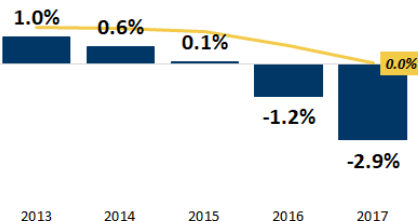
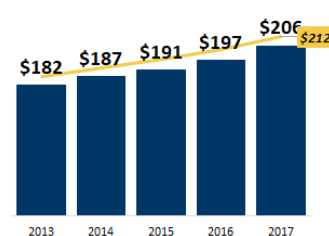
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 2,597 Facilities

N = 13,844 Facilities



Create Opportunities



CMS Five-Star Quality Rating

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

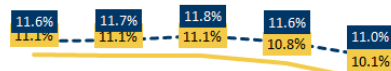
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Quality Star Rating

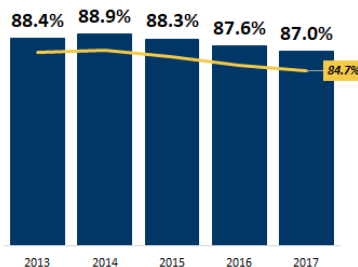


41% OP EBITDA and Margin %

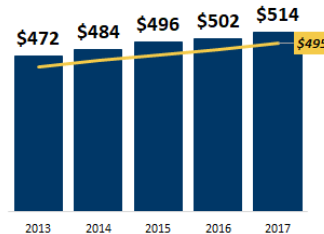
% of Total
Portfolio
Sites (Nat'l)



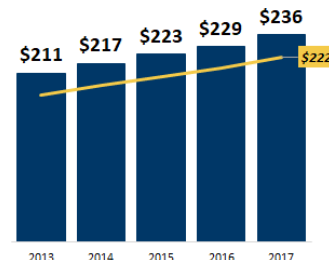
Occupancy %



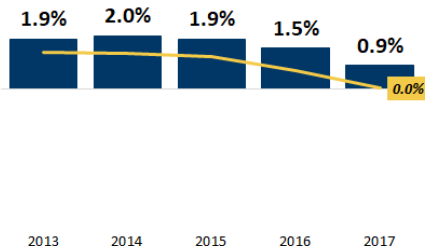
MC FFS Rate PPD



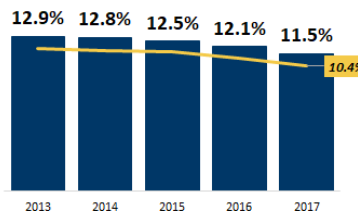
All Other Rate PPD



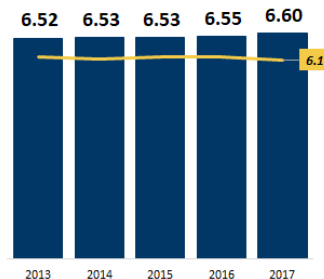
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 5,608 Facilities

N = 13,844 Facilities



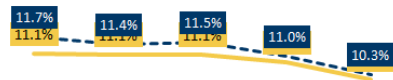
Create Opportunities

Quality Star Rating

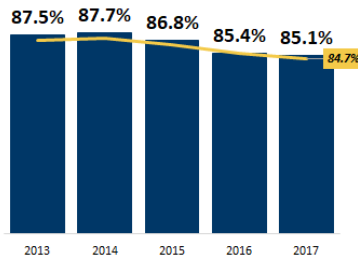


20% OP EBITDA and Margin %

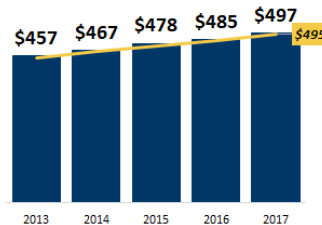
% of Total
Portfolio
Sites (Nat'l)



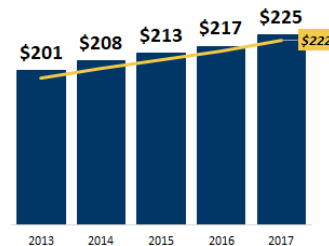
Occupancy %



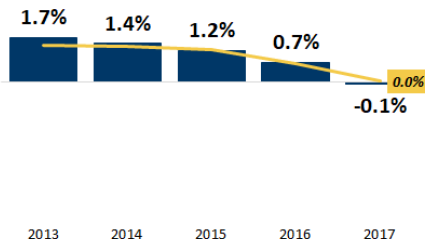
MC FFS Rate PPD



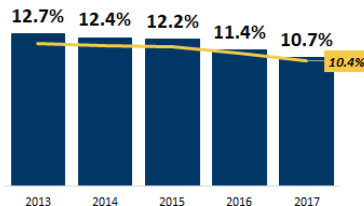
All Other Rate PPD



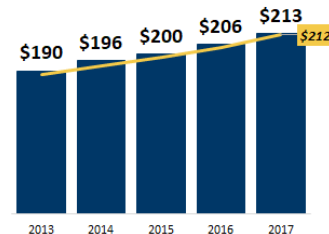
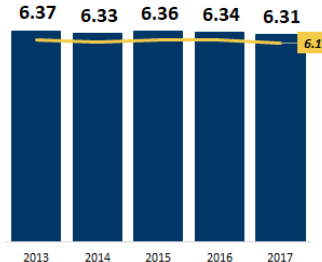
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 2,766 Facilities

N = 13,844 Facilities

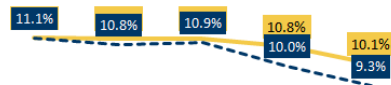


Create Opportunities

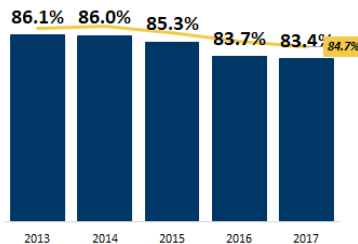
Quality Star Rating

16% OP EBITDA and Margin %

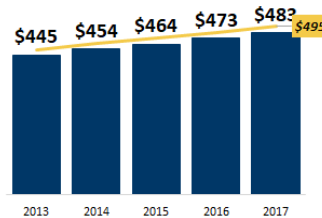
% of Total
Portfolio
Sites (Nat'l)



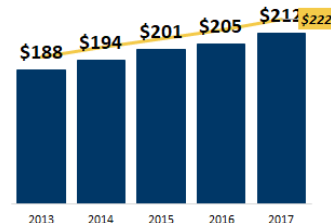
Occupancy %



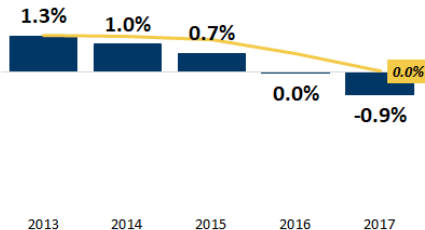
MC FFS Rate PPD



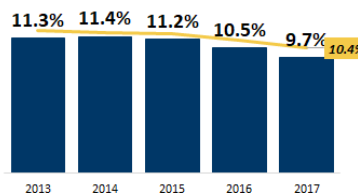
All Other Rate PPD



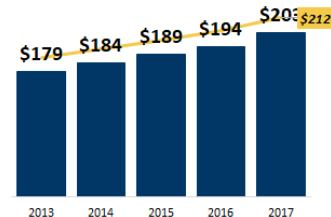
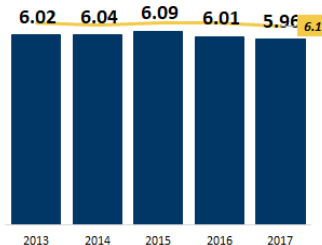
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 2,255 Facilities

N = 13,844 Facilities

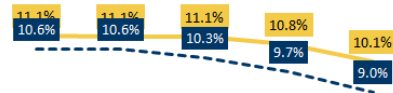


Create Opportunities

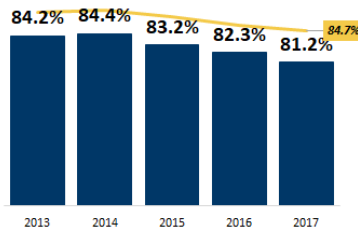
Quality Star Rating

12% OP EBITDA and Margin %

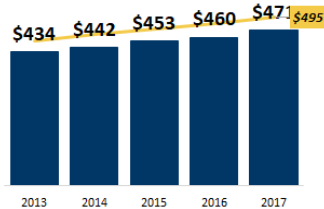
% of Total
Portfolio
Sites (Nat'l)



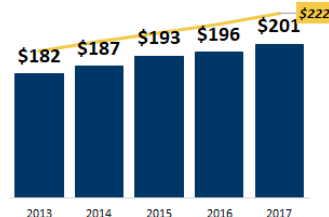
Occupancy %



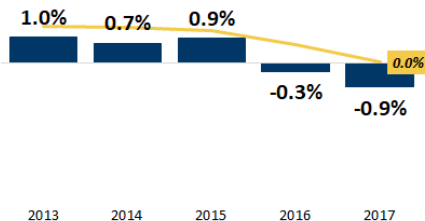
MC FFS Rate PPD



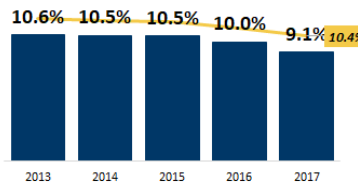
All Other Rate PPD



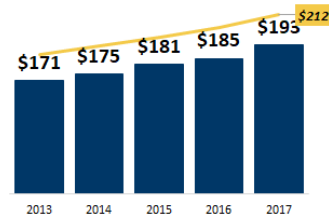
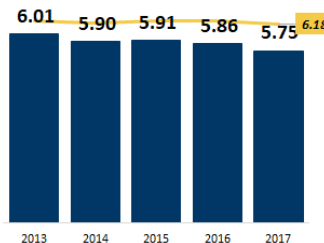
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 1,655 Facilities

N = 13,844 Facilities

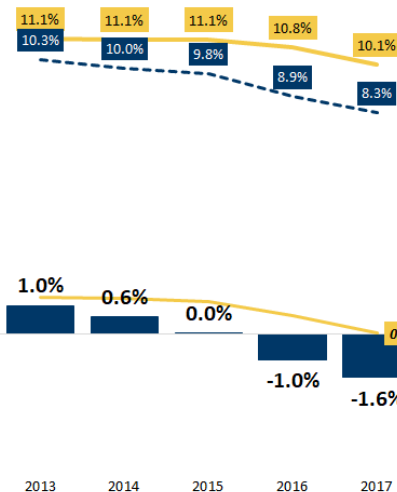


Create Opportunities

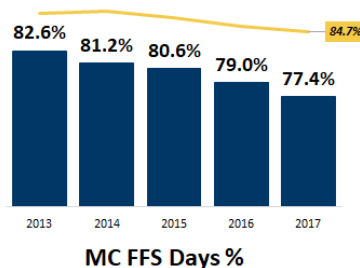
Quality Star Rating

6% OP EBITDA and Margin %

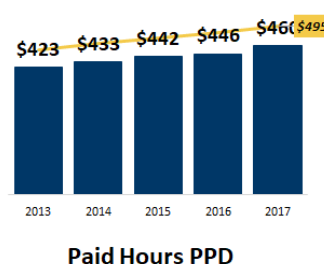
% of Total
Portfolio
Sites (Nat'l)



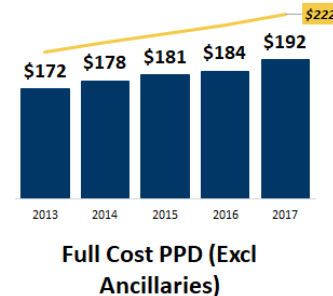
Occupancy %



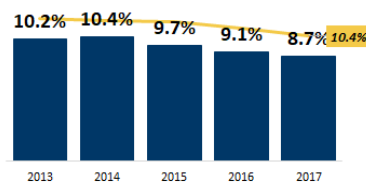
MC FFS Rate PPD



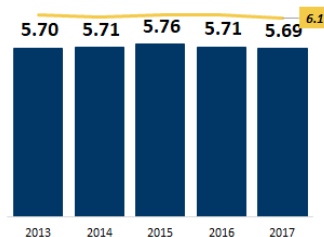
All Other Rate PPD



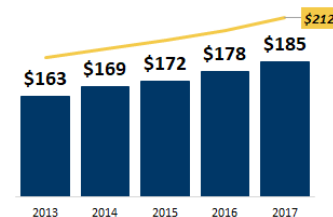
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



N = 813 Facilities

N = 13,844 Facilities



Create Opportunities



CMS Five-Star Staffing Rating

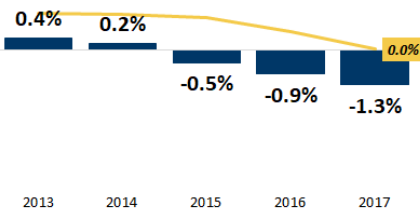
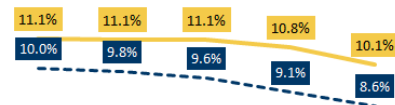
WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

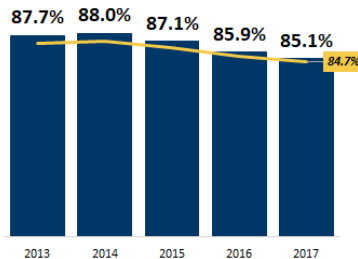
Staffing Star Rating

9% OP EBITDA and Margin %

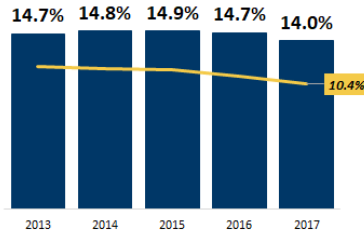
% of Total Portfolio Sites (Nat'l)



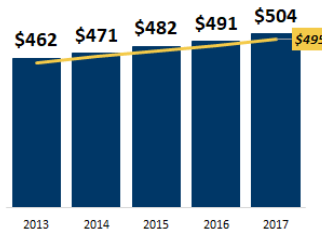
Occupancy %



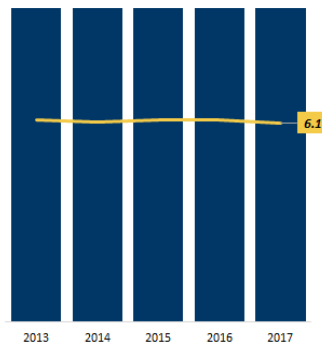
MC FFS Days %



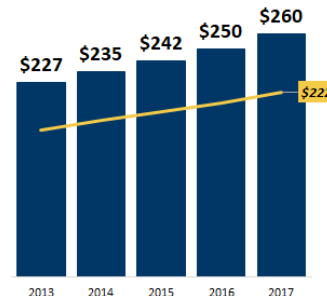
MC FFS Rate PPD



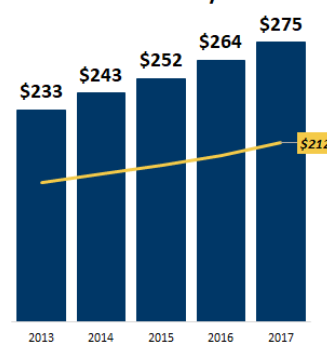
Paid Hours PPD



All Other Rate PPD



Full Cost PPD (Excl Ancillaries)



N = 1,286 Facilities

N = 13,844 Facilities

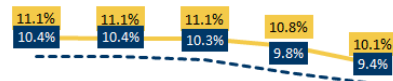


Create Opportunities

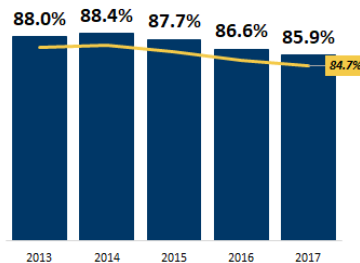
Staffing Star Rating

30% OP EBITDA and Margin %

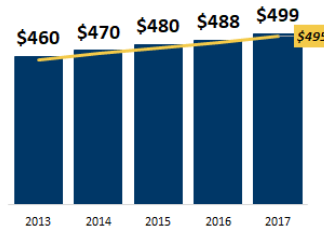
% of Total
Portfolio
Sites (Nat'l)



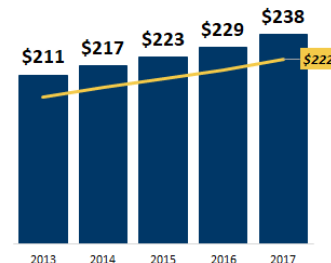
Occupancy %



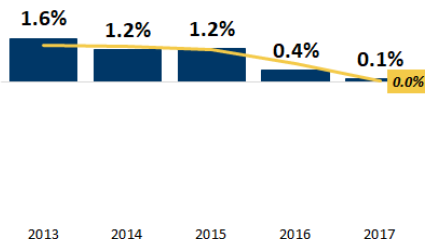
MC FFS Rate PPD



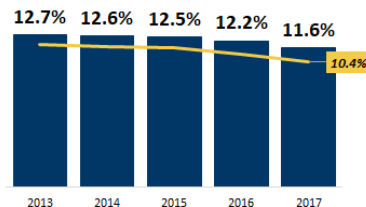
All Other Rate PPD



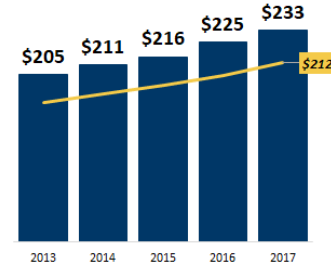
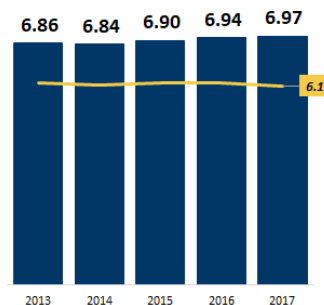
MC FFS Days %





Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



 N = 4,086 Facilities

 N = 13,844 Facilities

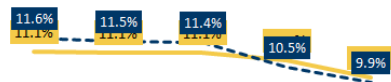


Create Opportunities

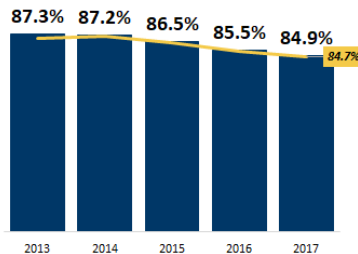
Staffing Star Rating

28% OP EBITDA and Margin %

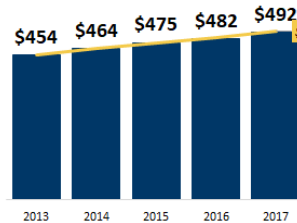
% of Total
Portfolio
Sites (Nat'l)



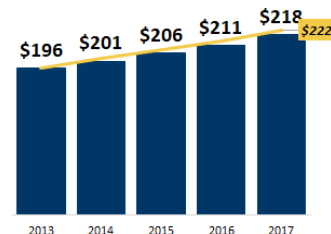
Occupancy %



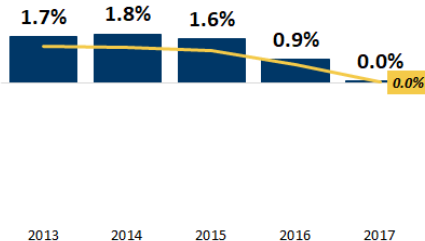
MC FFS Rate PPD



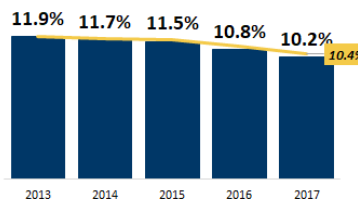
All Other Rate PPD



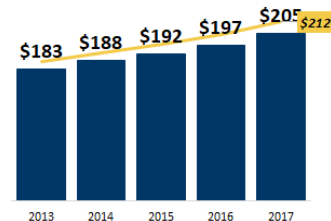
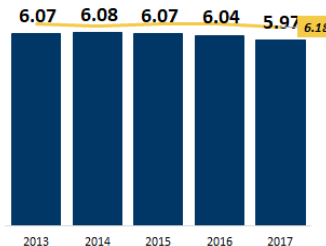
MC FFS Days %





Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



 N = 3,937 Facilities

 N = 13,844 Facilities

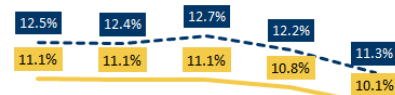


Create Opportunities

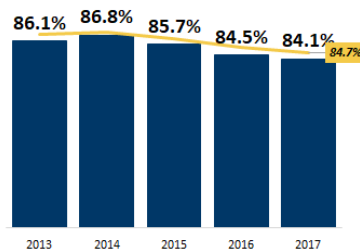
Staffing Star Rating

14% OP EBITDA and Margin %

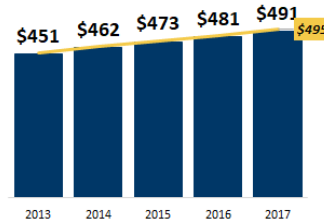
% of Total
Portfolio
Sites (Nat'l)



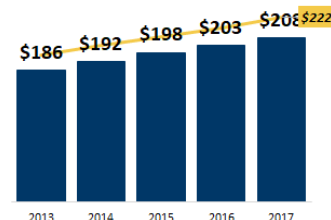
Occupancy %



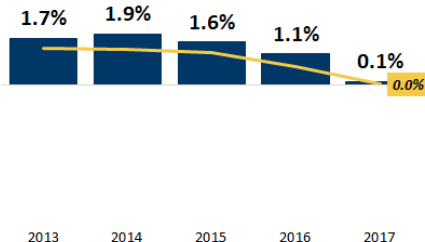
MC FFS Rate PPD



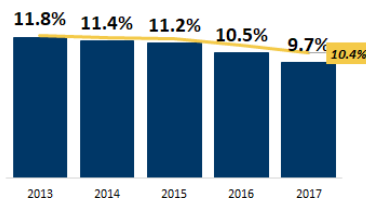
All Other Rate PPD



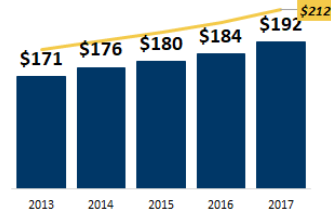
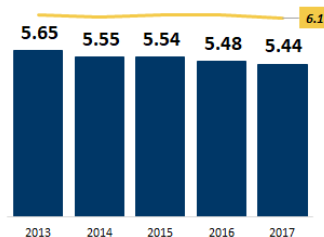
MC FFS Days %





Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



 N = 1,878 Facilities

 N = 13,844 Facilities

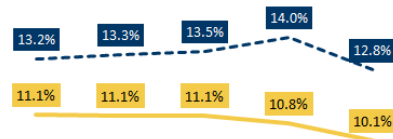


Create Opportunities

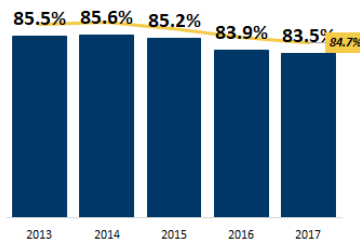
Staffing Star Rating ★

11% OP EBITDA and Margin %

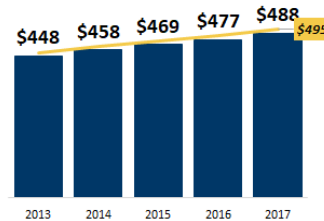
% of Total
Portfolio
Sites (Nat'l)



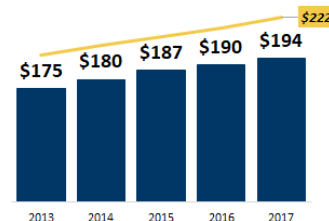
Occupancy %



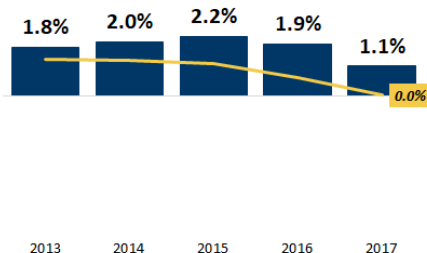
MC FFS Rate PPD



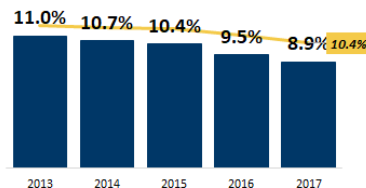
All Other Rate PPD



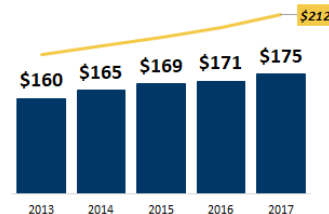
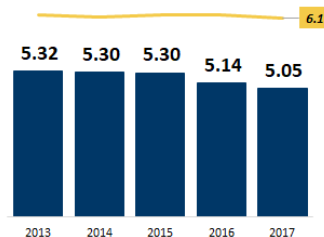
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)



■ N = 1,543 Facilities

■ N = 13,844 Facilities



Create Opportunities

Overall Star Rating



vs.

Staffing Star Rating



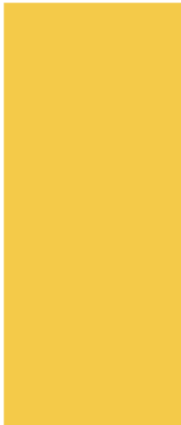
2017 Occupancy

87.7%



5-Star Overall

85.1%



5-Star Staffing

2017 Medicare
Occupancy

13.2%



5-Star Overall

14.0%



5-Star Staffing

2017 Operating Margin

1.3%



5-Star Overall

-1.3%



5-Star Staffing

Case Study: Cost of a Staffing Star

Current CMS Five-Star Staffing Rating	EXAMPLE SNF #1
Staffing rating	★★★★● Above Average
Registered Nurse (RN) staffing rating	★★★★● Above Average

Example SNF #1

- 79 Bed SNF
- 83.1% Occupancy
- Cost to move staffing to 5-Stars = \$39,836
- Additional cost decreases margin by .75%
(assuming no other operational changed made)

Current CMS Five-Star Staffing Rating	EXAMPLE SNF #2
Staffing rating	★★★★★ Much Above Average
Registered Nurse (RN) staffing rating	★★★★★ Much Above Average

Example SNF #2

- 56 Bed SNF
- 84.1% Occupancy
- \$150,829 of staffing costs in excess of CMS 5-Star Staffing thresholds

Key Takeaways

CMS Five-Star Rating

- Overall Five-Star Rating is a strong predictor of financial success

Survey Rating

- Survey readiness is critical

Quality Rating

- Quality is a process, implement, and follow the process

Cost of Staffing Rating

- Understand the cost of your staffing star rating



Profile of Top Performing SNFs

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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CLA Top Performers

CMS Five-Star Rating

- 3, 4, or 5 star facility for each of the last two years

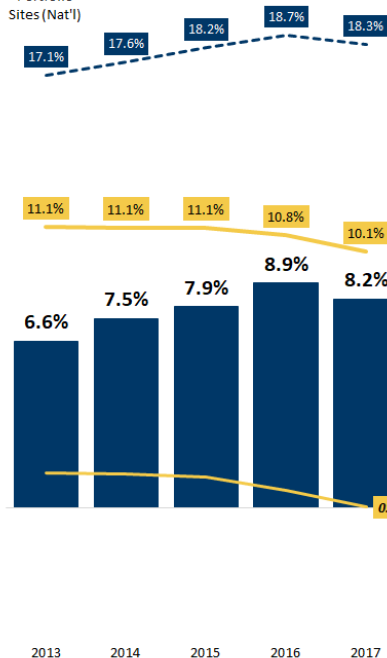
Financial Outcomes

- Top third of financial performance (EBITDA) for each of the last three years

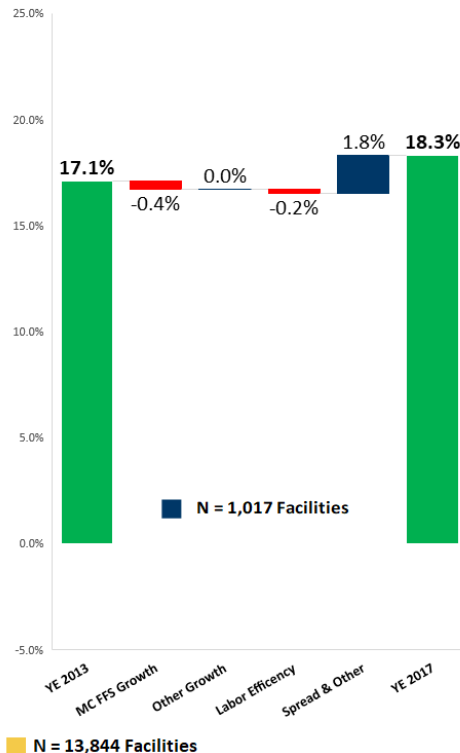
Top Performers

7% OP EBITDA and Margin %

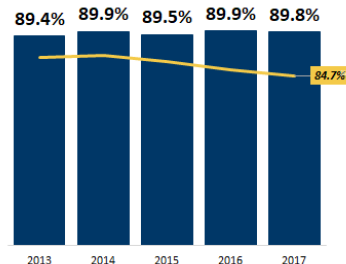
% of Total Portfolio Sites (Nat'l)



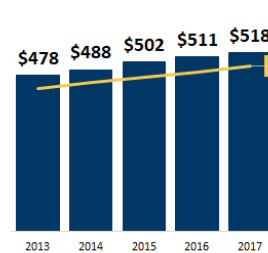
Operating EBITDA Drivers 2013 to 2017



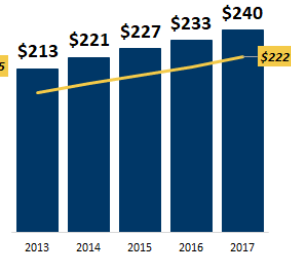
Occupancy %



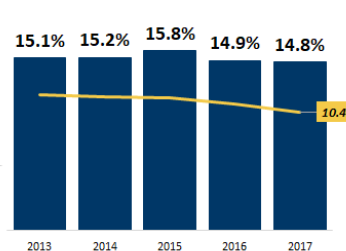
MC FFS Rate PPD



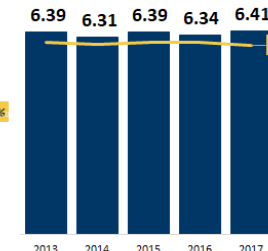
All Other Rate PPD



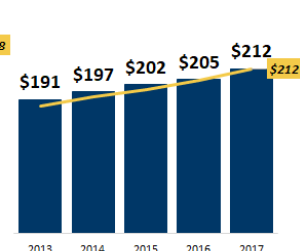
MC FFS Days %



Paid Hours PPD



Full Cost PPD (Excl Ancillaries)

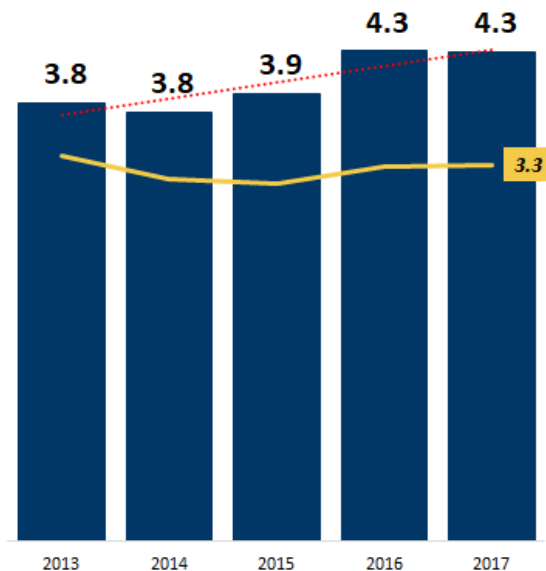


Top Performers

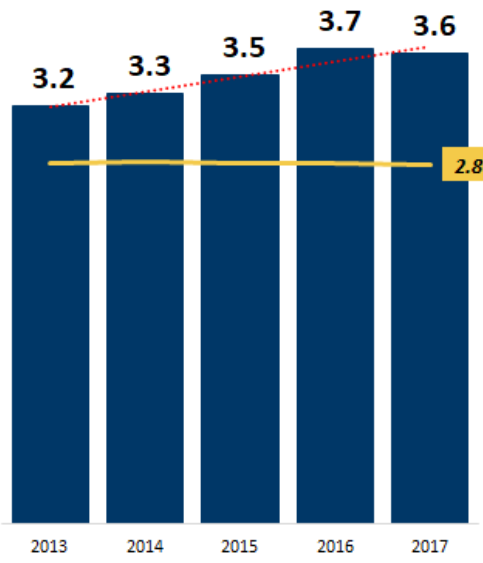
7%

% of Total
Portfolio
Sites (Nat'l)

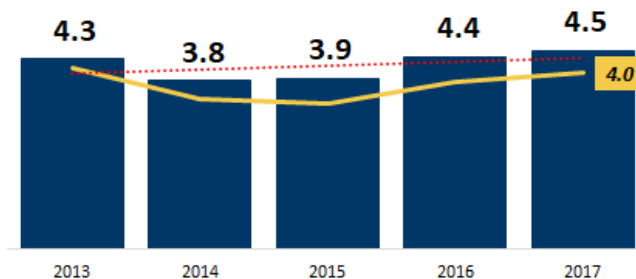
Overall Rating (Avg)



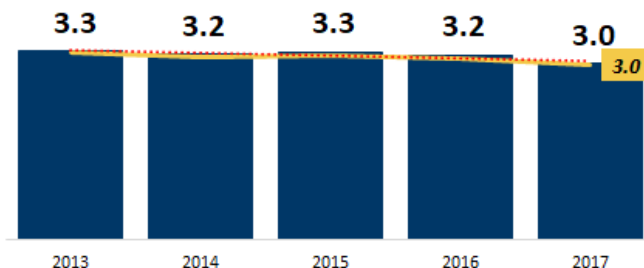
Survey Rating (Avg)



Quality Rating (Avg)



Staffing Rating (Avg)

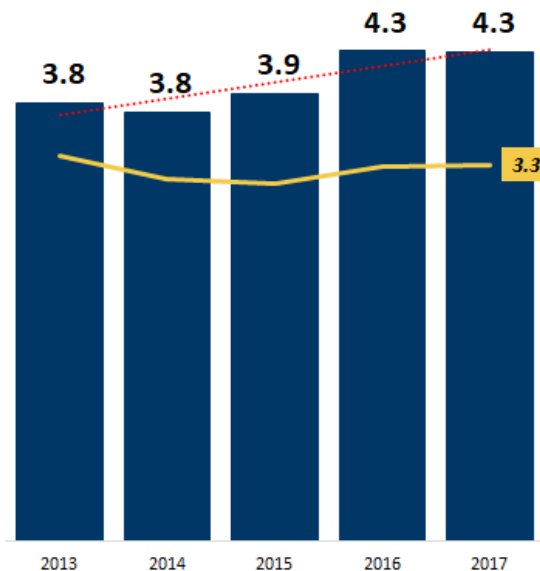


Top Performers

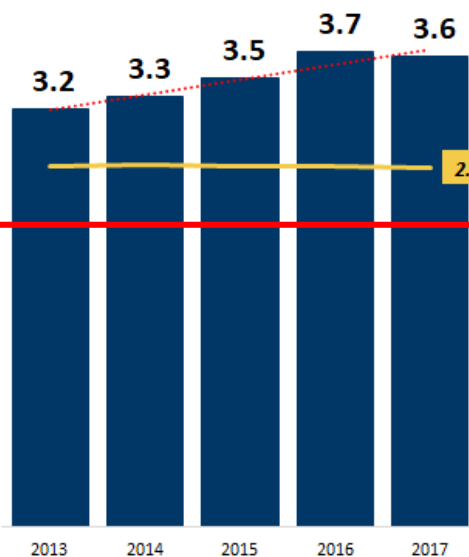
7%

% of Total
Portfolio
Sites (Nat'l)

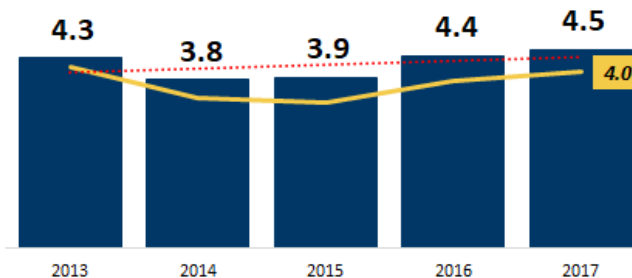
Overall Rating (Avg)



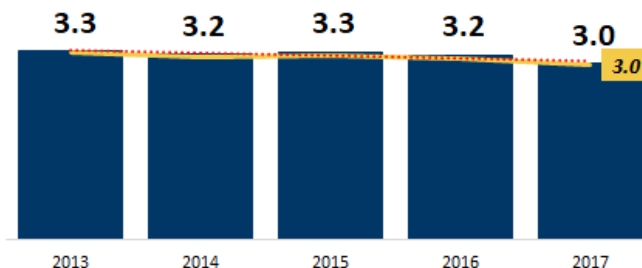
Survey Rating (Avg)



Quality Rating (Avg)



Staffing Rating (Avg)

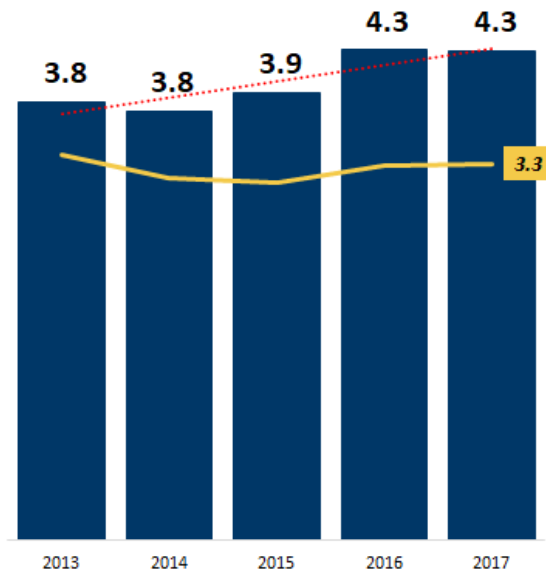


Top Performers

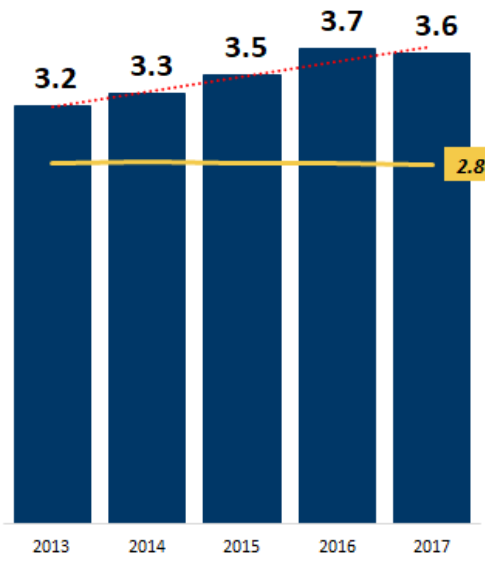
7%

% of Total
Portfolio
Sites (Nat'l)

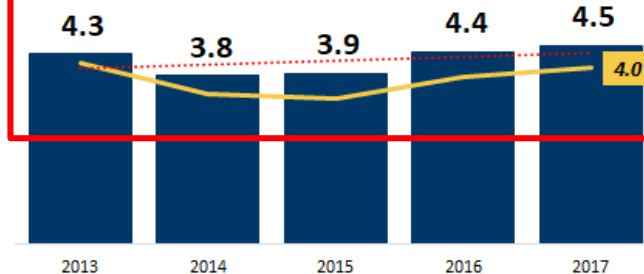
Overall Rating (Avg)



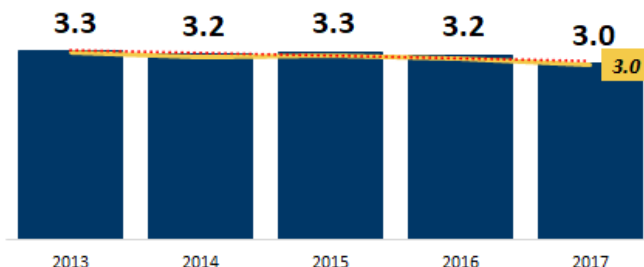
Survey Rating (Avg)



Quality Rating (Avg)



Staffing Rating (Avg)

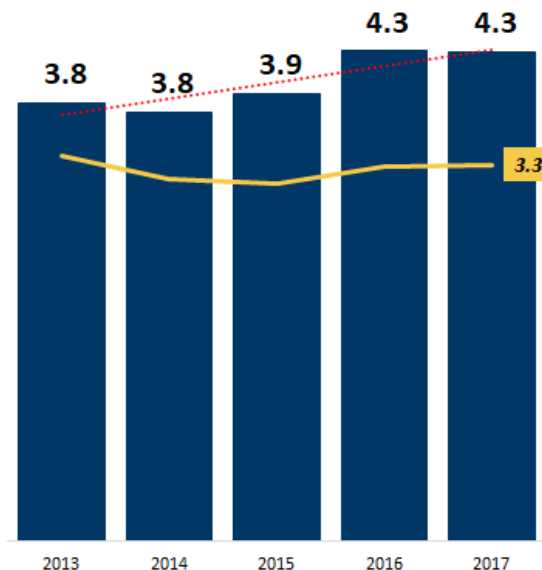


Top Performers

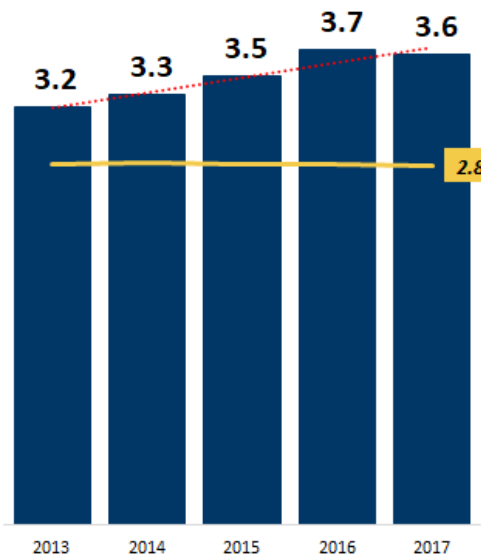
7%

% of Total
Portfolio
Sites (Nat'l)

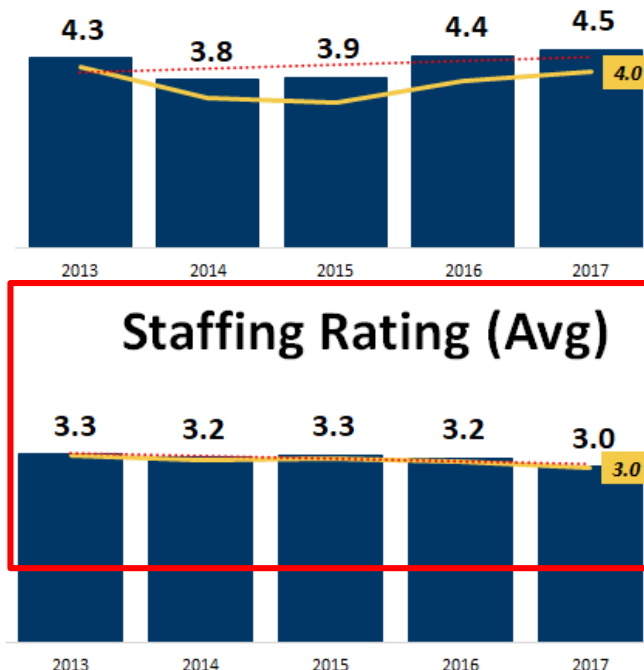
Overall Rating (Avg)



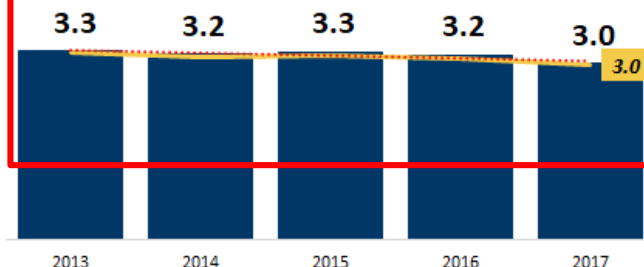
Survey Rating (Avg)



Quality Rating (Avg)



Staffing Rating (Avg)



N = 1,017 Facilities

N = 13,844 Facilities



Create Opportunities



2013 Top Financial Performance Without Filter of Quality

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

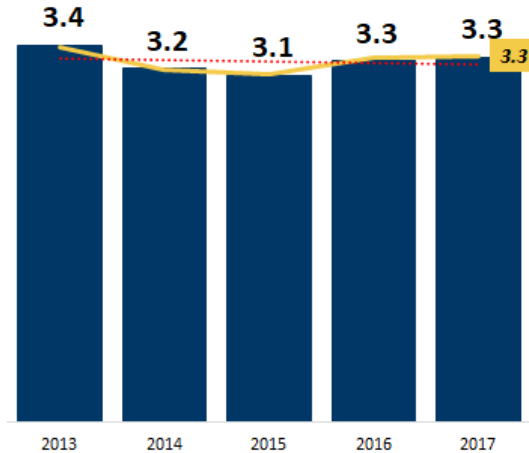
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

2013 SNFs with Top Third of Financial Performance: Trended to 2017

28%

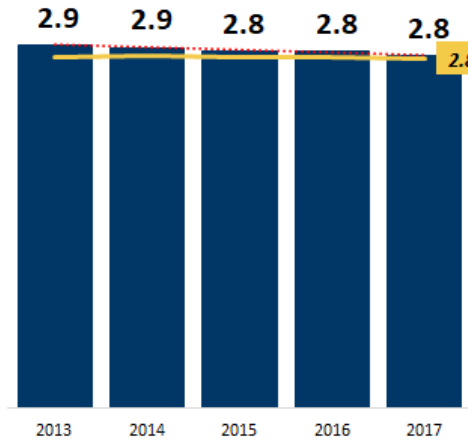
% of Total
Portfolio
Sites (Nat'l)

**Overall Rating
(Avg)**



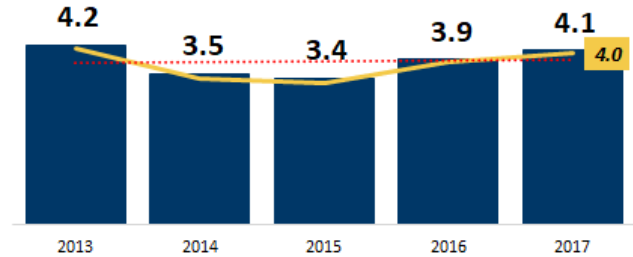
N = 3,889 Facilities

**Survey Rating
(Avg)**

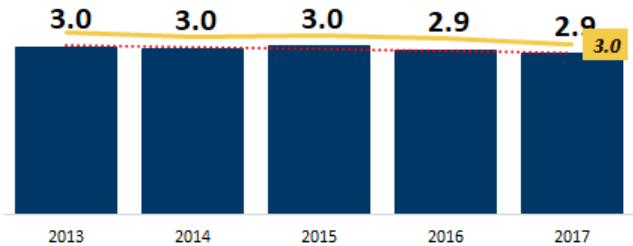


N = 13,844 Facilities

Quality Rating (Avg)



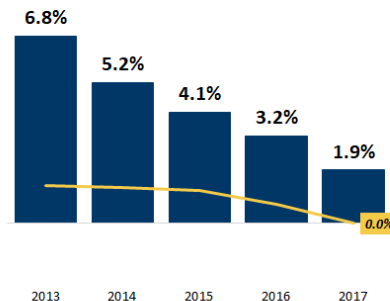
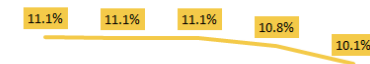
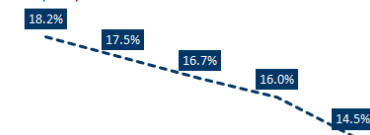
Staffing Rating (Avg)



2013 SNFs with Top Third of Financial Performance: Trended to 2017

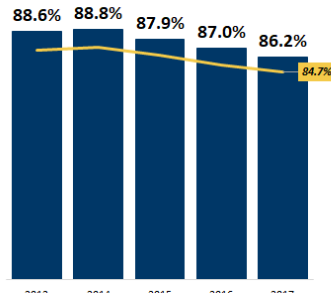
28% OP EBITDA and Margin %

% of Total Portfolio Sites (Nat'l)

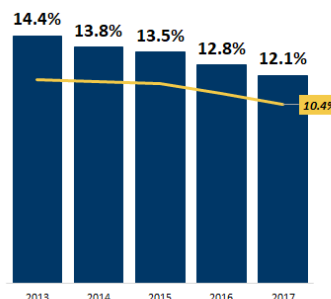


■ N = 3,889 Facilities

Occupancy %

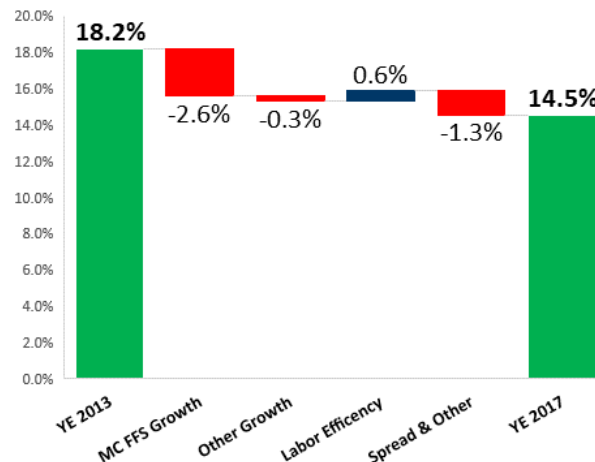


MC FFS Days %



■ N = 13,844 Facilities

Operating EBITDA Drivers 2013 to 2017

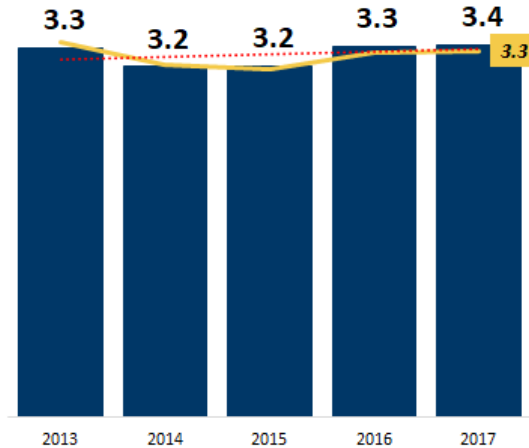


SNFs that have Improved Financial Performance from 2013 to 2017

18%

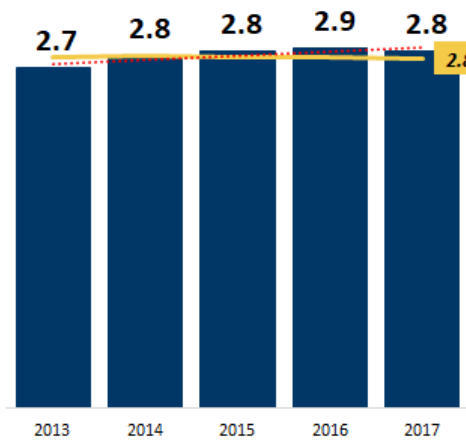
% of Total
Portfolio
Sites (Nat'l)

**Overall Rating
(Avg)**



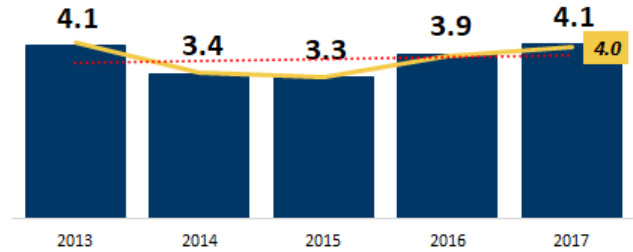
N = 2,440 Facilities

**Survey Rating
(Avg)**

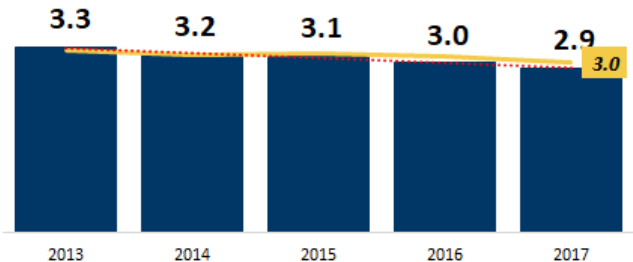


N = 13,844 Facilities

Quality Rating (Avg)



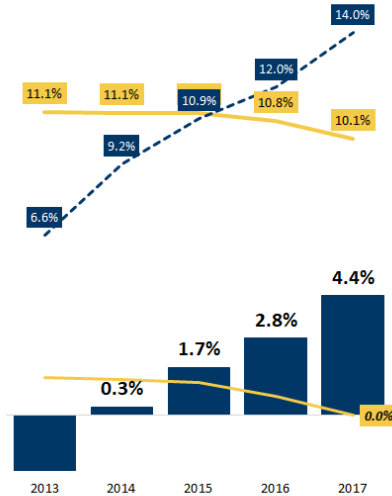
Staffing Rating (Avg)



SNFs that have Improved Financial Performance from 2013 to 2017

18% OP EBITDA and Margin %

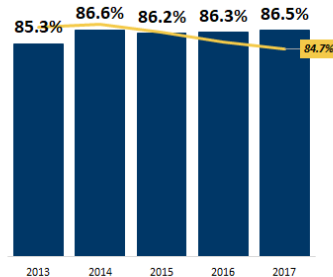
% of Total Portfolio Sites (Nat'l)



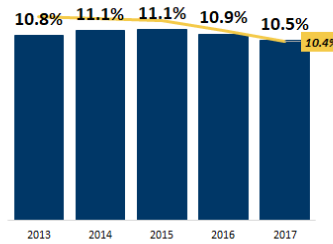
■ N = 2,440 Facilities

■ N = 13,844 Facilities

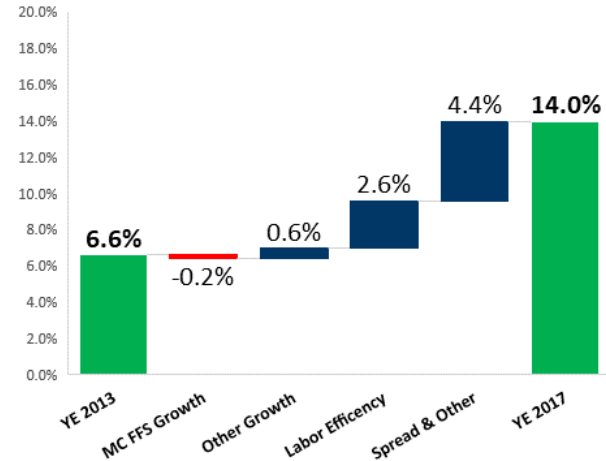
Occupancy %



MC FFS Days %

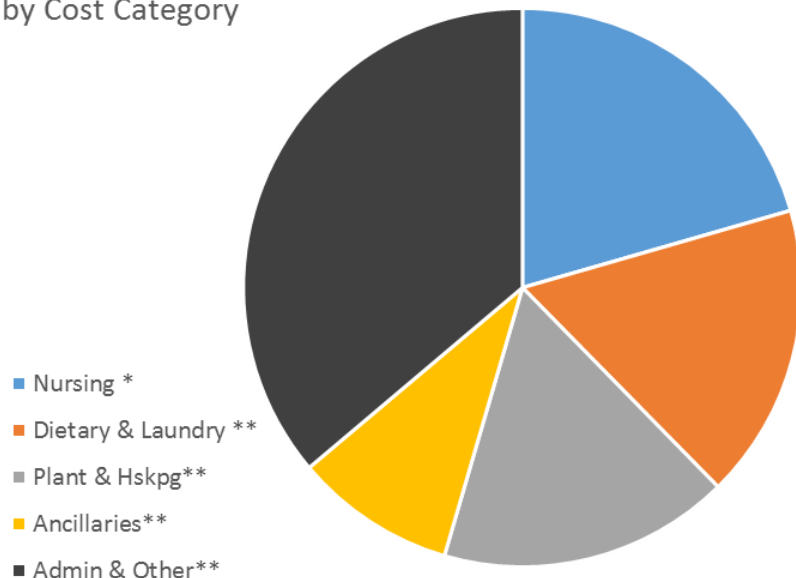


Operating EBITDA Drivers 2013 to 2017



Significant Improvement Opportunities Existing in SNFs

CLA CLArity Measured Opportunities
by Cost Category



CLA Clarity Assessment (1)

7% - 9%

Total Measured
Expense
Improvement
Opportunity in 2017

(1) CLA Clarity dataset includes a facility level analysis of **Measured Opportunity** across all major function revenue and expense categories based on YE 2017 data.

CLA Clarity Measured Opportunity exists when facility level expenses PPD are higher than Peer Domain medians

* – Based on CLA Clarity evaluation of lowest cost staffing combination within Current Staffing Star at a facility

** – Based on average opportunity based on Three Peer Domain Analysis: 1) Competitors (based on CLA look through analysis of Medicare FFS referrals), 2) Market (CBSA), and 3) CLA Top Performers





Skilled Nursing Profitability

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CMS Five-Star

Cost Structure



Questions?

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Thank you!

Cory Rutledge, CPA
Principal – Senior Living Leader
612-376-4524
cory.rutledge@CLAAconnect.com

Matt Wocken, CPA
Principal – Senior Living
612-397-3260
matthew.wocken@CLAAconnect.com

