

**EXAMINATION WARRANT NUMBER 07-CP-519**

**REPORT OF EXAMINATION**

**OF THE**

**ACTS RETIREMENT-LIFE COMMUNITIES, INCORPORATED  
WEST POINT, PENNSYLVANIA**

**AS OF**

**DECEMBER 31, 2007**

*For Informational Purposes Only*

ACTS RETIREMENT-LIFE COMMUNITIES, INCORPORATED

TABLE OF CONTENTS

Subject	Page
Salutation.....	1
Scope of Examination.....	1
History.....	2
Description of Facility.....	2
Fees and Services.....	3
Refund Policy.....	3
Management and Control:	
Board of Directors.....	4
Officers.....	5
Corporate Records	
Articles of Incorporation.....	5
By-Laws.....	5
Annual Disclosure Statement.....	5
Resident Agreement.....	5
Financial Statements:	
Comparative Balance Sheet.....	7
Comparative Statement of Operations.....	8
Comparative Statement of Cash Flows.....	9
Notes to the Financial Statements:	
Statutory Minimum Liquid Reserve.....	10
Recommendations:	
Prior Examination.....	10
Current Examination.....	10
Conclusion.....	11

For Informational Purposes Only

Harrisburg, Pennsylvania  
July 24, 2009

Honorable Stephen J. Johnson, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In compliance with instructions contained in Examination Warrant Number 07-CP-519 dated January 15, 2009, and in accordance with provisions of the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. §3219, an examination was conducted of the records and affairs of

**ACTS RETIREMENT-LIFE COMMUNITIES, INC.,**

a continuing care retirement community, hereafter referred to as the "Provider." This examination was conducted at the administrative offices of the Provider located at 375 Morris Road, West Point, Pennsylvania 19486.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Provider was last examined as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007, and consisted of a general survey of the Provider's business practices and management, and an evaluation of the Provider's financial condition, based upon the results of their annual audits, as of the latter date. Material subsequent events were also reviewed.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Pennsylvania Insurance Department ("Department").

The format of this report is consistent with the current practices of the Department and is limited to a description of the Provider, a discussion of financial items which are of specific regulatory concern, and a disclosure of other significant regulatory information.

# ACTS RETIREMENT-LIFE COMMUNITIES, INCORPORATED

-2-

The objective of examination was to determine the extent of the Provider's compliance with 40 P.S. § 3202 and 31 Pa. Code § 151.

For the year ended December 31, 2003, the Certified Public Accounting ("CPA") firm of KPMG LLP, expressed an unqualified opinion on the Provider's financial statements, based on generally accepted accounting principles. The CPA firm of ParenteRandolph LLC, issued audit reports with an unqualified opinion of the audited financial statements based on generally accepted accounting principles for the years ended December 31, 2004 up through and including December 31, 2007. The financial annual reports prepared by the CPA's were reviewed during the examination and incorporated into the examination workpapers.

## HISTORY

Adult Communities Total Services, Inc., ("ACTS") a not-for-profit Pennsylvania Corporation, organized over 30 years ago to provide services to seniors. ACTS and its concept of true lifecare originated out of the caring concern of a suburban Philadelphia church congregation which sought a dignified and acceptable retirement setting for its senior members.

The first ACTS community opened in 1972 in response to those original concerns of senior members. In October 1998, the official name of the corporation was changed to ACTS Retirement-Life Communities, Inc.

As of December 31, 2007, the Provider operates eighteen (18) residential communities, eight (8) of which are located in Pennsylvania, six (6) in Florida, two (2) in North Carolina, one (1) in South Carolina and one (1) in Georgia.

A Certificate of Authority was issued to the Provider by the Insurance Commissioner of the Commonwealth of Pennsylvania on February 26, 1992, granting it permission to transact the business of continuing care in accordance with the laws of the Commonwealth of Pennsylvania.

The Provider is exempt from Federal income tax under Section 501 (c) (3) of the Internal Revenue Code.

## DESCRIPTION OF FACILITY

The Provider's eight (8) Pennsylvania facilities; Fort Washington, Gwynedd Estates, Spring House, Southampton, Normandy Farm, Lima Estates, Brittany Pointe and Granite Farms are located in suburban settings, on the outskirts of Philadelphia. The campuses vary in size from sixteen (16) acres, with approximately one hundred and seventy (170) residents, to one hundred (100) acres and approximately five hundred and fifty (550) residents. The Provider's marketing materials provide descriptions and illustrations of each of the individual campuses, the services provided and the locations of the campuses.

# ACTS RETIREMENT-LIFE COMMUNITIES, INCORPORATED

-3-

## FEES AND SERVICES

Entrance fees range from \$79,900 for studio, to \$325,900 for three bedroom deluxe apartments. The monthly service fees range from \$1,577 to \$3,978. Individual facilities vary and sales literature should be consulted for each.

## REFUND POLICY

### TERMINATION BY RESIDENT

**Prior to Occupancy** - If the Resident dies or is precluded from taking occupancy the agreement is automatically rescinded. The Resident or his/her representative is entitled to a full refund of all monies paid on behalf of Resident to the Provider, except those costs specifically incurred by the Provider at the specific request of the Resident. If the Resident or the person(s) providing Resident's Entrance Fee notifies the Provider in writing of the intention or terminate this Contract before Resident has moved in and occupies his/her Residential Unit, this Contract with said Resident shall automatically be terminated.

**After occupancy** - The resident may terminate this contract within thirty (30) days of execution of this Contract by signing the Notice of Right to Rescind and delivering it to the Provider. After the lapse of the thirty (30) day rescission period and before the lapse of the one hundred twenty (120) day period (the "Transition Period") the resident or the person providing Resident's Entrance Fee, may terminate this Contract by giving written and personally signed notice of termination to the Provider. The Contract shall terminate on the date of Surrender.

### TERMINATION BY PROVIDER

**Prior to Occupancy** - The Provider may terminate this contract prior to occupancy by notifying the Resident with at least thirty (30) days written notice. The resident, the resident's estate or legal representative shall be paid a full refund of any money deposited with the Provider, except those costs specifically incurred by the Provider at the written request of Resident, to the extent those charges were not paid by Resident.

**After Occupancy** - Within the one hundred twenty (120) day Transition Period, The Provider, at its' discretion, may terminate this Contract by providing Resident with written notice of such termination. Unless the Provider determines Resident to be a danger to him or others, the notice of termination will cancel this contract in no less than thirty (30) days. If such action is taken by the Provider, the resident will have a maximum of sixty (60) days from the date of the Provider' notice of Surrender his/her Residential Unit. Resident shall be entitled to a refund, as provided in this Contract in an amount equal to the Entrance Fee paid less those costs specifically incurred by the Provider at the request of Resident.

**TERMINATION BY DEATH** - Unless sooner terminated by its own provisions, this Contract shall terminate at death of Resident, whereupon all obligations of the Provider under this Contract, other than those relating to the removal of Resident's personal property, shall cease. The removal of any personal effects of Resident in the Living Accommodation or from storage shall be the

# ACTS RETIREMENT-LIFE COMMUNITIES, INCORPORATED

-4-

responsibility of the Resident's Executor, Administrator, or Personal Representative, or of other persons entitled by law to receive them.

If any Co-Resident is precluded from taking Occupancy of the Residential Unit because of death, illness, injury or incapacity, this Contract shall remain in full force and effect as to the other Co-Resident(s).

## MANAGEMENT AND CONTROL

### BOARD OF DIRECTORS

The government of this organization, the conduct of its business and control of its property, establishing of policies and the supervision of its work, is vested in the Board of Directors. The Board consists of between six (6) members and fifteen (15) members. Members serving as of December 31, 2007, were as follows:

<b>Name and Address</b>	<b>Principal Occupation</b>
Donald L. Davis Philadelphia, PA	CPA, Retired
Carolyn Keefe Media, PA	Retired College Professor
Thomas A. Dunn, III Winona Lake, IN	COO, Grace College and Seminary
John L. Esterhai, Jr., MD Philadelphia, PA	Orthopedic Surgery Professor University of Pennsylvania,
Robert B. Evans (Cpt. USNR, retired) West Point, PA	Retired. Senior Vice President Wachovia Corp.
Marvin D. Heaps West Chester, PA	President, Marvin D. Heaps Associates, Inc.
John Marcheschi Norwalk, CT	President, J&M Management & Consulting
Marvin Mashner, CPA West Point, PA	President and COO, ACTS, Inc.
Merrill S. Moyer Souderton, PA	Retired, Chairman of Univest Corporation of Pennsylvania
Richard H. Spenser ST. Andrews, FL	Retired
Grace E. Wert Abington, PA	Gerontological Clinical Nurse Abington Memorial Hospital
Titus W. Yonker Lower Gwynedd, PA	Retired

# ACTS RETIREMENT-LIFE COMMUNITIES, INCORPORATED

-5-

## OFFICERS:

As of the examination date, December 31, 2007, the following were serving as Officers of the Facilities:

<u>Name</u>	<u>Title</u>
Marvin D. Heaps	Chairman
Donald L. Davis, CPA.	Vice Chairman & Treasurer
Titus W. Yonker	Secretary
Marvin Mashner, CPA.	President & Chief Executive Officer

## CORPORATE RECORDS

### ARTICLES OF INCORPORATION

There were no changes to the Provider's Articles of Incorporation during the period covered by the Examination.

### BY-LAWS

There were no changes to the Provider's By-Laws during the period covered by the Examination.

### ANNUAL DISCLOSURE STATEMENT

A review of the 2007 Annual Disclosure Statement for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. § 3207(a), required information in the Disclosure Statement, and 40 P.S. § 3207(c), which requires the Provider to deliver to each resident a copy of the Annual Disclosure Statement, was conducted. The Provider was in compliance with the Act.

### RESIDENT AGREEMENT

The Resident agreement was reviewed for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act 40 P.S. 3214, required information in the Resident's Agreement and 31 Pa. Code § 151.8(a)-(g), the distribution of a copy of the Resident Agreement to the Resident. The Provider was in compliance with the Act and the Regulation.

ACTS RETIREMENT-LIFE COMMUNITIES, INCORPORATED

-6-

FINANCIAL STATEMENTS

The financial condition of the Provider, as of December 31, 2007, and the results of its operations for the last two years under examination are reflected in the following financial statements.

Comparative Balance Sheet;  
Comparative Statement of Operations;  
Comparative Statement of Cash Flows;

There were no changes made to the Provider's financial statement as a result of this examination.

For Informational Purposes Only

ACTS RETIREMENT-LIFE COMMUNITIES, INCORPORATED

-7-

Comparative Balance Sheet  
as of December 31,

<u>Assets</u>	<u>2007</u>	<u>2006</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 14,401,000	\$ 11,629,000
Board-designated funds	107,056,000	106,906,000
Current portion of assets whose use is limited	7,935,000	12,919,000
Receivables, net of allowance for uncollectable accounts of \$981 in 2007 and \$707 in 2006	17,466,000	12,964,000
Prepaid expenses, inventory, and deposits	12,823,000	9,741,000
Total current assets	<u>159,681,000</u>	<u>154,159,000</u>
<b>Board-Designated Funds</b>	<u>10,000,000</u>	<u>10,000,000</u>
<b>Assets whose use is limited</b>	<u>83,691,000</u>	<u>86,374,000</u>
<b>Property and equipment:</b>		
Land and improvements	70,313,000	69,435,000
Building and improvements	790,025,000	747,232,000
Furniture, fixtures and equipment	167,728,000	160,470,000
Construction in progress	22,894,000	26,258,000
	<u>1,050,960,000</u>	<u>1,003,395,000</u>
Accumulated depreciation	(416,464,000)	(375,669,000)
Property and equipment, net	<u>634,496,000</u>	<u>627,726,000</u>
Intangible Asset	144,000	179,000
Accumulated Gain on Investment Contracts	91,000	1,260,000
Deferred Costs, Net	4,673,000	5,303,000
Deferred Financing Costs, Net	6,783,000	7,205,000
<b>Total Assets</b>	<u>\$ 899,559,000</u>	<u>\$ 892,206,000</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 47,350,000	\$ 43,940,000
Entrance fee deposits	10,813,000	12,788,000
Current maturities of loans payable	0	9,000
Commerical paper payable	6,000,000	0
Current maturities of long-term debt	6,829,000	12,401,000
Current maturities of charitable gift annuity obligations	928,000	909,000
Total current liabilities	<u>71,920,000</u>	<u>70,047,000</u>
Long-term debt	365,433,000	372,680,000
Charitable gift annuity obligations	3,801,000	3,908,000
Accumulated loss on investment contracts	1,801,000	822,000
Estimated refundable portion of entrance fees	6,025,000	5,918,000
Deferred Revenue from entrance fees	422,886,000	417,956,000
Total liabilities	<u>871,866,000</u>	<u>871,331,000</u>
<b>Net Assets:</b>		
Unrestricted	19,662,000	13,487,000
Temporarily Restricted	7,521,000	6,878,000
Permanently Restricted	510,000	510,000
<b>Total Net Assets</b>	<u>27,693,000</u>	<u>20,875,000</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 899,559,000</u>	<u>\$ 892,206,000</u>

ACTS RETIREMENT-LIFE COMMUNITIES, INCORPORATED

-8-

Comparative Statement of Operations  
for the Year Ended December 31,

	<u>2007</u>	<u>2006</u>
<b>Operating Revenue</b>		
Revenue services, included amortization of deferred revenue	\$ 244,666,000	\$ 234,051,000
Patient revenue from third parties	33,380,000	31,025,000
Investment income	9,877,000	10,300,000
Net assets released from restrictions to provide resident services	704,000	485,000
Other revenue	3,114,000	2,816,000
Total operating revenue	<u>291,741,000</u>	<u>278,677,000</u>
<b>Expenses</b>		
Salaries, wages and benefits	135,212,000	126,665,000
Utilities	16,709,000	16,609,000
Contracted Services	16,268,000	14,291,000
Food	15,635,000	14,864,000
Supplies	12,484,000	12,232,000
Other	10,271,000	9,323,000
Insurance	11,359,000	9,633,000
Real estate taxes	7,294,000	6,775,000
Depreciation and amortization	42,335,000	41,099,000
Interest, net	18,224,000	19,008,000
Total expenses	<u>285,791,000</u>	<u>270,499,000</u>
Operating income	5,950,000	8,178,000
Unrealized gain (loss) on investment contract	301,000	(3,000)
Unusual expenses related to hurricane disaster	0	(1,437,000)
Loss on extinguishment of debt	0	(5,086,000)
Net operating income	<u>6,251,000</u>	<u>1,652,000</u>
Unrealized (loss) gain on investments and investment contracts	(1,012,000)	1,091,000
Net assets released from restrictions to acquire property and equipment	936,000	34,000
<b>Increase in unrestricted net assets</b>	<u><b>6,175,000</b></u>	<u><b>2,777,000</b></u>
<b>Temporarily restricted net assets</b>		
Contributions:		
Family of charitable funds	1,158,000	323,000
Charitable gift annuities, net of annuity valuation	(410,000)	(404,000)
Other	909,000	436,000
Investment income	953,000	730,000
Unrealized (loss) gain on investments	(327,000)	513,000
Net assets released from restriction to provide resident services	(704,000)	(485,000)
Net assets released from restriction to acquire property and equipment	(936,000)	(34,000)
<b>Increase in temporarily restricted net assets</b>	<u><b>643,000</b></u>	<u><b>1,079,000</b></u>
Net increase in Net Assets	6,818,000	3,856,000
Net Assets, Beginning	20,875,000	17,019,000
<b>Net Assets, Ending</b>	<u><u><b>\$ 27,693,000</b></u></u>	<u><u><b>\$ 20,875,000</b></u></u>

ACTS RETIREMENT-LIFE COMMUNITIES, INCORPORATED

-9-

Comparative Statement of Cash Flows  
for the Year Ended December 31,

	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 6,818,000	\$ 3,856,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	339,000	281,000
Depreciation and amortization	42,335,000	41,099,000
Gain on sale of assets	(10,000)	(6,000)
Amortization of entrance fees	(67,215,000)	(64,843,000)
Amortization of bond and discount premiums	(418,000)	137,000
Entrance fees from non-refundable resale contracts	72,193,000	74,254,000
Refunds of entrance fees and deposits from resale contracts	(6,258,000)	(7,292,000)
Administrative fee included in gross entrance fees	(2,949,000)	(2,945,000)
Realized and unrealized gain on investments	(939,000)	(350,000)
Change in fair value of investment contracts	2,148,000	(1,795,000)
Loss on extinguishment of debt	0	5,086,000
Changes in assets and liabilities:		
Increase in receivables	(2,761,000)	(722,000)
(Increase) decrease in prepaid expenses, inventory and deposits	(3,082,000)	484,000
Increase in accounts payable and accrued expenses	4,807,000	1,040,000
Net cash provided by operating activities	<u>45,008,000</u>	<u>48,284,000</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(47,978,000)	(49,736,000)
Proceeds from sale of assets	10,000	6,000
Increase in deferred costs	(40,000)	(261,000)
Decrease in Board-designated funds and assets whose use is limited	8,456,000	542,000
Net cash used in investing activities	<u>(39,552,000)</u>	<u>(49,449,000)</u>
<b>Cash flows from financing activities:</b>		
Entrance fees and initial sale contracts	6,312,000	15,407,000
Refunds of entrance fees and deposits from initial sale contracts	(328,000)	(1,374,000)
Entrance fees from refundable resale contracts	543,000	1,426,000
Refunds of refundable entrance fees	(2,713,000)	(2,015,000)
Proceeds from long term debt	0	142,307,000
Proceeds from commercial paper payable	8,000,000	0
increase in deferred financing costs	0	(2,071,000)
increase in charitable gift annuity obligations	921,000	894,000
Payments on charitable gift annuity obligations	(1,009,000)	(969,000)
Principal payments:		
Long-term debt	(12,401,000)	(127,540,000)
Commercial paper payable	(2,000,000)	(25,000,000)
Loans payable	(9,000)	(11,000)
Net cash used in financing activities	<u>(2,684,000)</u>	<u>1,054,000</u>
Net increase (decrease) in cash and cash equivalents	2,772,000	(111,000)
Cash and cash equivalents, beginning of year	<u>11,629,000</u>	<u>11,740,000</u>
Cash and cash equivalents, end of year	<u>\$ 14,401,000</u>	<u>\$ 11,629,000</u>

**NOTES TO FINANCIAL STATEMENTS**

**STATUTORY MINIMUM LIQUID RESERVE \$10,385,101**

The Pennsylvania Continuing Care Registration and Disclosure Act, 40 P.S. §3209 requires the Provider to establish and maintain a statutory liquid reserve in an amount equal to or exceeding the greater of:

1. The total of all principal and interest payments due for the next 12 month period on account of any mortgage loan or other long-term financing of the facility; or
2. Ten per cent (10%) of the projected annual operating expenses, exclusive of depreciation, multiplied by the ratio of residents under lifetime lease arrangements to the total of residents.

Of these two requirements, number (1) is \$10,385,101 and number (2) is \$8,194,231 as of December 31, 2007. The provider's designated reserve of \$12,926,259 satisfies this statutory requirement.

**RECOMMENDATIONS**

**PRIOR EXAMINATION**

1. The Disclosure Statement failed to include a current year pro forma income statement, accompanied by a narrative describing any material difference between the previous year actual operating results and the pro forma income statement filed with the previous year's Disclosure Statement as required by 40 P.S. § 3207(b)

The Provider has complied with this recommendation

**CURRENT EXAMINATION**

There were no recommendations as a result of this examination.

ACTS RETIREMENT-LIFE COMMUNITIES, INCORPORATED

-11-

CONCLUSION

The examination of ACTS Retirement Life Communities, made as of December 31, 2007, has determined that they appear to be in compliance with applicable Pennsylvania laws and regulations as they pertain to Continuing Care Retirement Communities.

This examination was conducted by Robert A. Young.

Respectfully



David G. DelBiondo, CPA  
Director,  
Bureau of Financial Examinations



John P. Leddy  
Examination Manager



Robert A. Young  
Examiner

For Informational Purposes Only