

EXAMINATION WARRANT # 10-CP-592

REPORT OF EXAMINATION

OF THE

ANN'S CHOICE INC.
WARMINSTER, PENNSYLVANIA

AS OF

DECEMBER 31, 2010

For Informational Purposes Only

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For Informational Purposes Only

Harrisburg, Pennsylvania
January 9, 2010

Honorable Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In compliance with instructions contained in Examination Warrant Number 10-CP-592 dated July 25, 2011, and in accordance with provisions of the Pennsylvania Continuing Care Provider and Registration and Disclosure Act, 40 P.S. § 3219, an examination was conducted of the records and affairs of

ANN'S CHOICE, INC.

a continuing care retirement community hereafter referred to as the "Provider." This examination was conducted at the administrative office of the Provider located at 10000 Ann's Choice Way, Warminster, Pennsylvania 18974.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Provider was last examined as of December 31, 2005. This examination covered the five-year period from January 01, 2006 through December 31, 2010, 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 Commonwealth of 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 key financial items that are of specific regulatory concern, and a disclosure of other significant regulatory information.

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

For the years 2006 through 2010, the financial statements were audited by the Certified Public Accounting ("CPA") firm of PriceWaterhouseCoopers, LLP. For each year covered by the examination, the CPA firm issued an unqualified opinion of the financial statements based on generally accepted accounting principles. The financial annual reports prepared by the CPA were reviewed during the examination and incorporated into the examination work papers.

HISTORY

The Provider was incorporated on June 8, 2001 as a non-stock corporation in the State of Maryland. On July 21, 2003, Articles of Domestication were filed establishing the Provider as a Pennsylvania corporation. The Provider was issued a Certificate of Authority to operate as Continuing Care Retirement Community on November 20, 2003.

On October 20, 2006, National Senior Campuses, Inc. replaced Oak Crest, Inc. as sole member of the corporation.

The Provider is a tax exempt organization under 501 (c) (3) of the Internal Revenue Code.

DESCRIPTION OF FACILITY

The Provider's facility is located on approximately ninety-eight (98) acres of land in suburban Warminster, Bucks County. The campus is designed to emulate a college campus atmosphere for senior citizens that is comprised of small cluster of buildings of various sizes and shapes that are interconnected with climate controlled bridges and walkways. The Provider's independent living units consist of twelve (12) studio, five hundred and sixty-four (564) one-bedroom apartments, and nine hundred and eleven (911) two-bedroom apartments. The Provider's health center, known as Renaissance Gardens, has sixty-two (62) assisted living units and sixty-two (62) skilled nursing beds.

FEES AND SERVICES

As of December 31, 2010, entrance fees ranged from \$84,000 for a studio apartment to \$489,000 for a two-bedroom, two-bathroom apartment. The monthly service fee, at December 31, 2010, ranged from \$1,454 for a studio apartment to \$2,255 for a two-bedroom two-bathroom

apartment. There are no additional entrance fees for a second occupant. There is an additional monthly service fee of \$601 for a second occupant. There are numerous services offered by the Provider as part of the monthly fee. The specific services are outlined in the resident agreement.

REFUND POLICY

Refund During the Rescission Period

The resident may terminate the agreement within seven (7) days of its execution (rescission period) and receive a full refund of the entrance fee paid, without interest, less any expense incurred by the Provider at the resident's specific request for custom improvements to a residence as stated as an addendum to the agreement and the cost of removing the same, if needed.

Refund After Rescission Period But Prior to Occupancy

After the lapse of the seven-day rescission period, but prior to occupancy, if either party terminates the agreement, the entrance fee paid would be refunded, without interest, less any expense incurred by the Provider as described above.

Refund After Payment of the First Monthly Fee

Residents are entitled to a refund of One Hundred Percent (100%) of their entrance fee. The refund is reduced for any amounts owed to the Provider by the resident and any amounts to be charged against the refund as written in the agreement.

Refund Where Two Residents Execute the Agreement

If one of two residents covered under the agreement remains in the residence after the other resident's death or relocation from the Provider's facility, the refund of the entrance fee will be paid only after the surviving spouse, or other resident, has vacated the Residence.

When Refund is Paid

The Provider will pay the refund to which the resident is entitled under the agreement within 30 days for contracts terminated during the rescission period or prior to occupancy. After occupancy, the Provider will pay the refund within 60 days to which the resident is entitled under the agreement upon reassignment and the receipt of a new entrance fee for a residence.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The business and affairs of the Provider is managed by its Board of Directors which consisted of the following members as of December 31, 2010:

Name and Address	Principal Occupation
Stanley W. Elwell Ambler, PA	Retired
William D. Kennedy, Esq. Malvern, PA	Litigation Partner White & Williams
Frederick W. Haas Huntingdon, PA	Retired
Fred Gruel Bridgewater, NJ	President and CEO AAA New Jersey
Ellen S. Toplin Dresher, PA	President Star Toplin
Mary D. Colins, Esq. Philadelphia, PA	Judge Court of Common Pleas of Philadelphia
Barbara C. Bisgaier Bryn Mawr, PA	Managing Director Public Financial Management
Dr. Arnold Speert, Ph.D. Lawrenceville, NJ	President William Paterson University
Ken Longman Warminster, PA	Retired

OFFICERS

The following Officers were serving as of December 31, 2010:

Name	Title
Stanley W. Elwell	Chairman
William D. Kennedy	President
Frederick W. Haas	Treasurer
Ken Longman	Secretary

CORPORATE RECORDS

ARTICLES OF INCORPORATION

As of October 23, 2006, the Provider amended the following articles:

The Fifth Article is hereby amended to read as follows:

“The sole member of the Corporation shall be National Senior Campuses, Inc., a non-stock Maryland corporation. Wherever the term 'Member' or 'Membership' appears in these Articles of Incorporation or the By-Laws of the Corporation, it shall be deemed to refer to National Senior Campuses, Inc. National Senior Campuses, Inc. shall exercise all powers conferred to the sole Member of the Corporation by these Articles of Incorporation, the By-Laws of the Corporation and the laws of the Commonwealth of Pennsylvania.”

The Sixth Article is hereby amended to read as follows:

“Except for certain powers and rights reserved to the Member in these Articles of Incorporation or the By-Laws of the Corporation, (i) the business and affairs of the Corporation shall be managed under the direction of the Board of Directors and (ii) all powers of the Corporation may be exercised by or under authority of the Board of Directors.”

As of January 30, 2009, the Provider amended the Tenth Article governing the operation of the company as non-profit/tax exempt company (i.e., handling of earnings, dissolution of the corporation, indemnifying directors and officers, self-dealing, etc.)

BY-LAWS

As of December 31, 2010, the Provider's amended and restated its By-laws as of the following dates for the period under examination:

October 20, 2006	January 28, 2008
November 15, 2006	January 29, 2009
September 27, 2007	

ANNUAL DISCLOSURE STATEMENT

A review was made of the 2010 Annual Disclosure Statement for compliance with 40 P.S. § 3207, Sections (a) through (d), and 31 Pa. Code § 151.7, Sections (a) through (f) and 31 Pa. Code § 151.9, Sections (a) through (f). The 2010 Disclosure Statement was found to contain all information required by the Act and the Regulations.

RESIDENT AGREEMENT

The most current Resident Agreement was reviewed for compliance with 40 P.S. § 3214, Sections (a) through (f), of the Act, and 31 Pa. Code § 151.8 Sections (a) through (g), and 31 Pa. Code § 151.9 Sections (a) through (f), of the Regulations. The Resident Agreement contains the necessary information required of the Act and the Regulations.

PENDING LITIGATION

There was no known pending legal action or any known potential legal action which could have a materially adverse affect on the Provider's financial condition as of the examination date.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of December 31, 2010, and the results of its operations for the last two (2) years under examination are reflected in the following statements:

Comparative Balance Sheet;
Comparative Statement of Operations;
Statement of Changes in Net Assets (Deficit) and;
Comparative Statement of Cash Flows

There were no changes made to the financial statements as a result of this examination.

**Comparative Balance Sheet
as of December 31,**

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,410,726	\$ 3,735,977
Restricted cash equivalents (insurance related)	479,706	0
Accounts receivable, net of allowance for uncollectable accounts of \$394,776 and \$298,943 for 2010 and 2009, respectively	2,208,739	2,009,601
Inventory	148,280	149,931
Prepaid expenses and other current assets	488,922	266,391
Promissory notes receivable	2,848,917	6,211,306
Current portion of Community loan receivable	283,603,876	3,286,493
Purchase option deposit, current portion	75,000,000	0
Total Current Assets	<u>370,189,166</u>	<u>15,659,699</u>
Non-current Assets		
Limited use cash, cash equivalents and investments		
Escrow cash equivalents	13,678,521	5,773,812
Certificates of deposit (insurance related)	733,108	746,008
Statutory liquid reserve (operating reserve related)	4,922,151	4,465,136
Restricted funds (bond related)	8,923,078	12,836,215
Beneficial interest in Comerica Legacy Foundation	39,663	39,663
Temporarily restricted funds	1,474,310	1,096,729
Funds held for residents	79,207	59,414
Total limited use cash, cash equivalents and investments	<u>29,850,038</u>	<u>25,016,977</u>
Property and equipment, net	353,227,675	174,476,560
Purchase option deposit	0	75,000,000
Community loan receivable, net of current portion	0	274,256,049
Deferred financing costs, net of accumulated amortization of \$313,079 and \$222,578 for 2010 and 2009 respectively	1,772,638	1,863,139
Total non-current assets	<u>384,850,351</u>	<u>550,612,725</u>
Total Assets	<u>\$ 755,039,517</u>	<u>\$ 566,272,424</u>

**Comparative Balance Sheet
as of December 31,**

	<u>2010</u>	<u>2009</u>
Liabilities and Net Assets (Deficit)		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 9,531,789	\$ 5,283,500
Claims revenue (insurance related)	1,211,291	995,724
Resident refunds payable	2,291,555	2,377,341
Capital lease obligation	192,272,736	0
Funding obligation, current portion	187,992,338	0
Other current liabilities	26,373	31,475
	393,326,082	8,688,040
Total current liabilities		
Non-current liabilities		
Funds held for residents	79,207	59,414
Advance deposits	1,119,030	1,026,290
Resident entrance fees, net of accumulated amortization of \$39,142,212 and \$30,336,764 for 2010 and 2009 respectively	317,568,121	313,351,678
Funding liability	0	171,931,432
Bonds payable	82,902,150	82,940,436
Other non-current liabilities	52,802	35,440
	401,721,310	569,344,690
Total non-current liabilities		
Total liabilities	795,047,392	578,032,730
Net Assets:		
Unrestricted	(41,482,185)	(12,857,035)
Temporarily restricted	1,474,310	1,096,729
	(40,007,875)	(11,760,306)
Total Net Assets		
Totals liabilities and net assets	\$ 755,039,517	\$ 566,272,424

**Comparative Statement of Operations
for the Year Ended December 31,**

	<u>2010</u>	<u>2009</u>
Unrestricted revenues, gains and other support:		
Resident occupancy revenue	\$ 44,568,999	\$ 41,025,221
Ancillary fees	5,977,997	5,292,423
Amortization of resident entrance fees, net of marketing expenses	7,111,950	7,176,759
Interest income	6,506,371	18,746,894
Processing fees	24,150	44,219
Other revenue	714,629	869,200
Net assets released from restrictions used for operations	<u>333,525</u>	<u>176,752</u>
Total revenues, gains and other support	<u>65,237,621</u>	<u>73,331,468</u>
Expenses:		
Salaries, wages and benefits	23,996,953	22,769,710
Rent	3,665,653	20,788,806
Professional and contracted services	5,500,561	3,697,095
Supplies	1,907,084	1,767,462
Dietary and other supplies	3,790,649	3,634,707
Buildings grounds and maintenance	692,729	643,721
Utilities	2,592,093	2,395,757
Administrative and other	1,024,095	684,290
Management fees	2,213,281	2,052,845
Resident relations	438,996	700,611
Insurance	611,034	452,569
Interest and remarketing fees	4,990,114	4,901,476
Interest for capital lease obligations and funding liability	29,562,210	0
Real estate taxes	3,167,676	2,905,224
Depreciation and amortization	9,376,118	5,680,024
Expenses incurred related to temporarily restricted net assets	<u>333,525</u>	<u>176,752</u>
Total expenses	<u>93,862,771</u>	<u>73,251,049</u>
(Excess of expenses over revenues) / revenues over expenses	<u>\$ (28,625,150)</u>	<u>\$ 80,419</u>

**Statement of Changes in Net Assets (Deficit)
for the Year Ended December 31,**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets (deficit) January 1, 2009	\$ (12,937,454)	\$ 930,867	\$ (12,006,587)
Restricted contributions and income earned	0	342,614	342,614
Net assets released from restrictions used for Operations	0	(176,752)	(176,752)
Excess of revenues over expenses	80,419	0	80,419
Change in net assets	80,419	165,862	246,281
Net assets (deficit) December 31, 2009	\$ (12,857,035)	\$ 1,096,729	\$ (11,760,306)
Restricted contributions and income earned	0	711,106	711,106
Net assets released from restrictions used for Operations	0	(333,525)	(333,525)
Excess of revenues over expenses	(28,625,150)	0	(28,625,150)
Change in net assets	(28,625,150)	377,581	(28,247,569)
Net assets (deficit) December 31, 2010	\$ (41,482,185)	\$ 1,474,310	\$ (40,007,875)

Comparative Statement of Cash Flows
For the Year Ended June 30,

	<u>2010</u>	<u>2009</u>
Cash from Operating Activities		
Change in net assets (deficit)	\$ (28,247,569)	\$ 246,281
Adjustments to reconcile change in net assets (deficit) to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	9,376,118	5,680,024
Provision for bad debts	236,480	160,647
Amortization of resident entrance fees	(8,805,448)	(8,268,705)
Accretion of capital lease and funding liability	21,349,863	0
Amortization of bond premium	(38,286)	(38,286)
Contributions of beneficial interest in Comerica Legacy Foundation	0	(39,663)
Increase in accounts receivable	(1,260,302)	(930,406)
Decrease / (increase) in inventory	1,651	(9,229)
(Increase) / decrease in prepaid expenses and other current assets	(222,531)	133,103
Increase in accounts payable and accrued expenses	4,225,696	29,273
Increase / (decrease) in claims reserve (insurance related)	215,567	(230,623)
Decrease in other current liabilities	(5,102)	(40,440)
Increase in other non-current liabilities	17,362	1,662
Net cash provided by operating activities	<u>(3,156,501)</u>	<u>(3,306,362)</u>
Cash Flows from Investing Activities:		
Increase in restricted cash equivalents (insurance related)	(479,706)	0
Increase / (decrease) in limited use cash, cash equivalents and Investments	(4,813,268)	7,548,678
Purchases of property and equipment	(858,002)	(235,670)
Increase in community loan receivable	(6,061,334)	(27,807,828)
Net cash used in investing activities	<u>(12,212,310)</u>	<u>(20,494,820)</u>
Cash Flows from Financing Activities		
(Decrease) / increase in resident refunds payable	(85,786)	2,377,341
Increase / (decrease) in advance deposits	92,740	(584,710)
Proceeds from resident entrance fees	17,208,964	24,764,980
Payment of capital lease obligation and funding liability	(172,358)	0
Net cash provided by financing activities	<u>17,043,560</u>	<u>26,557,611</u>
Net increase (decrease) in cash and cash equivalents	1,674,749	2,756,429
Cash and cash equivalents, beginning of year	<u>3,735,977</u>	<u>979,548</u>
Cash and cash equivalents, end of year	<u>\$ 5,410,726</u>	<u>\$ 3,735,977</u>

NOTES TO THE FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE

\$4,983,981

The Pennsylvania Continuing Care Provider 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 during the next 12 months on account of any mortgage loan or other long-term financing of the facility; or
- (2) Ten percent of the projected annual operating expenses of the facility exclusive of depreciation.

Of the above two requirements, number (1) is \$4,983,981 and number (2) is \$4,859,868 as of December 31, 2010. The Provider had cash and cash equivalents in excess of the minimum statutory requirement. The Provider is in compliance with 40 P.S. § 3209 at December 31, 2010.

RECOMMENDATIONS

PRIOR RECOMMENDATIONS

1. It is recommended the Provider maintain current biographical affidavits of all of the managing directors in accordance with 31 Pa. Code § 151.7(e) (1).

The Provider has complied with this recommendation.

2. It is recommended the resident agreement include the average annual cost to the provider in accordance with 40 P.S § 3214 (a) (2).

The Provider has complied with this recommendation.

CURRENT RECOMMENDATIONS

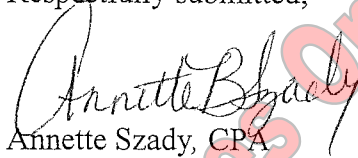
There were no recommendations made as a result of this examination.

CONCLUSION

The examination of Ann's Choice, Inc., made as of December 31, 2010, has determined that it is in compliance with all applicable Pennsylvania laws and regulations as pertaining to continuing care retirement communities.

This examination was conducted by Bernard Mingo.

Respectfully submitted,



Annette Szady, CPA
Director
Bureau of Financial Examinations



Bernard Mingo, CFE
Examiner-In-Charge

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