# DISCLOSURE STATEMENT

**May 31, 2019**

**OAKBRIDGE TERRACE AT PLANTATION ESTATES**
**ASSISTED LIVING RESIDENCE ON A CONTINUING CARE BASIS**
**733 Plantation Estates Drive**
**Matthews, NC 28105-9114**
**(704) 845-5900**

A CONTINUING CARE COMMUNITY

OWNED BY

ACTS RETIREMENT-LIFE COMMUNITIES, INC.®

**The date of this disclosure statement is May 31, 2019. This document sets forth the information required by North Carolina General Statutes Section 58-64-20 as it pertains to persons entering Plantation Estates as residents in the assisted living residence under a continuing care contract. Article 64 of Chapter 58 of the North Carolina General Statutes, entitled "Continuing Care Retirement Communities," requires delivery of a current continuing care disclosure statement prior to the signing of a resident's contract providing for continuing care. This continuing care disclosure statement shall be considered current and may be delivered by Plantation Estates at any time prior to October 28, 2020, unless Plantation Estates determines that a revision is necessary before that date. This continuing care disclosure statement has not been reviewed or approved by any government agency or representative to ensure the accuracy or completeness of the information set out.**

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## ATTACHMENTS

## DISCLOSURE STATEMENT

In accordance with Article 64 of Chapter 58 of the North Carolina General Statutes, this statement is provided to all prospective residents of OakBridge Terrace at Plantation Estates, the assisted living residence of Plantation Estates.

## ORGANIZATION INTRODUCTION AND INFORMATION (Corporation)

The provider and owner of Plantation Estates is ACTS Retirement-Life Communities, Inc.® ("Acts"), a Pennsylvania nonprofit corporation with business address at 375 Morris Road, P.O. Box 90, West Point, PA 19486-0090. Acts is a nonprofit corporation which qualifies as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). Acts is exempt from the payment of federal income taxes on its exempt income pursuant to Section 501(a) of the Code. Acts is affiliated with other nonprofit organizations with similar missions and purposes to serve senior adults. These affiliated organizations are also organizations described in Section 501(c)(3) of the Code and are exempt from federal income taxes on their exempt income pursuant to Section 501(a) of the Code, and include ACTS Retirement Services, Inc., ACTS Legacy Foundation, Inc., ACTS Management Services, Inc., ACTS Signature Community Services, Inc., ACTS Acquisition Company, LLC, Heron Point of Chestertown, Inc., Presbyterian Retirement Corporation, Inc. d/b/a Westminster Village, The Evergreens, Integrace, Inc., Integrace Health Services, Inc., Integrace Institute, Inc., Fairhaven, Inc., Copper Ridge, Inc., Buckingham's Choice, Inc., and Bayleigh Chase, Inc. Acts is also affiliated with a for-profit corporation, Integrace Management, Inc. Acts is not affiliated with any other religious, nonprofit or proprietary organizations or management entity. Acts, ACTS Management Services, Inc. and ACTS Signature Community Services, Inc. (collectively, the "Obligated Group") are jointly and severally obligated on certain debt and other obligations of the Obligated Group. Other than as set forth in the preceding sentence, the affiliates of Acts are not responsible for the financial and contractual obligations of Acts. Acts has extensive experience in the ownership of lifecare communities and currently owns or is affiliated with the following lifecare communities in Pennsylvania, New Jersey, Delaware, Maryland, North Carolina, South Carolina, Georgia, Alabama, and Florida:

Fort Washington Estates (PA)
Gwynedd Estates (PA)
Spring House Estates (PA)
Southampton Estates (PA)
Lima Estates (PA)
Normandy Farms Estates (PA)
Granite Farms Estates (PA)
Brittany Pointe Estates (PA)
Cokesbury Village (DE)
Country House (DE)
Manor House (DE)
The Evergreens (NJ)
Heron Point of Chestertown (MD)
Fairhaven (MD)
Buckingham's Choice (MD)
Bayleigh Chase (MD)
Plantation Estates (NC)
Tryon Estates (NC)
Park Pointe Village (SC)
Lanier Village Estates (GA)
Magnolia Trace (AL)
Westminster Village (AL)
St. Andrews Estates (FL)
Edgewater at Boca Pointe (FL)
Indian River Estates (FL)
Azalea Trace (FL)

Presently, approximately 10,500 residents live in the previously listed facilities.

As of May 31, 2019 all of Acts' lifecare communities have received accreditation from CARF-CCAC.

## COMMUNITY INTRODUCTION AND INFORMATION (Community)

OakBridge Terrace at Plantation Estates is an assisted living facility owned by ACTS Retirement-Life Communities, Inc.® a nonprofit company incorporated in the Commonwealth of Pennsylvania. Plantation Estates is affiliated with the organizations listed on the previous page. Its Board of Directors is the same as that of Acts as set forth below. The business address for each is c/o ACTS Retirement-Life Communities, Inc., 375 Morris Road, P.O. Box 90, West Point, PA 19486-0090.

With the exception of Gerald T. Grant, Marvin Mashner and Rev. George R. Gunn Jr., the individuals listed below as members of the Board of Directors of Acts, while having broad experience in business, philanthropic and/or facility matters, have no direct business experience in the operation or management of lifecare facilities aside from their connection with Acts as members of its Board of Directors.

ACTS RETIREMENT-LIFE COMMUNITIES, INC.® BOARD OF DIRECTORS

| Name | Title |
|---|---|
| Gerald T. Grant | President and Chief Executive Officer |
| John L. Esterhai, Jr., MD | Chairman |
| Dilip A. Kulathum | Vice Chairman |
| Elric C. Gerner | Secretary |
| H. Bruce Detweiler, CPA | Treasurer |
| Glenn D. Fox, Esquire* | Assistant Secretary |
| Karen I. Christiansen, CMA* | Assistant Treasurer |
| Susan Allmond | Director |
| Thomas D. Clemens | Director |
| Annlouise Devenney | Director |
| Thomas A. Dunn, III | Director |
| Robert B. Evans | Director |
| Rev. George R. Gunn, Jr. | Director |
| Donna J. Jacobi, MD | Director |
| John J. Marcheschi | Director |
| Larry Marr | Director |
| Marvin Mashner, CPA | Director |
| Jim Worth | Director |

*Officer, but not a member, of the Board of Directors

## ACTS RETIREMENT-LIFE COMMUNITIES, INC.®
## OFFICERS AND SENIOR MANAGEMENT

The business address for each listed below is c/o ACTS Retirement-Life Communities, Inc., 375 Morris Road, P.O. Box 90, West Point, PA 19486-0090.

| Name | Title |
|---|---|
| Gerald T. Grant | President and Chief Executive Officer |
| Karen I. Christiansen, CMA | Executive Vice President and Chief Financial Officer |
| Charles W. Coxson, III | Executive Vice President and Chief Operating Officer |
| Jefferson D. Kaighn | Executive Vice President and Chief Administrative Officer |
| Glenn D. Fox, Esquire | Senior Vice President, Legal, Compliance & Risk and General Counsel |
| Jonathan D. Grant | Senior Vice President, Community Operations |
| Kenneth J. Karmeris | Senior Vice President, Real Estate Services |
| Peter J. Kress | Senior Vice President, Chief Information Officer |
| James H. Petty | Senior Vice President, Business Development |
| Holly S. Schade | Senior Vice President, Health and Home Services |
| Richard A. Winter, CPA | Senior Vice President, Financial Services |
| Lori M. Woodward | Senior Vice President, Sales and Marketing |
| Susan Ahern, CPA, CMA | Vice President and Controller |
| George R. Bryan | Vice President, Southeast Region |
| Iain Crichton | Vice President, Mission Support and Spiritual Life |
| Stephen V. Eggles | Vice President, Mid-South Region |
| Sean Fletcher | Vice President, Construction Services |
| Gary J. N. Ginter | Vice President, Procurement & Contract Management |
| Claire E. Halton | Vice President, Human Resources |
| Stephen La Pierre | Vice President, Chesapeake Region. |
| Megan Longley | Vice President, Sales |
| Jeremy O. Neely | Vice President, Northeast Region |
| Robert A. Westervelt | Vice President, Operational Audit and Compliance |
| Terri White | Vice President, Mid-Atlantic Region |
| Steve W. Messer | Campus Executive Director, Plantation Estates |
| Patrick Picciocchi | Executive Director, Plantation Estates |

BACKGROUND OF OFFICERS AND SENIOR MANAGEMENT -- The management of Plantation Estates is provided at the direction of Acts' Board of Directors and President and Chief Executive Officer. The following is a listing of and background information for the members of senior management for Acts.

Gerald T. Grant serves as President and Chief Executive Officer. He has been with Acts since 1988 and most recently served as President and Chief Operating Officer and prior, as Executive Vice President and Chief Financial Officer. He currently serves as a member of the board for ACTS Retirement-Life Communities, Inc., various Acts subsidiaries and other local not-for-profit organizations. He has been active in various healthcare industry associations and financial organizations, including currently serving as a member of LeadingAge CEMO Advisory Group and previously, the Financial Advisory Panel of CARF International. Mr. Grant has a Bachelor's degree in Accounting from The Pennsylvania State University and a Master's degree in Finance from LaSalle University.

Karen I. Christiansen serves as Executive Vice President and Chief Financial Officer. Ms. Christiansen has been with Acts since 1996. She is a Certified Management Accountant and a member of the Institute of Certified Management Accountants. Ms. Christiansen serves on the board of directors for a not-for-profit organization that provides supportive programs and outreach services to those in need. She is a member of the LeadingAge Budget and Finance Committee, a former surveyor for CARF/CCAC, and was previously a member of its Financial Advisory Panel. Ms. Christiansen is a frequent speaker at regional and national conferences and was previously nominated for Philadelphia Business Journal's Women of Distinction Award. Ms. Christiansen has a Bachelor's degree in Accounting from Gwynedd-Mercy University, and a Master's degree in Finance from Temple University.

Charles W. Coxson, III serves as Executive Vice President and Chief Operating Officer. Mr. Coxson has been with Acts since 1998, most recently serving as Executive Vice President, Community Operations. He has extensive management experience in the healthcare field and is a licensed Nursing Home Administrator. In addition, he has chaired several committees of LeadingAge FL, and held the role of Treasurer of that organization while serving on the executive council. Mr. Coxson chaired a task force comprised of providers, Florida residents, and regulators that led to the successful revision and passing of Florida House Bill 1037 that governs the operations of CCRCs in the state. For his leadership, he received LeadingAge FL's Chairs Award. Mr. Coxson is a graduate of Washington and Jefferson College of Pennsylvania and he received his Master of Business Administration degree from Florida Atlantic University.

Jefferson D. Kaighn serves as Executive Vice President and Chief Administrative Officer. He has over 30 years of executive management experience in a retirement and healthcare environment, and is a licensed Nursing Home Administrator. Mr. Kaighn has been with Acts since 1994, having most recently served as Senior Vice President, Legislative Affairs and Organizational Development, and previously as Vice President, Northeast Region, Administrator of Health Services and Executive Director at various Acts communities. He is a member of LeadingAge, and the various state affiliates of LeadingAge in which Acts operates. Mr. Kaighn is a frequent speaker at industry conferences. He is a past member of the LeadingAge PA Board of Directors and Budget & Finance Committee, and currently represents LeadingAge PA in the LeadingAge Public Policy Congress. He is also a member of the LeadingAge MD Public Policy Advisory Council, the LeadingAge NC Public Policy Committee, the IAHSA Global Ageing Task Force, and the Abington Health Systems Lansdale – Community Advisory Board. Mr. Kaighn holds a Bachelor of Arts degree from Bucknell University and a Master of Business Administration degree from Eastern University.

Glenn D. Fox, Esquire serves as Senior Vice President-Legal, Compliance & Risk and General Counsel. Mr. Fox joined Acts in 2016 after having spent several years as its outside corporate counsel. Prior to joining Acts, Mr. Fox was a partner in a major law firm located in Philadelphia, Pennsylvania. He has more than 35 years of experience representing numerous business and nonprofit organizations, including senior living, long-term care and other health care providers, in corporate, transactional, tax and financial matters. Mr. Fox previously served on the LeadingAge Legal Committee, as well as on the board of directors of a not-for-profit social service organization and as President of the board of directors of the foundation that supported that organization. Mr. Fox earned a Bachelor of Business Administration degree in Accounting from Temple University, a Juris Doctorate degree from Temple University School of Law, and a Master of Laws degree in Taxation from Villanova University. He is also a Certified Public Accountant.

Jonathan D. Grant serves as Senior Vice President, Community Operations. He most recently served as Vice President, Mid-Atlantic Region. He has over 35 years of experience in the retirement and health care environment. After joining the Acts Culinary Department in 1984 as a member of the wait staff, Mr. Grant held various positions within the organization, including Culinary Director, Administrator, Director of Community Information Technologies, and Executive Director at St. Andrews Estates and Tryon Estates. Mr. Grant holds Bachelor of Arts and Master of Business Administration degrees from Florida Atlantic University, and is a LeadingAge Leadership Fellow. In addition, Mr. Grant works with various associations and serves on local boards.

Kenneth J. Karmeris serves as Senior Vice President, Real Estate Services. Mr. Karmeris began his career with Acts in 1995, serving as Executive Director at Indian River Estates, and then Southern Region Director of Construction and Project Management. After a brief departure from Acts in which he served as a partner at Contract Service Enterprises, Inc., he later returned to Acts as the Executive Director of Edgewater at Boca Pointe. Mr. Karmeris is a state certified licensed building contractor and has a Community Association Managers License. He maintains his CASP (Certified Aging Services Professional)

Certification through the University of North Texas, along with his ALF (Assisted Living Facilities) Administrator's Certification through the University of South Florida.

Peter J. Kress serves as Senior Vice President, Chief Information Officer, and has been with Acts since 1993. Before joining Acts, Mr. Kress was President of his own software consulting company for over 10 years. He serves as a commissioner for the Center for Aging Services Technologies (CAST) where he chairs the standards committee, and is a member of Florida's Health Information Exchange Coordinating Committee. Mr. Kress is actively involved in promoting the use of electronic health records for seniors and frequently speaks on a variety of industry topics at regional, national and international conferences. He holds a Bachelor of Arts degree from Covenant College and a Master of Arts degree in Gerontology from the University of Southern California. Mr. Kress has also completed graduate studies in divinity and theology at Westminster Theological Seminary.

James H. Petty serves as Senior Vice President, Business Development, previously serving as Vice President, Mid-South Region. He has 23 years' experience in the senior living industry. Mr. Petty has a varied background which began at Acts in 1996, and he previously served as the Executive Director at Park Pointe Village in Rock Hill, South Carolina. Licensed as a Nursing Home and Assisted Living Administrator, his background also extends into development and marketing, where he served as the vice president of marketing services for a senior living development firm. Mr. Petty has a Bachelor's degree in Business Administration from Gordon College and a Master of Business Administration degree from Augusta State University. Mr. Petty is also a LeadingAge Leadership Fellow.

Holly S. Schade serves as Senior Vice President, Health and Home Services. She has been with Acts since 1993, previously serving as Director of Nursing, Nursing Home Administrator, Information Systems medical liaison, and as the Executive Director of Spring House Estates. Ms. Schade is a licensed Nursing Home Administrator and a registered nurse certified in gerontology nursing. She holds a Bachelor's degree in Business Administration from Philadelphia University and a Master's degree in Business Administration from Eastern University. Ms. Schade is also a Certified Aging Services Professional and a LeadingAge Leadership Fellow.

Richard A. Winter serves as Senior Vice President, Financial Services. Mr. Winter has served Acts since 2002, starting in the Information Technology department before moving to the Financial Services department, where he has most recently served as Vice President and Controller. He has presented Acts technology and business improvement initiatives at various national conferences such as Lawson's Inforum, CFO Rising and LeadingAge. Mr. Winter has a Bachelor of Arts degree in Philosophy from Wheaton College, a Master's degree in Accounting/Finance from Temple University and is a Certified Public Accountant.

Lori M. Woodward serves as Senior Vice President, Sales and Marketing. Prior to joining Acts in 2012, Ms. Woodward held a series of leadership positions in the senior living industry, including serving as chief executive officer of Hamlyn Senior Marketing in Cherry Hill, New Jersey. In addition, she served as corporate vice president of marketing and sales for Springpoint Senior Living in Princeton, New Jersey. Ms. Woodward earned a Bachelor's degree in English and Business from Millersville University, and a Master of Business Administration degree in Marketing from LaSalle University.

Susan Ahern serves as Vice President and Controller. Ms. Ahern has been with Acts since 2000, most recently serving as Corporate Director of Finance. She is a Certified Public Accountant and a Certified Management Accountant. Ms. Ahern is a member of the Pennsylvania Institute of Certified Public Accountants and the Institute of Certified Management Accountants. She is a member of the CARF/CCAC Financial Advisory Panel and is a virtual financial surveyor for the organization. Ms. Ahern earned her Bachelor's degree in Accounting from Messiah College, her Master of Business Administration degree from LaSalle University and is a LeadingAge Leadership Fellow.

George R. Bryan serves as Vice President, Southeast Region. Mr. Bryan joined Acts in 1996 and has most recently served as the Campus Executive Director at Indian River Estates. He serves as a member of the LeadingAge FL CCRC Public Policy and Membership Committees. Mr. Bryan holds a Bachelor's degree in Health Service Administration from the University of Central Florida, a Master of Business Administration degree from Florida Atlantic University and is a LeadingAge Leadership Fellow. He is a licensed Nursing Home Administrator in the states of Florida and Pennsylvania.

Iain Crichton serves as Vice President, Mission Support and Spiritual Life, responsible for the oversight of the Acts Chaplaincy Services and the Acts Legacy Foundation. Mr. Crichton's role recognizes the importance of the mission and ministry of Acts, as well as fostering an environment of giving in support of the Acts mission. He has faithfully served Acts for 15 years in the positions of Chaplain, Senior Chaplain, and most recently as Managing Director of Acts Corporate University. Mr. Crichton holds three degrees in Theology including a Doctor of Ministry degree from Westminster Theological Seminary.

Stephen V. Eggles serves as Vice President, Mid-South Region. He has been with Acts since 1989, previously serving as Vice President, Nutrition and Wellness Services and as an Executive Director of Brittany Pointe Estates, Normandy Farms Estates, and Tryon Estates. Mr. Eggles is a member of the International Council on Active Aging. He holds a Bachelor of Science degree from The Pennsylvania State University and a Master's degree from Eastern University. Mr. Eggles is also a licensed Nursing Home Administrator.

Sean Fletcher serves as Vice President, Construction Services. Mr. Fletcher has been with Acts since 2005, most recently serving as Corporate Director of Construction Services. He has a wide range of experience in construction and operations and has held positions as a project manager and estimator for Ernest Bock & Sons, a Philadelphia based general contractor, and spent 13 years in arena, stadium and convention center operations for Philadelphia based Spectacor. Mr. Fletcher also served eight years as Treasurer and Secretary of the Via Verde Master Home Owner's Association in Boca Raton, FL. He earned a Bachelor of Science degree in Sports Management from Temple University and has taken post graduate courses in Construction Management at Drexel University.

Gary J. N. Ginter serves as Vice President, Procurement & Contract Management. Mr. Ginter has served Acts since 1989, previously serving as Corporate Director of Materials Management. He has over 34 years of experience in healthcare procurement and supply chain management. He is a member of the Association of the Healthcare Resource & Materials Management (AHRMM) Society. Mr. Ginter holds a Bachelor of Science degree in Commerce from Rider University and a Master of Business Administration degree from Eastern University.

Claire E. Halton serves as Vice President, Human Resources. She has been with Acts since 1993, previously serving as Corporate Director of Human Resources. She holds her Senior Professional in Human Resources (SPHR) certification and is a member of the Society for Human Resources Management (SHRM) and Greater Valley Forge Human Resources Administration (GVFHRA). Ms. Halton holds a Bachelor's degree in Human Resources from Temple University and a Master's degree in Organization and Management from Capella University. Ms. Halton is also a LeadingAge Leadership Fellow.

Stephen La Pierre serves as Vice President, Chesapeake Region. He joined Acts in 2018, and previously served as Executive Director at The Evergreens in Moorestown, New Jersey. Mr. La Pierre also worked for Acts in 2013 as the Executive Director at Manor House. He is a licensed Nursing Home Administrator in seven states and has over 30 years of experience in health care leadership. Mr. La Pierre earned his Bachelor of Science degree in Labor and Industrial Relations from the University of Wisconsin-Parkside, and his Master of Business Administration degree from the University of Wisconsin-Milwaukee.

Megan Longley serves as Vice President, Sales. She joined Acts in 2015 and has over 25 years in sales and operations leadership in housing and senior living services, most recently serving Sage Senior Living. Ms. Longley has a Bachelor of Arts degree in Gerontology from The Pennsylvania State University.

Jeremy O. Neely serves as Vice President, Northeast Region. Mr. Neely has more than 20 years of healthcare management experience and is a licensed Nursing Home Administrator. He has served Acts in a number of roles since 1999, most recently as Executive Director at Normandy Farms Estates. He is a member of the LeadingAge PA board of directors, currently serving as the Chair Elect. He is also a Certified Aging Services Professional (CASP). Mr. Neely currently serves as a CARF/CCAC surveyor and is a LeadingAge Leadership Fellow. He has a Bachelor's degree in Accounting and Economics from Eastern Connecticut State University and a Master of Business Administration degree from Eastern University.

Robert A. Westervelt serves as Vice President, Operational Audit and Compliance. He oversees the internal audit and compliance programs, as well as the corporate safety program. Mr. Westervelt has been with Acts since 1991. He has over 30 years of healthcare industry experience and is a Certified Compliance Executive. He has spoken nationally on developing effective compliance programs and has recently received a national award for his leadership in healthcare ethics and compliance. He participates as an examiner with Health Ethics Trust. Mr. Westervelt holds a Bachelor of Science degree in Health Planning and Administration from The Pennsylvania State University and a Master of Business Administration degree from Eastern University.

Terri White serves as Vice President, Mid-Atlantic Region. She has over 25 years of health care management experience. Ms. White is a licensed Nursing Home Administrator in Delaware and is a Leading Age Leadership Fellow. She remains active in senior living as a CARF-CCAC Surveyor and serves on the Board of Directors of the Delaware Health Care Facilities Association. Ms. White earned her Bachelor of Science degree in Organizational Communications from Ohio University, and received her Master of Science Management degree in Organizational Leadership from Wilmington University.

Steve W. Messer serves as Plantation Estates' Campus Executive Director. He has nearly 40 years' experience as a licensed Nursing Home Administrator and joined Acts in 1994. Mr. Messer holds a Bachelor's degree in History from the University of North Carolina in Charlotte.

Patrick Picciocchi serves as Plantation Estates' Executive Director. Mr. Picciocchi has been with Acts since 2006. He is a licensed Nursing Home Administrator in the state of North Carolina and has worked in several roles with Acts in his 13-year tenure. Mr. Picciocchi holds a Bachelor of Science degree in Hotel and Institutional Management from the University of Delaware and a Master of Business Administration degree from Delaware Valley College.

PROFESSIONAL SERVICES -- None of the individuals named above has a ten percent (10%) or greater interest in any professional service firm, association, trust, partnership or corporation which intends currently, or at some time in the future, to provide goods, leases, or services to the facility, or to residents of the facility, of an aggregate value of five hundred dollars ($500.00) or more within any year. No professional service firm, association, trust, partnership, or corporation is providing services or goods of five hundred dollars ($500.00) or more and/or has a ten percent (10%) or greater interest in any of the individuals named above.

CRIMINAL VIOLATION STATEMENT -- None of the previously listed officers or directors has been convicted of a felony or pleaded nolo contendere to a felony charge or have been held liable or enjoined in a civil action by final judgment for any felony or civil action involving fraud, embezzlement, fraudulent conversion, or misappropriation of property. None of the officers or directors listed above are currently subject to an injunctive or restrictive court order. None have had any state or federal license or permit suspended or revoked during the last five years as a result of an action brought about by a governmental agency or department that arose out of or related to the business activity of health care, including actions affecting a license to operate a foster care facility, nursing home, retirement home, home for aged, or facility subject to Article 64 or a similar law in another state.

LOCATION AND DESCRIPTION OF PHYSICAL PROPERTY -- The community is situated in a suburban location on 50 acres in Matthews, North Carolina, approximately six miles southeast of Charlotte, in Mecklenburg County. Plantation Estates consists of: 1) 480 independent living apartments ranging in approximate sizes from 600 square feet to 1,693 square feet; 2) 20 independent living villas ranging in approximate sizes deom 1,850 square feet to 2,100 square feet; 3) 60 assisted living rooms; and 3) 80 skilled nursing beds. The colonial style buildings are four stories and constructed of red brick with heated and enclosed walkways. The central facility includes the administrative offices and an auditorium, main dining room, craft room, recreational areas, multi-purpose room, woodworking shop, gift shop, café and beauty parlor.

ANTICIPATED EXPANSION OR DEVELOPMENT – Acts is in the process of expanding Plantation Estates through the development of recently purchased land (approximately 45 acres) that is across the street from the existing continuing care campus. Through the end of 2018, phase one of the project added 146 independent living units consisting of 20 duplex villas and 126 apartments (within 7 buildings). The apartment buildings include 18 units each with underground parking. In addition to the independent living units, a clubhouse with dining facilities and other amenities has been constructed.

Phase one of the project will also include the addition of assisted living and skilling care beds to accommodate the increase in independent living units. A new skilled nursing facility is expected to be constructed as a stand-alone building on the existing campus of Plantation Estates. This will provide for a modern, person-centered care facility that enhances resident privacy. The existing skilled nursing facility would then be converted to additional assisted living beds, with the expected total unit count to be 100 assisted living units and 90 skilled care beds after expansion. A project development budget for phase one of the expansion is summarized on the following page.

| **Sources:** | **$ Millions** |
|---|---|
| Financing Proceeds* | 102.1 |
| **Total Sources** | **102.1** |
| **Uses:** | |
| Land Acquisition | 5.6 |
| Construction | 86.8 |
| Architectural and Design | 5.0 |
| Furniture, Fixtures and Equipment | 2.2 |
| Marketing and Development | 2.5 |
| **Total Uses** | **102.1** |

*Phase one of the expansion project was being initially funded through a revolving construction loan, which was partially repaid with proceeds from entrance fees for the new independent living units. Entrance fee proceeds for the new independent living units used to repay draws on the construction loan were estimated at $51.4 million. The unpaid balance of the construction loan (approximately $50.7 million) is expected to be permanently financed through two separate transactions. Approximately $32.0 million was permanently financed in 2018 with the remainder being permanently financed once construction/renovation of the health care center is complete.

A second phase of the expansion project is expected to begin in 2019. Phase two of the project will be completed on the same land on which phase one was constructed and will include the addition of 88 independent living units consisting of 16 duplex villas and 72 apartments (within 4 buildings). The apartment buildings will be similar to those built in phase one of the project and are designed to include 18 apartments each and underground parking. A project development budget for phase two of the expansion is summarized below.

| **Sources:** | **$ Millions** |
|---|---|
| Financing Proceeds* | 44.2 |
| **Total Sources** | **44.2** |
| **Uses:** | |
| Construction | 40.7 |
| Architectural and Design | 1.3 |
| Furniture, Fixtures and Equipment | 2.2 |
| **Total Uses** | **44.2** |

*Phase two of the expansion is expected to be funded through an available bank line of credit, which will be fully repaid with the proceeds from entrance fees for the new villas and apartments.

ESTIMATED NUMBER OF RESIDENTS -- At December 31, 2018, there were approximately 782 residents at Plantation Estates with 480 of the independent living units occupied.

# ADMISSION POLICIES

HEALTH CRITERIA -- (Please reference Section 4, "Entrance Procedure" of the contract for more details).

Persons accepted as residents in the assisted living residence need some assistance with their daily activities but do not require regular nursing services. In the event that a resident's condition changes and he or she later requires skilled nursing care, skilled nursing care will be provided as described in Section 6 of the contract.

ENTRANCE PROCEDURE. Resident is required to submit the following documents for consideration for residency in the assisted living residence:

(1) Application form
(2) Financial Statement
(3) FL2 form
(4) Medical information form (including the tuberculosis test)
(5) Satisfactory evidence that resident will have reached his or her sixty-second ($62^{nd}$) birthday prior to the date of occupancy.

Resident must have completed FL2 and medical information forms to be admitted to the assisted living residence. These forms must be completed by a physician at resident's expense and immediately returned to Acts.

Upon receipt of the application documents, Acts will determine, in its sole discretion, whether to admit resident into the assisted living residence of the retirement community. The determination will be based upon the appropriateness of placement in the assisted living residence and the ability of resident to meet the financial obligations set forth in the contract. An interview with the admissions committee may be required.

INTERVIEW WITH ADMISSIONS COMMITTEE. After making the first payment toward the total entrance fee, resident is scheduled for a final interview with an admissions committee or other authorized person(s) to determine if resident is able to meet the conditions of entrance (physical and mental) required under the contract. If resident is deemed to have met the physical and mental requirements, he/she will be granted entrance upon meeting the financial requirements. If the final interview results in a determination that resident is unable to meet the conditions of entrance, the contract shall be canceled unless Acts agrees otherwise. Upon cancellation, resident will receive a refund in accordance with the contract.

FINANCIAL CRITERIA – To be accepted as a resident in the assisted living residence on a continuing care basis, an applicant must show that he or she has sufficient resources to pay the entrance fee, the monthly service charge and any additional charges, as described in the contract. If resident's financial condition changes such that he or she is no longer able to pay the monthly service charges and additional charges, then the provisions of Sections 12 and 14 of the contract apply.

AGE REQUIREMENTS -- (Please reference Section 4, “Entrance Procedure” of the contract for more details).

The application process requires that resident supply satisfactory evidence that he/she has obtained his/her sixty-second ($62^{nd}$) birthday prior to the date of occupancy.

CHANGES OF CONDITION OF RESIDENT PRIOR TO OCCUPANCY -- (These issues are also addressed in the next section and in the section entitled “Inability to Pay.”) In the event that there is a change in the health or financial condition of a person between entering into a contract to become a resident in the assisted living residence and the date of the initial occupancy of a room in the assisted living residence by that person such that the person no longer meets the health or financial conditions required to be admitted to the assisted living residence under a continuing care contract, then any charges that may have been prepaid by resident or his or her designated representative will be refunded and resident will not be admitted to OakBridge Terrace at Plantation Estates.

CANCELLATION/TERMINATION - REFUND(S) APPLICABLE/NOT APPLICABLE -- The contract is to remain in effect for the lifetime of resident unless earlier terminated upon the occurrence of:

TERMINATION BY FAILURE OF RESIDENT TO PAY THE MONTHLY SERVICE CHARGE OR ANY ADDITIONAL CHARGES INCLUDED ON THE MONTHLY STATEMENT. If the monthly service charge or any additional charges are not paid within five (5) days of receipt of the monthly statement by resident or the designated representative, Acts may terminate the contract upon fifteen (15) days prior written notice to resident.

TERMINATION BY RESIDENT’S RESCISSION. In accordance with Section 3 of the contract, the resident shall be entitled to rescind the contract within thirty (30) days of the later of (i) the date of execution of the contract or (ii) the date of resident’s receipt of this disclosure statement. The resident is not required to move into the assisted living residence before the expiration of this thirty (30) day rescission period.

TERMINATION BY THIRTY (30) DAYS WRITTEN NOTICE. The contract may be terminated by thirty days prior written notice by resident or resident’s designated representative. On the effective date of such termination, resident’s obligation to continue to pay the monthly service charge shall cease (if all of resident’s personal property has been removed).

TERMINATION BY ACTS. Acts reserves the right to terminate the contract based on the judgment of Acts by serving upon resident written notice of termination specified to be effective on a date not less than thirty (30) days nor later than one hundred twenty (120) days after the date of notice, under any of the following circumstances:

(1) any material misrepresentation or omission by resident in his/her application, financial statement and/or medical record or interview with the admissions committee;

(2) a written statement made by the administrator and medical director that continued occupancy in the assisted living residence or skilled care center by resident creates a serious threat to the life, health, safety and peace of resident or other residents or other persons on the premises;

(3) a weakening, by gift or through any other financial transaction, of resident's ability or the ability of resident's personal estate to satisfy resident's financial obligations under the contract; or

(4) a breach of, or default under, the terms of the contract (except that a breach of contract for failure to pay amounts owing to Acts, as set forth in Section 14.B, shall be governed by the time periods set forth in Section 14.B).

Upon the termination of the contract, Acts is released from any further obligations to resident. Termination of the contract, however, does not release resident from his or her obligation to pay the monthly service charges and additional charges that have been incurred. Resident shall not be entitled to a refund of the entrance fee, or any part thereof, unless the contract has been rescinded under Section 3.

TERMINATION BY DEATH OF THE RESIDENT. In the event of the death of resident, liability for the monthly service charge shall not terminate until all of resident's personal property is removed from the room occupied by resident. In the event resident's personal property is removed prior to the end of the month, the amount of the monthly service charge owed to Acts for that month shall be reduced on a pro-rata basis, and there shall be no responsibility to pay for those days that resident's room has been vacated.

REFUNDS RESULTING FROM THE TERMINATION OF THE CONTRACT BY DEATH OR ILLNESS OF THE RESIDENT. In the event of the death of resident before occupancy of a room in the assisted living residence, or if on account of illness, injury, or incapacity, a resident is precluded from occupying a room in the assisted living residence under the terms of the contract, the contract is automatically canceled. All amounts paid by resident will be refunded to resident or resident's designated representative, except for deductions regarding (i) the monthly service charges already accrued while resident was occupying a room in the assisted living residence, and (ii) any additional charges that have been incurred by resident.

REFUNDS RESULTING FROM RESCISSION OF THE CONTRACT BY THE RESIDENT. In the event resident elects to rescind the contract prior to the rescission date, all amounts paid by resident to Acts shall be returned to resident except for deductions regarding (i) the monthly service charges already accrued while resident was occupying a room in the assisted living residence, and (ii) any additional charges incurred by resident. Resident is not required to occupy a room in the assisted living residence prior to the rescission date.

<u>TIME FRAME OF REFUND(S)</u> -- Prior to occupancy, any refunds of the entrance fee shall be made no later than sixty (60) days after the effective date of termination of the contract. After occupancy, any refunds of the entrance fee shall be made within one hundred twenty (120) days of the effective date of termination of the contract.

<u>MOVES</u> -- (Please reference Section 10, "Relocation of Resident" of the contract for more details).

RELOCATION FROM ASSISTED LIVING RESIDENCE TO ANOTHER INSTITUTION. In addition to the provisions of Section 9 of the contract, if, after continued evaluation, it is determined by resident's attending physician and/or the medical director and/or the utilization review committee that resident cannot return to his/her room in the assisted living residence for the reasons described in Section 9, and if there is no other resident occupying said room at that time, Acts may declare the room vacant. After this decision has been made, resident shall, within fifteen (15) days from the date of receipt of written notice from Acts, remove all personal possessions from his/her room in the assisted living residence of the retirement community. If resident should recover, and in the opinion of resident's attending physician and/or the medical director, is able to occupy a room in the assisted living residence of the retirement community, Acts shall, as soon as reasonably possible, provide resident a room in the assisted living residence, or, if recommended by resident's attending physician and/or the medical director and/or the utilization review committee, a bed in the skilled care center.

RELOCATION FROM ASSISTED LIVING RESIDENCE TO SKILLED CARE CENTER. When resident is in need of nursing care as determined by resident's attending physician and/or medical director, resident will be moved from his/her room in the assisted living residence to a semi-private room in the skilled care center. (Upon request, resident may have access to a private room, if available in the skilled care center, upon payment of an additional charge based upon the rates established by Acts from time to time for such accommodation.)

If it is determined by resident's attending physician and/or medical director and/or the utilization review committee that resident requires short-term nursing care as defined in the contract, resident's room in the assisted living residence will remain available for resident to return. However, unless resident, or guarantor agrees to pay the monthly service charge applicable to the assisted living residence, in addition to the monthly service charge applicable to the skilled care center, Acts may declare resident's room in the assisted living residence vacant after 30 days if resident is not able to return to the assisted living residence, or earlier than 30 days if it is determined by resident's attending physician and/or medical director and/or the utilization review committee that resident requires long-term nursing care. If Acts has declared resident's room vacant as provided herein, resident shall remove all personal possessions from said room in the assisted living residence within 15 days of receipt of notification of such determination. If resident's room in the assisted living residence has been declared vacant and later a determination is made that resident no longer requires nursing care in the opinion of resident's attending physician and/or medical director and/or the utilization review committee, and is able to occupy a room in the assisted living residence, Acts shall, as soon as reasonably possible, provide to resident a different room in the assisted living residence.

If it is determined by resident's attending physician and/or medical director and/or the utilization review committee that resident requires long-term nursing care as defined in Section 6.B of the contract, Acts may declare resident's room vacant. Resident shall remove all personal possessions from said room in the assisted living residence within fifteen (15) days of receipt of notification that resident will be transferred to the skilled care center. If resident no longer requires nursing care in the opinion of resident's attending physician and/or medical director and/or the utilization review committee and is able to occupy a room in the assisted living residence, Acts shall, as soon as reasonably possible, provide to resident a different room in the assisted living residence.

DISCRETIONARY RELOCATION. Acts may relocate resident to a different room in the assisted living residence of the retirement community from time to time if Acts determines, in its sole discretion, that such a move is necessary for the benefit of resident, other residents, or for the proper operation of retirement community. In the event of such relocation, Acts shall be responsible for all reasonable moving and relocation expenses of resident.

<u>MARRIAGES/NEW SECOND OCCUPANT</u> -- If a person who has entered OakBridge Terrace at Plantation Estates as a resident in the assisted living residence under a continuing care contract decides to marry a non-resident while occupying his or her room in the assisted living residence, such spouse will be treated as an independent resident and must comply with the physical and financial requirements for admission to Plantation Estates. The spouse will be obligated to pay the fees and charges described in his or her contract for independent living accommodations with Acts and will receive no discount on account of his or her marital relationship with resident. In the event that such spouse is not accepted as a resident, resident may terminate his or her contract pursuant to Section 14 of the contract. If resident elects to terminate his or her contract, there shall be no refund of the entrance fee, or any part thereof.

As rooms in the assisted living residence are designed to only accommodate one individual, it is not the policy of Acts to allow existing residents of OakBridge Terrace at Plantation Estates to simultaneously occupy one room.

INABILITY TO PAY -- (Please reference Section 12 of the contract for more details).

FAILURE TO MAKE PAYMENTS. If resident fails to pay the monthly service charge or additional charges on the monthly statement as defined in Section 2 of the contract, then Acts may give written notice to resident to pay all such amounts. If payment is not received by Acts within fifteen (15) days of receipt of such notice by resident or guarantor, Acts may terminate the contract pursuant to Section 14.B of the contract.

REDUCTION OF INCOME. Resident believes that his/her sources of income are adequate to meet his/her financial responsibility to Acts, to meet and pay any additional costs which are the responsibility of resident pursuant to the contract, and to pay personal and incidental expenses during the period of residency at the retirement community. Resident will submit an updated financial statement, and other financial documentation requested by Acts, to allow an annual review of resident's financial status. If resident's sources of income are not sufficient to meet his/her financial obligations under the contract, resident will make every reasonable effort to obtain assistance from family or other available means, and from public benefits, to the extent that resident is eligible to receive them, including, but not limited to, federal, state or county aid or assistance (other than medical assistance), aid to the blind, veterans' pension or other programs. Resident agrees that he/she will apply for and diligently seek such benefits.

RELOCATION TO ANOTHER FACILITY. In the event that resident has been receiving nursing care, as described in Section 6 of the contract, and continues to need such care, and the reason for resident's failure to pay the monthly service charge or any additional charges is insufficient funds, Acts will assist in relocating resident to a nursing care facility that is eligible to receive reimbursement for such resident's care from Medicaid or other assistance programs. However, this in no way qualifies or restricts the right of Acts to terminate the contract for nonpayment, as set forth in Sections 12.A and 14.B of the contract.

## SERVICES

STANDARD SERVICES AVAILABLE -- (Please reference Section 5, "Services Provided by Acts to Resident, and Resident's Duties" and 2.D, "Adjustments to Fees and Charges if Resident is Voluntarily Absent from the Retirement Community" of the contract for more details).

Certain services and amenities described below will be provided to resident at OakBridge Terrace at Plantation Estates. Unless otherwise indicated, these services are included in the monthly service charge described in Section 2.B of the contract.

ASSISTED LIVING. Acts shall provide resident with supervision and assisted living appropriate to resident's age or disability. Acts will provide direct assistance or supervision in personal grooming, bathing, dressing, administration of oral medications, and daily living tasks.

ROOM. Upon payment of the entrance fee, the monthly service charge and any additional charges, resident shall have the right to occupy and use, in accordance with the contract, a room in the assisted living residence, subject to change as provided in the contract.

FURNISHINGS. Acts will furnish wall-to-wall carpeting (excluding bathroom), window treatment, and fixtures (plumbing, medicine cabinet, and bathroom shelving) in resident's room in the assisted living residence. These furnishings shall be the permanent possession of Acts. All other furnishings shall be furnished by resident, subject to the supervision of, and approval by, Acts, and shall remain resident's personal property.

COMMON AREAS. Subject to scheduling requirements and availability as established by Acts, resident may use, in common with all other residents, the dining room, lobby or lobbies, auditorium, social and recreational rooms, and other common areas furnished by Acts.

UTILITIES AND TAXES. Acts will furnish water, light, heat, electricity, air conditioning, and standard cable television service (excluding premium channels). Acts will also be responsible for all real estate taxes assessed to Plantation Estates.

TELEPHONE. Resident may have a telephone in his or her room at resident's expense. Telephone service charges (excluding international calls) and connection charges are included in the monthly service charge. Acts shall provide an emergency telephone number for immediate access to retirement community personnel. Resident may have an option, at resident's expense, to add international calling plans.

TELEVISION AND INTERNET. Acts shall provide each room in the assisted living residence with connection(s) for television signal and internet access through either an external antenna or cable system. Acts shall provide standard cable television service (excluding premium channels) and internet service. Costs for cable premium channels are not included in the monthly service charge and shall be paid by resident. Resident may have an option, at resident's expense, to upgrade the internet service provided by Acts.

HOUSEKEEPING. Resident shall maintain his or her room in a clean, sanitary and orderly condition. Acts will provide weekly housekeeping services. Acts reserves the right to inspect resident's room.

MAINTENANCE AND REPAIRS. Necessary repairs, maintenance and replacement of property and equipment owned by Acts will be performed and provided at the discretion of Acts. Repairs, maintenance, and replacement of property of resident will be the responsibility of resident.

LAUNDRY. Automatic washers and dryers for personal laundry are located in the assisted living residence and are available to resident. Acts will launder bed linens provided by resident on a weekly basis at no additional charge. Resident has the option of having Acts responsible for doing his or her personal laundry for an additional charge.

STORAGE. Limited storage facilities are available to resident. Use of storage facilities shall be subject to the direction and supervision of Acts. Resident is responsible for the risk of loss for all items stored in the storage units.

TRANSPORTATION. Acts will provide transportation services on a scheduled basis, for purposes such as shopping, certain medical services and other special functions, as defined by Acts.

FOOD AND MEALS. Acts will furnish to resident three (3) meals a day in the assisted living residence dining room. Reasonable special dietary needs will be provided for on request, or as ordered by resident's attending physician. In addition, Acts will make available, in accordance with its scheduling policies, a private dining room for family gatherings or other special occasions of resident.

OUTPATIENT MEDICAL SERVICES. Outpatient nursing services are made available to resident in the retirement community during regular office hours. Certain outpatient nursing services including routine nursing consultations, weight checks and blood pressure readings are included in the monthly service charge. Other services may be provided at a fee published in the nurse's office and are considered additional charges.

SECURITY. Acts will provide certain security services as at the retirement community in accordance with Acts' prevailing policy, which is subject to change from time to time.

## SERVICES AVAILABLE AT EXTRA CHARGE

REDECORATION. Redecoration of resident's room by resident, in addition to or other than that scheduled by Acts, requires the advanced approval of the executive director or administrator and will be at resident's expense. Any redecoration or change of any furnishings provided by Acts hereunder vests title to such change or replacement in Acts, unless otherwise provided in writing.

GUEST MEAL CHARGES. Amounts charged to resident's monthly statement for guest meals will be made according to the rates established periodically by Acts. Acts reserves the right to modify the amount and will notify all residents in writing of all changes in rates at least sixty (60) days in advance of the effective date of such changes.

SCOPE OF SERVICE -- The scope of services and additional charges for services not included in the monthly service charge are subject to change and may be modified by Acts from time to time with sixty (60) days advance notice of any changes, except for changes required by state or federal assistance programs.

HEALTH AND ASSISTED LIVING SERVICES AVAILABLE -- (Please reference Sections 2,6,7,8 and 9 of the contract for more details).

SKILLED NURSING CARE. If prescribed by the medical director and/or resident's attending physician, Acts will provide the following nursing care services and semi-private accommodations in the skilled care center as part of the monthly service charge (as specified in Section 2 of the contract) subject to the limitations set forth below; provided, however, that resident must occupy his room in the assisted living residence of the retirement community for a period of thirty (30) days before being admitted to the skilled care center, except as may be permitted by applicable law and regulations. Resident will provide or pay for the services designated as resident's responsibility.

SKILLED NURSING CARE - SHORT TERM. If resident requires short term skilled nursing care (generally 30 days or less) as determined by resident's attending physician and/or the medical director or utilization review committee, Acts shall provide resident with nursing care, dietary services and semi-private accommodations in the skilled care center. Resident shall be responsible for all costs incurred for (i) services of all physicians, (ii) equipment, (iii) medical supplies, (iv) prescribed medicines, and (v) any other costs or services not specifically paid by Acts pursuant to the contract. Resident shall also be responsible for payment of the monthly service charge applicable to the skilled care center as specified in Section 2 of the contract, which charge shall be prorated based upon the actual number of days resident occupies a bed in the skilled care center. For those days of the month that resident is paying the monthly service charge rate applicable to the skilled care center, resident shall not also be responsible for payment of the monthly service charge rate applicable to his/her room in the assisted living residence.

SKILLED NURSING CARE - LONG TERM. If resident requires long term skilled nursing care (generally 30 days or longer) as determined by resident's attending physician and/or the medical director or utilization review committee, Acts shall provide resident with nursing care, dietary services and semi-private accommodations in the skilled care center. Resident shall be responsible for all costs incurred for (i) services of all physicians, (ii) equipment, (iii) medical supplies, (iv) prescribed medicines, and (v) any other costs or services not specifically paid by Acts pursuant to the contract. Resident shall also be responsible for payment of the monthly service charge applicable to the skilled care center as specified in Section 2 of the contract, which charge shall be prorated based upon the actual number of days resident occupies a bed in the skilled care center.

ADDITIONAL CHARGE FOR PRIVATE ROOM. Payment of the monthly service charge applicable to the skilled care center entitles resident to a semi-private room in the skilled care center. If resident desires a private room (if available), there will be an additional charge based upon the rates established by Acts from time to time for such accommodations. Acts shall give resident written notice sixty (60) days in advance of any change in these rates.

TRANSFER TO HOSPITAL OR OTHER SPECIALIZED SERVICE FACILITY. Resident's attending physician and/or the medical director will have the right to transfer resident to whatever hospital or other facility the attending physician/medical director deems to be in the best interests of the patient. Upon return of resident to retirement community, resident may be placed by the attending physician/medical director in the skilled care center to receive nursing care as provided in the contract. Acts guarantees a bed in its skilled care center or a bed of comparable quality in another health care facility. Ambulance, hospital and related costs shall be paid by resident. In no event shall Acts be responsible for any charges incurred by resident at any hospital or other facility, except as set forth in Section 9 of the contract.

ILLNESS OR ACCIDENT AWAY FROM RETIREMENT COMMUNTIY. If resident suffers an accident or illness while away from OakBridge Terrace at Plantation Estates, Acts will have no responsibility to pay for resident's medical, surgical, hospital or nursing care obtained offsite; however, after resident returns to the facility, Acts shall assume its responsibility to provide those services as specified in the contract that are deemed necessary by Acts.

MENTAL DISORDERS OR OTHER CONDITIONS. Acts is not equipped to care for persons who are afflicted with psychoses, psychiatric disorders, contagious conditions or diseases that may represent a risk to the life, health, care, peace or safety of resident, other residents or employees of Acts. If the medical director, utilization review committee or other person(s) authorized by Acts determines that, because of any of the conditions described in this section of the contract, resident's continued presence in the retirement community may represent a risk to the life, health, peace or safety of resident, other residents or employees of Acts, Acts may transfer resident to a facility equipped to handle resident’s condition and chosen in the sole discretion of Acts and resident shall continue to pay the monthly service charge directly to Acts. Such monthly service charge shall be at the rate established by Acts for nursing care in a semi-private room in its skilled care center based upon the financial arrangement (option A or option B) chosen by resident as described in Section 2 of the contract. Acts shall then be responsible to pay to the facility to which resident is transferred the same monthly service charge amount paid by resident. Such monthly service charge amount may be increased or decreased as described in Section 2.B of the contract. Any additional cost beyond the monthly service charge as described herein must be paid by resident to the new facility. If resident or resident’s family prefer a facility other than that chosen by Acts, Acts shall contribute to the cost of resident’s care at such facility to the extent specified in this paragraph.

ACTS' RESPONSIBILITY FOR SERVICES INCLUDED IN THE MONTHLY SERVICE CHARGE. Resident shall not be liable to any other health care provider for the cost of any services which are provided by Acts under the contract and which are paid for by resident through payment of the monthly service charge. In the event that Acts authorizes any other health care provider to provide services which Acts is required to provide as part of the monthly service charge under the contract and which are paid for by resident through payment of the monthly service charge, Acts shall assume responsibility for the payment of those health care services.

EXCLUSIONS. Resident will pay for all medical, health, and ancillary services not explicitly paid for by Acts under the contract, including but not limited to the cost of hospitalization, ambulance service, therapist or rehabilitation services, psychotherapy and psychiatric consultations or services, physician services, diagnostic services, private duty nurses, nursing assistants or companions, specialized treatment, refractions, eyeglasses, contact lenses, hearing aids, podiatry, dentistry, dentures, inlays, orthopedic devices and appliances such as walkers, braces, wheelchairs, special beds or chairs, incontinence supplies, personal care supplies such as disposable underpads, toiletries, digestive aids and pharmacy medications, drugs, including prescription and over-the-counter medications, medical equipment and supplies such as syringes, respirators, ventilators, oxygen tanks, intravenous items, catheterization materials, specialized treatment including ventilator dependent treatment, dialysis, and higher acuity nursing care services such as subacute care, transitional care or special rehabilitation services. Acts, in its discretion, may provide any or all of the services not covered by the monthly service charge at an additional charge, or refer the Resident to another provider capable of providing higher acuity care services.

ACTS' ENTITLEMENT TO REIMBURSEMENT FROM MEDICARE OR OTHER INSURANCE. If resident requires nursing care as described in Section 6 of the contract, and if resident is eligible for coverage for such care under Medicare or any other insurance maintained by resident, Acts will bill Medicare, or such other insurance carrier, to recover all allowable reimbursement for the cost of resident's health care, which shall belong to Acts. Resident agrees to fully cooperate with Acts in recovering any available reimbursement for the cost of nursing care.

<u>AVERAGE ANNUAL COST OF SERVICES</u> – The average annual cost to Acts (Obligated Group) of providing to resident the care specified in the Resident Contract, based on 2018 information, is $50,531 for residential services and $117,990 for medical care services.

## FEES

ENTRANCE FEE/MONTHLY FEE -- Persons entering OakBridge Terrace at Plantation Estates as residents in the assisted living residence under a continuing care contract will be offered the option of choosing between two different financial arrangements as follows:

| | OPTION A | OPTION B |
|---|---|---|
| Entrance Fee | $20,000.00 | $15,000.00 |
| Monthly Service Charge (applicable to the assisted living residence) | $4,952.00/mo. | $4,952.00/mo. |
| Monthly Service Charge (applicable to the skilled care center) | $6,130.00/mo. | $6,808.00/mo. |

The monthly service charges set forth above which are applicable to the assisted living residence and to the skilled care center were effective January 1, 2019. As set forth in Section 2.B of the contract, Acts, in its sole discretion, may increase or decrease the monthly service charges applicable to the assisted living residence and to the skilled care center with sixty (60) days prior written notice to resident. Residents, who have chosen to enter OakBridge Terrace at Plantation Estates under the financial arrangement described as Option A, will pay a greater entrance fee than residents choosing the financial arrangement described as Option B, but the monthly service charge applicable to the skilled care center for residents choosing Option A will be less than for residents choosing Option B.

The entrance fee is a one-time payment that assures residents lifetime access to a living accommodation at Plantation Estates (subject to the terms and conditions of the Resident Contract). The entrance fee may be used by Acts for any proper corporate purposes of Acts, whether or not directly related to the contract and without consulting resident. Acts reserves the right to establish entrance fee rates and monthly service charges of a different amount for persons being admitted to residency in the assisted living residence under a continuing care contract, and the rates charged such other persons need not be uniform with or proportional to those charged to resident.

The monthly service charge shall commence on the date resident occupies a room in the assisted living residence. Payment of the monthly service charge will entitle resident to receive (i) the services that are specifically identified in Section 5 of the contract as being provided to resident without additional charge by Acts and (ii) the nursing care that is specifically identified in Section 6 of the contract as being provided to resident. The monthly service charge will be increased if and when resident occupies a room in the skilled care center of Acts as further described in Section 6 of the contract.

The monthly service charge is payable in advance each month within five (5) days of resident's or the designated representative's receipt of the monthly statement. In the event that the date of occupancy occurs after the first day of the month, the monthly service charge shall be reduced on a pro-rata basis for the number of days between the first day of the applicable month and the date of occupancy. In addition to increasing the monthly service charge if and when resident occupies a room in the skilled care center, Acts, in its sole discretion, may increase or decrease the monthly service charge with sixty (60) days prior written notice to resident unless such change is required by state or federal assistance programs.

The monthly service charge shall be paid by resident or guarantor to the address of Acts specified in Section 27 of the contract or at such other place as designated in writing by Acts. Resident's obligation to pay the monthly service charge shall continue despite hospitalization, vacation, or any other absence within or beyond the control of resident.

ADDITIONAL CHARGES -- Acts will provide to resident a monthly statement which includes charges not included in the monthly service charge. Additional charges may include, but are not limited to, charges relating to guest meals, personal laundry, long distance phone calls on Acts' account, medical or pharmacy supplies provided by Acts to resident, special activities, and special nursing services. The additional charges set forth in the monthly statement shall be paid by resident or guarantor within five (5) days of resident's or the designated representative's receipt of such monthly statement.

CHANGES IN FEES FOR PRIOR YEARS -- Set forth below are tables which show the average amount of the increase in the monthly service charge under the available options of the contract for the past five years.

| Effective Date of Increase | Option A | % Increase | Option B | % Increase |
|---|---|---|---|---|
| Assisted Living Residence: | | | | |
| 1/1/19 | $ 167 | 3.50 | $ 167 | 3.50 |
| 1/1/18 | 151 | 3.25 | 151 | 3.25 |
| 1/1/17 | 131 | 2.90 | 131 | 2.90 |
| 1/1/16 | 99 | 2.25 | 99 | 2.25 |
| 1/1/15 | 139 | 3.25 | 139 | 3.25 |
| Average | $ 137 | | $ 137 | |
| Skilled Care Center: | | | | |
| 1/1/19 | $ 207 | 3.50 | $ 230 | 3.50 |
| 1/1/18 | 186 | 3.25 | 207 | 3.25 |
| 1/1/17 | 162 | 2.90 | 180 | 2.90 |
| 1/1/16 | 123 | 2.25 | 136 | 2.25 |
| 1/1/15 | 172 | 3.25 | 191 | 3.25 |
| Average | $ 170 | | $ 189 | |

## FINANCIAL INFORMATION

RESERVES, ESCROWS AND TRUSTS -- Acts has established reserve accounts in accordance with the terms of its debt obligations and to satisfy statutory requirements in Pennsylvania, Maryland, Georgia, Florida and North Carolina. The reserve accounts provide contingency funds for debt service requirements, renovation of physical plant and contractual obligations.

In compliance with North Carolina statutory regulations, Acts maintains a minimum reserve of $7,660,032. Acts also participates in an Obligated Group financing which maintains a total debt service reserve of $11,197,000 and cash and discretionary reserves totaling $230,034,000 at year end 2018. These funds are invested in U.S. Treasury Notes, certificates of deposits, and other approved investments by designated trustees. Further explanation for the purpose and commitments on these reserves are detailed more fully in the certified financial statements (see Attachment Number 1).

COMPLIANCE WITH OPERATING RESERVE REQUIREMENT – In accordance with North Carolina General Statute 58-64-33, Acts maintains an operating reserve equal to twenty-five (25%) percent of the total operating costs of Plantation Estates for the period ending December 31, 2019 based on community occupancy in excess of ninety percent (90%) (the "Operating Reserve Requirement"). Plantation Estates has historically maintained an occupancy rate in excess of ninety percent (90%) and expects to continue to do so throughout 2019.

Assets Designated For Operating Reserve

The following assets are designated as the operating reserve as required by North Carolina General Statute 58-64-33:

| | |
|---|---|
| Plantation Estates Operating Reserve | $ 4,908,277 |

These assets are invested in money market funds, short term investment funds and treasury securities. Future investment strategies will, of course, depend on market conditions as well as statutory requirements applicable to Acts.

Company policies and decisions relative to the investment of reserve and financial assistance funds and the application of financial assistance funds are under the direction of the finance committee of the board of directors. Within the parameters of these policies, specific investment decisions may be suggested by any of the five (5) finance committee members who may then forward their conclusions to the board of directors for formal authorization and enactment.

SUMMARY OF ACTUARIAL REPORTS - Acts engages an independent actuary to prepare actuarial compilations and compute future service obligations for management purposes only. Acts has had a comprehensive actuarial study completed for Plantation Estates as of December 31, 2013 that took into account the expansion identified on page 10 of this disclosure statement. The study resulted in the finding that the financial condition of Plantation Estates is in satisfactory actuarial balance as defined by the Actuarial Standards of Practice as they relate to continuing care retirement communities.

**ATTACHMENT NO. 1**

SPECIAL-PURPOSE COMBINED
FINANCIAL STATEMENTS FOR 2018 AND 2017

ACTS RETIREMENT-LIFE COMMUNITIES, INC. (OBLIGATED GROUP)

# ACTS Retirement-Life Communities, Inc.
# (Obligated Group)

Special-Purpose Combined
Financial Statements

December 31, 2018 and 2017

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## Independent Auditors' Report

To the Board of Directors of
ACTS Retirement-Life Communities, Inc.

We have audited the accompanying special-purpose combined financial statements of ACTS Retirement-Life Communities, Inc. Obligated Group, which comprise the special-purpose combined balance sheets as of December 31, 2018 and 2017, and the related special-purpose combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the special-purpose combined financial statements.

**Management's Responsibility for the Special-Purpose Combined Financial Statements**

Management is responsible for the preparation and fair presentation of these special-purpose combined financial statements in accordance with the financial reporting provisions of the Master Trust Indenture dated December 1, 1996, as supplemented; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the special-purpose combined financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these special-purpose combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special-purpose combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special-purpose combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the special-purpose combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the special-purpose combined financial statements referred to above present fairly, in all material respects, the financial position of ACTS Retirement-Life Communities, Inc. Obligated Group as of December 31, 2018 and 2017, and the results of their operations and changes in net assets, and cash flows for the years then ended, in accordance with the financial reporting provisions of the Master Trust Indenture.

**Basis of Accounting**

We draw attention to Note 1 to the special-purpose combined financial statements, which describes the basis of accounting. The special-purpose combined financial statements are prepared by ACTS Retirement-Life Communities, Inc. Obligated Group in accordance with the financial reporting provisions of the Master Trust Indenture, which is a basis other than accounting principles generally accepted in the United States of America to meet the Master Trust Indenture's requirements. Our opinion is not modified with respect to this matter.

**Change in Reporting Entity**

As described in Note 1 to the special-purpose financial statements, the Company issued additional debt in June 2018 (Note 9). As of the date of issuance of the additional debt, Park Pointe Village, Inc. ("PPV") joined as Obligated Issuers of the ACTS Retirement-Life Communities, Inc. Obligated Group created pursuant to the Master Trust Indenture dated as of December 1, 1996, as supplemented. Accordingly, the accompanying previously issued 2017 special-purpose combined financial statements were restated for the change in reporting entity to include the accounts of PPV.

**Intended Use**

Our report is intended solely for the information and use of the boards of directors and management of ACTS Retirement-Life Communities, Inc. Obligated Group, the Master Trustee under the Master Trust Indenture dated December 1, 1996, as supplemented, and other parties as required under the related Master Continuing Disclosure Agreement. It is not intended to be and should not be used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
April 29, 2019

## ACTS Retirement-Life Communities, Inc. (Obligated Group)

Special-Purpose Combined Balance Sheets
(In Thousands)
December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 24,890 | $ 7,822 |
| Investments | 365,381 | 308,159 |
| Accounts receivable, entrance fee receivables and other receivables, net | 20,239 | 18,243 |
| Note receivable from affiliate | 17,750 | 17,750 |
| Prepaid expenses, inventory and deposits | 7,794 | 8,218 |
| Property and equipment, net | 1,158,440 | 1,093,272 |
| Deferred costs, net | 2,592 | 1,699 |
| Due from affiliated organizations | 3,738 | 1,978 |
| Total assets | $ 1,600,824 | $ 1,457,141 |
| **Liabilities and Net Assets** | | |
| Accounts payable and accrued expenses | $ 81,655 | $ 74,983 |
| Short-term indebtedness | 70,044 | 59,000 |
| Construction loan payable | - | 36,085 |
| Long-term indebtedness | 672,801 | 536,266 |
| Entrance fee deposits | 9,282 | 6,388 |
| Refundable portion of entrance fees | 11,209 | 14,500 |
| Deferred revenue from entrance fees | 644,210 | 626,659 |
| Accumulated loss on investment contracts | 7,588 | 9,574 |
| Total liabilities | 1,496,789 | 1,363,455 |
| **Net Assets** | | |
| Without donor restrictions | 78,938 | 71,353 |
| With donor restrictions | 25,097 | 22,333 |
| Total net assets | 104,035 | 93,686 |
| Total liabilities and net assets | $ 1,600,824 | $ 1,457,141 |

*See notes to special-purpose combined financial statements*

## ACTS Retirement-Life Communities, Inc. (Obligated Group)

Special-Purpose Combined Statements of Operations and Changes in Net Assets
(In Thousands)
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Operating Revenue** | | |
| Resident services revenue, net of amortization of entrance fees | $ 305,255 | $ 289,928 |
| Patient revenue from third-party payors | 32,794 | 31,756 |
| Investment income | 7,352 | 7,211 |
| Net assets released from restrictions to provide resident services | 2,324 | 2,303 |
| Other revenue | 11,654 | 9,446 |
| Total operating revenue before amortization of entrance fees | 359,379 | 340,644 |
| Amortization of entrance fees | 91,029 | 82,890 |
| Total operating revenue | 450,408 | 423,534 |
| **Operating Expenses** | | |
| Salaries, wages and benefits | 230,710 | 212,754 |
| Contracted services | 19,789 | 20,321 |
| Utilities | 21,873 | 21,134 |
| Food | 23,126 | 21,743 |
| Supplies | 17,983 | 16,817 |
| Real estate taxes | 10,358 | 10,497 |
| Insurance | 4,285 | 5,345 |
| Other | 17,955 | 16,338 |
| Total operating expenses before depreciation, amortization and interest | 346,079 | 324,949 |
| Depreciation and amortization | 71,054 | 68,476 |
| Interest, net | 20,058 | 18,120 |
| Total operating expenses | 437,191 | 411,545 |
| Operating income | 13,217 | 11,989 |

*See notes to special-purpose combined financial statements*

Special-Purpose Combined Statements of Operations and Changes in Net Assets (continued)
(In Thousands)
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Changes in Net Assets Without Donor Restrictions** | | |
| Operating income | $ 13,217 | $ 11,989 |
| Net unrealized (loss) gain on investments and investment contracts | (5,701) | 4,767 |
| Loss on early extinguishment of debt | (255) | - |
| Satisfaction of subordinated note receivable related to the merger of obligated member | - | (6,082) |
| Net operating income | 7,261 | 10,674 |
| Net assets released from restrictions to acquire property and equipment | 353 | 394 |
| Change in net assets without donor restrictions | 7,614 | 11,068 |
| **Changes in Net Assets With Donor Restrictions** | | |
| Change in beneficial interest in the investments of ACTS Legacy Foundation, Inc. | 2,764 | 2,268 |
| Increase in net assets | 10,378 | 13,336 |
| **Net Assets, Beginning** | 93,686 | 80,350 |
| **Cumulative Effect of Change in Accounting Standard** | (29) | - |
| **Net Assets, Ending** | $ 104,035 | $ 93,686 |

*See notes to special-purpose combined financial statements*

## ACTS Retirement-Life Communities, Inc. (Obligated Group)

Special-Purpose Combined Statements of Cash Flows
(In Thousands)
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Increase in net assets | $ 10,378 | $ 13,336 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Satisfaction of subordinated notes receivable related to the merger of obligated member | - | 6,082 |
| Depreciation and amortization | 71,054 | 68,476 |
| Amortization of entrance fees | (91,029) | (82,890) |
| Amortization of bond discount and premium, net | (3,329) | (3,134) |
| Amortization of deferred financing costs | 622 | 596 |
| Entrance fees and deposits from non-refundable resale contracts | 121,024 | 134,745 |
| Refunds of entrance fees and deposits from non-refundable resale contracts | (12,152) | (9,714) |
| Administrative fee included in gross entrance fees | (6,197) | (8,885) |
| Increase in deferred costs | (1,212) | - |
| Net realized and unrealized loss (gain) on investments | 7,939 | (3,308) |
| Change in fair value of investment contracts | (1,986) | (1,662) |
| Loss on early extinguishment of debt | 255 | - |
| Change in beneficial interest in the investments of ACTS Legacy Foundation, Inc. | (2,764) | (2,268) |
| Net change in due from affiliated organizations | (1,760) | (391) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (317) | 284 |
| Decrease (increase) in prepaid expenses, inventory, and deposits | 424 | (459) |
| Increase in accounts payable and accrued expenses | 1,431 | 818 |
| Net cash provided by operating activities | 92,381 | 111,626 |
| **Cash Flows from Investing Activities** | | |
| Increase in notes receivable | - | (17,750) |
| Purchase of property and equipment | (111,882) | (123,684) |
| Increase in deferred marketing costs | - | (406) |
| (Increase) decrease in investments | (62,471) | 7,954 |
| Net cash used in investing activities | (174,353) | (133,886) |
| **Cash Flows from Financing Activities** | | |
| Entrance fee deposits from initial sale contracts | 7,424 | 43,894 |
| Refunds of entrance fees and deposits from initial sale contracts | (402) | (1,787) |
| Entrance fees from refundable contracts | - | 76 |
| Refunds of refundable entrance fees | (2,720) | (3,084) |
| Payment of accounts payable, construction | (19,202) | (27,766) |
| Proceeds from short-term indebtedness | 82,396 | 64,184 |
| Proceeds from construction loan payable | - | 26,032 |
| Net proceeds from long-term indebtedness | 89,777 | - |
| Increase in deferred financing costs | (1,820) | (34) |
| Payments on short-term indebtedness | (35,102) | (32,234) |
| Payments on construction loan payable | (4,369) | (37,426) |
| Payments on long-term indebtedness | (16,942) | (16,896) |
| Net cash provided by financing activities | 99,040 | 14,959 |
| Net increase (decrease) in cash and cash equivalents | 17,068 | (7,301) |
| **Cash and Cash Equivalents, Beginning** | 7,822 | 15,123 |
| **Cash and Cash Equivalents, Ending** | $ 24,890 | $ 7,822 |
| **Supplemental Disclosure of Cash Flow Information** | | |
| Interest paid, net of amounts capitalized | $ 22,277 | $ 20,731 |
| **Supplemental Disclosure of Noncash Investing and Financing Activities** | | |
| Obligations incurred for the acquisition of property and equipment | $ 23,970 | $ 19,201 |
| Proceeds from long-term debt to repay short-term debt | $ 36,250 | $ - |
| Proceeds from long-term debt to repay construction loan payable | $ 31,796 | $ - |
| Investments (debt service funds) used to repay long-term debt | $ 74 | $ - |

*See notes to special-purpose combined financial statements*

## 1. Organization

ACTS Retirement Services, Inc. ("ARS") is a not-for-profit Pennsylvania corporation that serves as the parent organization providing the highest level of governance and control over all of its controlled entities.

The following is a listing of ARS' controlled entities:

ACTS Management Services, Inc. ("AMS"), a not-for-profit Pennsylvania corporation providing management, marketing, and development services to ACTS and affiliated entities.

ACTS Signature Community Services, Inc. ("ASCS"), a not-for-profit Pennsylvania corporation providing home and community-based services to ACTS and affiliated entities.

ACTS Legacy Foundation, Inc. ("ALF"), a not-for-profit Delaware corporation that provides fundraising, supports all charitable programs, and manages the donor restricted funds for ACTS and affiliated entities.

ACTS Retirement-Life Communities, Inc. ("ACTS"), a not-for-profit Pennsylvania corporation that, along with the affiliates (as herein defined), provides residential, assisted living, and skilled care services to senior adults in its 23 CCRCs, located in Alabama (2), Delaware (3), Florida (4), Georgia (1), Maryland (1), New Jersey (1), North Carolina (2), Pennsylvania (8), and South Carolina (1). ACTS operates 20 CCRCs as divisions within the legal entity of ACTS, and 3 CCRCs within separate, related legal entities (the "Affiliates"). ACTS is also the sole member of ACTS Acquisition Company, LLC ("AAC"), a Florida limited liability company that engages in acquisition related activity on behalf of ACTS. The Affiliates are as follows:

Heron Point of Chestertown, Inc. ("HP"), a not-for-profit Maryland corporation which operates a CCRC located in Chestertown, Maryland.

Presbyterian Retirement Corporation, Inc. ("PRC"), a not-for-profit Alabama corporation which operates Westminster Village, a CCRC located in Spanish Fort, Alabama.

The Evergreens ("EG"), a not-for-profit New Jersey corporation which operates a CCRC located in Moorestown, New Jersey.

During 2018, Park Pointe Village, Inc. ("PPV"), an entity under common control, and a not-for-profit South Carolina corporation merged into ACTS and is operating as one of the 20 CCRCs within the legal entity of ACTS.

The ACTS Obligated Group includes ACTS, AMS, and ASCS under the terms of a Master Trust Indenture (Note 9).

ARS, AMS, ASCS, ALF, ACTS, EG, HP, and PRC are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on their exempt income under Section 501(a) of the Code. AAC, as a single member limited liability company, is considered a "disregarded entity" for federal tax purposes. Because ACTS is exempt from federal income tax under Section 501(a) of the Code, as a charitable organization described in Section 501(c)(3) of the Code, and because AAC is a disregarded entity for federal tax purposes, AAC is considered exempt under Section 501(a) of the Code as a charitable organization described in Section 501(c)(3) of the Code.

### Basis of Presentation and Principles of Combination

The ACTS Obligated Group (the "Company") prepares special-purpose combined financial statements in accordance with the financial reporting provisions specified in the disclosure requirements of the Master Trust Indenture. The Master Trust Indenture specifies the preparation of combined financial statements of the Obligated Group members; accordingly, the accompanying special-purpose combined financial statements include only the accounts of the Obligated Group members and exclude the accounts of ARS, EG, HP, PRC, ALF, and AAC. The combination of financial statements for only certain controlled organizations differs from accounting principles generally accepted in the United States of America.

All inter-affiliate transactions between the members of the Company have been eliminated in combination.

## 2. Summary of Significant Accounting Policies

### Cash and Cash Equivalents

For purposes of the special-purpose combined statements of cash flows, cash and cash equivalents include working capital accounts invested in highly liquid instruments purchased with an original maturity of three months or less.

### Investments and Investment Risk

Investments with readily determinable fair values are measured at fair value in the special-purpose combined balance sheets. Investment income (including realized and unrealized gains and losses on investments, interest, and dividends) is included in net operating income in the special-purpose combined statements of operations and changes in net assets unless the income is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Company's investments are comprised of a variety of financial instruments. The fair values reported in the special-purpose combined balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported on the special-purpose combined balance sheets could materially change in the near term.

Investments include assets without restrictions and assets with restrictions. Assets without restrictions represent assets that are available for the general use and purposes of the Company. Assets with restrictions include amounts held in trust to meet debt related requirements and amounts restricted by donors for specific purposes or time periods.

### Accounts Receivable, Entrance Fee Receivables, and Other Receivables

The Company assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management based on factors such as aging of the accounts receivable, and anticipated collection of the consideration. Accounts are written off through bad debt expense when the Company has exhausted all collection efforts and accounts are deemed impaired.

Entrance fee receivables are evaluated for collectability prior to residents being admitted to the community based on the resident's credit worthiness. The terms and conditions of each entrance fee receivable are determined when a resident agreement is executed.

**Note Receivable from Affiliate**

Note receivable from affiliate of $17,750,000 at December 31, 2018 and 2017, consists of an amount advanced to AAC related to the affiliation with PRC. Interest is charged at ACTS' cost of capital on its short-term indebtedness. The note was repaid in March 2019 upon PRC obtaining permanent financing.

**Property and Equipment**

Property and equipment are stated at cost. Donated assets are recorded at their fair value at the date of donation. Depreciation is computed using the straight-line method based on the following estimated useful lives:

| | |
|---|---|
| Land improvements | 10 to 25 years |
| Building and improvements | 8 to 50 years |
| Furniture, fixtures and equipment | 3 to 10 years |

When assets are sold or retired, the asset values and related accumulated depreciation are eliminated from the accounts and any gain or loss is included in the special-purpose combined statements of operations and changes in net assets. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments are capitalized.

Gifts of long-lived assets such as land, buildings, or equipment are reported as other revenue unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Depreciation expense was $70,764,000 in 2018 and $68,126,000 in 2017.

Interest is capitalized for assets that require a period of time to be constructed or to prepare them for their intended use. The amount of interest capitalized was $3,538,000 in 2018 and $3,515,000 in 2017.

**Deferred Costs**

Deferred costs include incremental costs of obtaining agreements that would not have been incurred if the agreements were not obtained and are recorded at cost. Deferred costs are amortized over the estimated life expectancy of the residents using the straight-line method, which approximates the period of time that goods and services are expected to be transferred to residents. Deferred costs are net of accumulated amortization of $3,081,000 as of December 31, 2018 and $3,552,000 as of December 31, 2017. Amortization of deferred costs was $290,000 in 2018 and $350,000 in 2017.

**Deferred Financing Costs**

The deferred financing costs are amortized straight-line over the terms of the related debt, which approximates using the effective interest method and are classified net with the related debt. Amortization expense, which is included as a component of interest expense, was $622,000 in 2018 and $596,000 in 2017. Accumulated amortization was $8,047,000 and $7,505,000 at December 31, 2018 and 2017, respectively. The Company wrote off $255,000 in deferred financing costs during 2018, which is included within loss on early extinguishment of debt.

### Derivative Financial Instruments

The Company uses interest rate swap agreements which are considered derivative financial instruments, to manage its interest rate risk on its long-term debt. The interest rate swap agreements are reported at fair value in the special-purpose combined balance sheets and related changes in fair value are reported on the special-purpose combined statements of operations and changes in net assets as a component of net unrealized (loss) gain on investments and investment contracts.

### Deferred Revenue from Entrance Fees

Under a continuing care contract ("resident agreement") for a residential living unit, the Company receives entrance fee payments in advance. The Company offers both nonrefundable and refundable resident agreements. As of December 31, 2018 and 2017, the majority of the Company's resident agreements are nonrefundable.

Under the majority of nonrefundable resident agreements, residents who terminate their contracts will generally be entitled to a full refund less an administrative fee of up to 5%, and less 1%-2% (based on the resident agreement) of the remaining entrance fee per each month of residency. Under refundable resident agreements, the entrance fee is reduced to no less than the guaranteed refund, as specified in the resident agreement and refunds to residents are generally paid by the Company after a new resident occupies the residential living unit vacated by the former resident.

The nonrefundable portion of entrance fees is amortized to revenue over the actuarially computed life expectancy of the residents using the straight-line method and is classified as deferred revenue from entrance fees on the special-purpose combined balance sheets. The guaranteed refundable portion of entrance fees is classified as refundable portion of entrance fees on the special-purpose combined balance sheets and is not amortized to revenue.

The gross contractual refund obligations under existing resident agreements were approximately $289,868,000 and $308,974,000 at December 31, 2018 and 2017, respectively.

Under the majority of existing resident agreements, residential living residents are entitled to assisted living or skilled care services, as needed, with no increases in the current monthly service fees as a result of transferring to a higher level of care.

### Obligation to Provide Future Services

The Company engages an independent actuary once every three years to calculate the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. Based upon the last calculation performed (as of December 31, 2017), the present value of the net cost of future services and the use of facilities, based on a discount rate of 5%, did not exceed the balance of deferred revenue from entrance fees. Based upon this calculation, and the analysis of management, no liability for the obligation to provide future services has been recorded at December 31, 2018 and 2017.

### Donor-Restricted Contributions

The Company reports gifts of cash and other assets as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassed to net assets without donor restrictions and reported on the special-purpose combined statements of operations and changes in net assets as net assets released from restrictions.

### Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* - net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

*Net Assets With Donor Restrictions* - net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

### Resident Services and Patient Revenues

Resident services and patient revenues are reported at the amount that reflects the consideration the Company expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Resident services and patient revenues are recognized as performance obligations are satisfied.

Resident services and patient revenues are primarily comprised of the following revenue streams:

**Independent Living:** Independent living revenues are primarily derived from providing housing and services to residents. The Company has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, independent living monthly fees are recognized as services are rendered.

**Assisted Living:** Assisted living revenues are primarily derived from providing housing and assisted living services to lifecare residents at their monthly fee and non-lifecare residents at a stated monthly fee. The Company has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, assisted living revenues are recognized as services are rendered.

**Skilled Nursing:** Skilled nursing revenues are primarily derived from providing nursing services to lifecare residents at their monthly fee and non-lifecare residents at a stated daily fee, net of any explicit and implicit price concessions. The Company has determined that skilled nursing services are considered one performance obligation which is satisfied over time as services are provided. Therefore, skilled nursing revenues are recognized as services are rendered.

The guaranteed refund component of entrance fees is not amortized to income and is classified as refundable portion of entrance fees in the accompanying special-purpose combined balance sheets.

Revenue from nonrefundable entrance fees received are recognized through amortization of the nonrefundable entrance fee using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which approximates the period of time the goods and services under the agreements are expected to be transferred to residents. Upon contract termination, the remaining nonrefundable entrance fee balance is recognized as revenue. The unamortized portion is classified as deferred revenue from entrance fees in the special-purpose combined balance sheets. Amortization of nonrefundable entrance fees is included as amortization of entrance fees in the special-purpose combined statements of operations and changes in net assets and was $91,029,000 in 2018 and $82,890,000 in 2017.

The Company receives revenue for services under third-party payor programs, including Medicare, Medicaid and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are included in the determination of the estimated transaction price for providing services. The Company estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends, and retroactive adjustments are recognized in future periods as final settlements are determined.

**Income Taxes**

AMS, ASCS, and ACTS are not-for-profit corporations. Each is exempt from federal income taxes under Section 501(a) of the Code and other income taxes under similar statutes. Accordingly, no provision for income taxes has been recorded in the special-purpose combined financial statements.

**Net Operating Income**

The performance indicator is identified on the special-purpose combined statements of operations and changes in net assets as net operating income. Changes in unrealized gains and losses on investments and investment contracts and the loss on extinguishment of debt are included in net operating income. Contributions of long-lived assets are included in changes in net assets without donor restrictions.

**Use of Estimates**

The preparation of financial statements in accordance with the basis of accounting described in Note 1 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the special-purpose combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

The Company evaluated subsequent events for recognition or disclosure through April 29, 2019, the date the special-purpose combined financial statements were issued.

## 3. Liquidity and Availability of Resources

As of December 31, 2018 the Company has financial assets available for general expenditure within one year of the date of the special-purpose combined balance sheets, consisting of the following:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 24,890 |
| Accounts receivable, entrance fee receivables and other receivables, net | | 20,239 |
| Investments: | | |
| Unrestricted assets | | 193,056 |
| Total | $ | 238,185 |

The Company has other assets restricted as to use: deposits from initial sales contracts, assets held by a trustee, reserves for future gift annuity payments, and other donor-restricted purposes. While the Company may designate assets for long-term purposes and general operating reserves, these could be made available.

As stated in Note 4, the Company designated a portion of its investments as reserved to comply with state liquid reserve requirements. Although the Company does not intend to utilize these state required liquid reserves for general expenditures they could be made available as necessary. However, these reserves may have third party restrictions or limitations on the withdrawal and subsequent liquidation of such funds and therefore have been excluded from the amounts above.

As part of the Company's liquidity management, cash in excess of daily requirements is invested in short-term investments and money market funds. The Company may designate a portion of any operating surplus to a general reserve. This fund may be drawn upon to meet unexpected liquidity needs.

Donor-restricted funds of $22,482,000 at December 31, 2018 can be made available based on the passage of time or other events specified by the donor.

Additionally, the Company maintains $130,000,000 available on lines of credit as discussed in more detail in Note 7.

## 4. Investments, Fair Value Measurements and Financial Instruments

### Investments

The classification of the Company's investments as of December 31, 2018 and 2017 is set forth in the following table:

| | 2018 | 2017 |
|---|---|---|
| | (In Thousands) | |
| Unrestricted assets | $ 205,144 | $ 203,718 |
| State required liquid reserves | 43,917 | 52,992 |
| Other debt related reserves | 79,556 | 17,916 |
| Debt service reserve funds | 11,197 | 11,200 |
| Real estate held for investment | 470 | - |
| Beneficial interest in the investments of ALF | 25,097 | 22,333 |
| Total | $ 365,381 | $ 308,159 |

Investment performance is as follows:

| | 2018 | 2017 |
|---|---|---|
| | (In Thousands) | |
| Without donor restrictions: | | |
| Interest and dividend income | $ 7,604 | $ 7,008 |
| Net realized (loss) gain on investments | (252) | 203 |
| Total investment income | 7,352 | 7,211 |
| Net unrealized (loss) gain on investments | (7,687) | 3,105 |
| Total investment return | $ (335) | $ 10,316 |

**Fair Value Measurements**

The Company measures its investments and derivative financial instruments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets or liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The fair value of the Company's cash and cash equivalents, investments (including alternative investments and real estate held for investment at cost), short-term indebtedness, construction loan payable, long-term indebtedness, and derivative financial instruments was measured using the following inputs at December 31, 2018 and 2017:

| | 2018 | | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Other Unobservable Inputs (Level 3) |
| | (In Thousands) | | | |
| Instruments measured and reported at fair value: | | | | |
| Investments: | | | | |
| Money market funds | $ 109,293 | $ 109,293 | $ - | $ - |
| U.S. government securities | 82,805 | - | 82,805 | - |
| Corporate debt securities | 70,299 | - | 70,299 | - |
| Mutual and exchange traded funds, fixed income | 34,631 | 34,631 | - | - |
| Beneficial interest in the investments of ALF | 25,097 | - | 25,097 | - |
| Equities | 13,391 | 13,391 | - | - |
| Other | 12,273 | - | 12,273 | - |
| Guaranteed investment contracts | 10,672 | - | - | 10,672 |
| Municipal bonds | 3,535 | - | 3,535 | - |
| Cash and cash equivalents | 2,644 | 2,644 | - | - |
| Real estate held for investment | 470 | - | - | 470 |
| Alternative investments | 271 | - | - | 271 |
| Total investments at fair value | $ 365,381 | $ 159,959 | $ 194,009 | $ 11,413 |
| Liabilities, | | | | |
| Accumulated loss on investment contracts | $ 7,588 | $ - | $ 7,588 | $ - |
| Instruments disclosed at fair value: | | | | |
| Assets, | | | | |
| Cash and cash equivalents | $ 24,890 | $ 24,890 | $ - | $ - |
| Liabilities: | | | | |
| Short-term indebtedness | $ 70,044 | $ - | $ 70,044 | $ - |
| Long-term indebtedness | 660,981 | - | 660,981 | - |
| Total | $ 731,025 | $ 34,631 | $ 731,025 | $ - |

| | 2017 | | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Other Unobservable Inputs (Level 3) |
| | (In Thousands) | | | |
| Instruments measured and reported at fair value: | | | | |
| Investments: | | | | |
| Money market funds | $ 52,366 | $ 52,366 | $ - | $ - |
| U.S. government securities | 75,888 | - | 75,888 | - |
| Corporate debt securities | 74,165 | - | 74,165 | - |
| Mutual and exchange traded funds, fixed income | 34,527 | 34,527 | - | - |
| Beneficial interest in the investments of ALF | 22,333 | - | 22,333 | - |
| Equities | 14,591 | 14,591 | - | - |
| Other | 11,045 | - | 11,045 | - |
| Guaranteed investment contracts | 10,372 | - | - | 10,372 |
| Municipal bonds | 5,221 | - | 5,221 | - |
| Cash and cash equivalents | 7,119 | 7,119 | - | - |
| Alternative investments | 532 | - | - | 532 |
| Total | $ 308,159 | $ 108,603 | $ 188,652 | $ 10,904 |
| Liabilities, | | | | |
| Accumulated loss on investment contracts | $ 9,574 | $ - | $ 9,574 | $ - |
| Instruments disclosed at fair value: | | | | |
| Assets, | | | | |
| Cash and cash equivalents | $ 7,822 | $ 7,822 | $ - | $ - |
| Liabilities: | | | | |
| Short-term indebtedness | $ 59,000 | $ - | $ 59,000 | $ - |
| Construction loan payable | 36,085 | - | 36,085 | - |
| Long-term indebtedness | 536,876 | - | 536,876 | - |
| Total | $ 631,961 | $ - | $ 631,961 | $ - |

The Company's guaranteed investment contracts increased $300,000 in 2018 and increased $531,000 in 2017, due to net deposits and withdrawals and the dissolution of certain debt service reserve funds.

The Company's alternative investments decreased $261,000 in 2018 and $371,000 in 2017 due to distributions received, net of additional capital contributions made. The Company's alternative investments represent ownership interests in three funds that invest primarily in limited partnerships. The limited partnerships invest in hedge funds, real estate funds, private equity/venture capital funds, and distressed debt funds. These investments represent less than 5% ownership in the limited partnerships and are recorded at cost. As part of these alternative investments, ACTS has committed additional capital of $619,000 to the funds. The capital can be called at any time and is expected to be funded by future distributions from the funds.

**Financial Instruments**

The carrying amount of cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

Mutual and exchange traded funds and equities are valued based on quoted market prices in active markets which are considered Level 1 inputs. U.S. government securities, corporate debt securities, other investments, and municipal bonds are generally valued using quoted market prices of similar securities, which are considered Level 2 inputs. The Company has a beneficial interest in the investments of ALF. Since ALF generally invests the Company's funds in U.S. government securities, corporate debt securities, other investments, and municipal bonds, the fair value of the beneficial interest in the investments of ALF was deemed to be determined using Level 2 inputs.

The fair values of the Company's short-term indebtedness and construction loan payable approximate the carrying amounts. The carrying amount of the short-term indebtedness was $70,044,000 and $59,000,000 at December 31, 2018 and 2017, respectively. The carrying amount of the construction loan payable was $36,085,000 at December 31, 2017. The fair values are based on quoted market prices for the same or similar issues.

The fair value of the Company's variable rate long-term indebtedness (including variable rate demand revenue bonds and taxable term loans) approximates the carrying amount before deferred financing fees; the carrying amount of this long-term indebtedness was $148,810,000 and $177,167,000 at December 31, 2018 and 2017, respectively. The carrying amount of the Company's fixed rate long-term indebtedness was $481,340,000 and $323,270,000 at December 31, 2018 and 2017, respectively. The estimated fair value of the Company's fixed rate long-term indebtedness was $512,171,000 and $359,709,000 at December 31, 2018 and 2017, respectively. The fair values are based on quoted market prices for the same or similar issues.

The guaranteed investment contracts are reported at contract value, which approximates fair value, based on the ability of the counterparties to pay the guaranteed claims in accordance with the terms of the contracts. The credit ratings of the counterparties as of the measurement date uphold the guaranteed investment contracts ability to meet obligations set forth in the contracts. Contract value is the aggregation of contributions, plus interest, less withdrawals. Contract value approximates a discounted cash flow value calculated using an appropriate risk-adjusted market discount rate which correlates closely with the counterparties historical crediting rates. The guaranteed investment contracts have redemption restrictions based on the terms of the underlying contracts. The redemption restrictions do not have a material impact on the contract value of the guaranteed investment contracts.

The Company measures its accumulated loss on investment contracts at fair value based on proprietary models of an independent third-party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instruments and considers the credit risk of the counterparty to the agreements and the Company. The method used to determine the fair value calculates the estimated future payments required by the derivative financial instruments and discounts these payments using an appropriate discount rate. The value represents the estimated exit price the Company would pay to terminate the agreements.

It is generally not practicable to estimate the fair value of the Company's note receivable since terms could not be duplicated in the market and estimating fair values may result in inappropriate amounts.

## 5. Accounts Receivable, Entrance Fee Receivables and Other Receivables

Accounts receivable, entrance fee receivables, and other receivables are comprised of the following at December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| | (In Thousands) | |
| Resident monthly fees | $ 3,591 | $ 3,350 |
| Resident entrance fees | 8,153 | 6,431 |
| Third party accounts | 6,937 | 7,006 |
| Other | 2,405 | 2,098 |
| Total receivables | 21,086 | 18,885 |
| Allowance for uncollectible accounts | (847) | (642) |
| Accounts receivable, entrance fee receivables and other receivables, net | $ 20,239 | $ 18,243 |

## 6. Property and Equipment

Property and equipment is comprised of the following at December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| | (In Thousands) | |
| Land and improvements | $ 93,186 | $ 92,047 |
| Building and improvements | 1,641,502 | 1,570,027 |
| Furniture, fixtures and equipment | 139,331 | 135,057 |
| Construction in progress | 83,102 | 40,625 |
| Total property and equipment | 1,957,121 | 1,837,756 |
| Accumulated depreciation | (798,681) | (744,484) |
| Property and equipment, net | $ 1,158,440 | $ 1,093,272 |

## 7. Short-Term Indebtedness

ACTS had an available $15,000,000 revolving line of credit with a financial institution allowing for cash advances and providing support for the issuance of direct pay letters of credit. Interest was calculated monthly based on changes to the LIBOR Flex Rate, as defined. There were no borrowings at December 31, 2018 and 2017. Letters of credit issued in connection with the line of credit were $8,766,000 at December 31, 2017. The line of credit was closed in September 2018.

ACTS also has an available $65,000,000 revolving line of credit with a financial institution allowing for cash advances. Interest on amounts outstanding on the line of credit ranges from 3.57% to 3.69% at December 31, 2018. Interest is calculated monthly based on changes to the LIBOR Rate, as defined. Borrowings were $45,250,000 at December 31, 2018 and $59,000,000 at December 31, 2017. A draw of $17,750,000 on this line of credit consisted of an advance to AAC related to the affiliation with PRC, which was repaid upon PRC obtaining permanent financing in March 2019. Interest on this advance is charged at ACTS' cost of capital on its short-term indebtedness. The line of credit is set to expire in November 2021. The line of credit agreement was amended in 2018 to include letters of credit. The line of credit agreement was amended in 2018 to include letters of credit. Letters of credit issued in connection with the line of credit were $9,703,000 at December 31, 2018.

ACTS also has an available $65,000,000 revolving line of credit with another financial institution allowing for cash advances. Interest on amounts outstanding on the line of credit is 3.66% at December 31, 2018. Interest is calculated monthly based on changes to the LIBOR Rate, as defined. Borrowings were $24,794,000 at December 31, 2018. The line of credit is set to expire in June 2021.

The Company's obligations under the line of credit agreements are secured under the terms of a Master Trust Indenture dated December 1, 1996, as supplemented, on a parity basis by a pledge of gross revenues (as defined), a covenant not to create or allow to exist upon its property any lien except for permitted liens, and a promise to deliver mortgages and/or deeds of trust granting liens upon and security interest on its facilities to the Master Trustee if certain events occur, as defined.

## 8. Construction Loan Payable

ACTS had an available $65,000,000 revolving construction loan with a financial institution to fund construction of an expansion project at one of its CCRCs. The expansion project primarily consisted of independent living units and skilled care beds. Construction began in June 2015 upon achieving a predetermined level of pre-sales for the independent living units. Principal payments were made monthly from the collection of the related initial sale entrance fees upon occupancy of the expansion units. Interest on the amounts outstanding on the loan was 2.84% at December 31, 2017. Interest was calculated monthly based on changes to One-Month LIBOR. The amount outstanding on the loan was $36,085,000 at December 31, 2017. The construction loan payable was repaid upon a financing transaction in June 2018, and not renewed.

## 9. Long-Term Indebtedness

The Company's long-term indebtedness has been issued under a Master Trust Indenture dated December 1, 1996, as supplemented, which secures the obligations of the Company and includes a pledge of gross revenues (as defined), a covenant not to create or allow to exist upon its property any lien except for permitted liens, and a promise to deliver mortgages and/or deeds of trust granting liens upon and security interest on its facilities to the Master Trustee if certain events occur, as defined. The Company is required to maintain certain reserves with a trustee. Such reserves are included in investments. The Company is also required to meet certain financial covenants.

The Company's long-term indebtedness consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | (In Thousands) | |
| Palm Beach County Health Facilities Authority (FL) Retirement Communities Revenue Bonds Series 2018A. The interest rate is 5% and principal matures in varying amounts from 2042 through 2045 (yield to maturity 4.51% at December 31, 2018). | $ 46,815 | $ - |
| Delaware Economic Development Authority Retirement Communities Revenue Bonds Series 2018B. The interest rate is 5% and principal of $17,325,000 and $18,450,000 matures in 2047 and 2048, respectively (yield to maturity 4.52% at December 31, 2018). | 35,775 | - |
| South Carolina Jobs-Economic Development Authority Retirement Communities Revenue Bonds Series 2018C. The interest rate is 5%. Principal matures in varying amounts from 2045 through 2047 (yield to maturity 4.54% at December 31, 2018). | 21,540 | - |
| Public Finance Authority Retirement Communities Revenue Bonds Series 2018D. The interest rate is 3.51% and resets in June 2025. Principal matures in varying amounts from 2037 through 2040. | 32,065 | - |
| Montgomery County Industrial Development Authority (PA) Retirement Communities Revenue Bonds Series 2018E. The interest rate is 3.51% and resets in June 2025. Principal matures in varying amounts from 2040 through 2042. | 31,615 | - |
| Taxable Notes dated August 1, 2016. The interest rates range from 1.85% to 2.47%. Principal matures in varying amounts through 2019 (yield to maturity 3.48% at December 31, 2018). | 1,750 | 10,620 |
| Montgomery County Industrial Development Authority (PA) Retirement Communities Revenue Bonds Series 2016. The interest rate is 5% and principal matures in varying amounts from 2033 through 2036 (yield to maturity 4.35% at December 31, 2018). | 97,165 | 97,165 |
| Palm Beach County Health Facilities Authority (FL) Retirement Communities Revenue Bonds Series 2016. The interest rates range from 3% to 5% and principal matures in varying amounts from 2019 through 2032 (yield to maturity 3.74% at December 31, 2018). | 105,585 | 105,585 |

| | 2018 | 2017 |
|---|---|---|
| | (In Thousands) | |
| Gainesville and Hall County Development Authority (GA) Retirement Community Revenue Refunding Bonds Series 2016. The interest rates range from 4% to 5% and principal of $435,000 and $6,755,000 matures in 2032 and 2033, respectively (yield to maturity 4.12% at December 31, 2018). | $ 7,190 | $ 7,190 |
| Taxable Term Loan dated December 19, 2013. The interest rate is 4.07% and resets in December 2023. Principal is anticipated to mature in varying amounts through November 2038. | 21,580 | 22,402 |
| Taxable Term Loan dated December 19, 2013. The interest rate is 3.81% and resets in December 2023 and every five years thereafter. Principal matures in varying amounts through 2038. | 13,490 | 13,810 |
| Taxable Term Loan dated December 16, 2013. The interest rate is 3.24% at December 31, 2018 and may be adjusted annually, as defined. Principal matures in varying amounts through 2020. | 4,970 | 7,405 |
| Montgomery County Industrial Development Authority (PA) Retirement Communities Revenue Refunding Bonds Series 2012. The interest rate is 5% and principal matures in varying amounts from 2023 through 2029 (yield to maturity 3.99% at December 31, 2018). | 80,465 | 80,465 |
| Palm Beach County Health Facilities Authority (FL) Retirement Communities Revenue Refunding Bonds Series 2012. The interest rate is 5% and principal of $5,735,000 and $7,595,000 matures in 2022 and 2023, respectively (yield to maturity 3.27% at December 31, 2018). | 13,330 | 13,330 |
| Gainesville and Hall County Development Authority (GA) Retirement Community Revenue Refunding Bonds Series 2012. The interest rate is 5% and principal matures in varying amounts through 2022 (yield to maturity 3.01% at December 31, 2018). | 8,045 | 8,915 |
| South Carolina Jobs-Economic Development Authority Health Facilities Economic Development Revenue Bonds Series 2012. The interest rate was 2.47%. | - | 21,585 |
| Delaware Economic Development Authority Variable Rate Demand Revenue Bonds Series 2007A. The interest rate is fixed at 3.32% and resets in December 2023 on $33,675,000 of the bonds, and variable at 2.68% at December 31, 2018 on $14,000,000 of the bonds. Principal matures in varying amounts from 2021 through 2037. | 47,675 | 47,675 |

| | 2018 | 2017 |
|---|---|---|
| | (In Thousands) | |
| Gainesville and Hall County Development Authority (GA) Senior Living Facility Variable Rate Demand Revenue Bonds Series 2003B. The interest rate was 2.36% at December 31, 2018. Principal matures in varying amounts through 2033. Security is provided through a bond insurance commitment enhanced by a standby bond purchase agreement. | $ 29,825 | $ 30,930 |
| Escambia County Health Facilities Authority (FL) Healthcare Facilities Variable Rate Revenue Refunding Bonds Series 2003B. The interest rate was 2.36% at December 31, 2018. Principal matures in varying amounts through 2029. Security is provided through a bond insurance commitment enhanced by a standby bond purchase agreement. | 21,005 | 22,525 |
| Montgomery County Industrial Development Authority (PA) Retirement Community Variable Rate Demand Revenue Bonds Series 2002. The interest rate was 2.36% at December 31, 2018. Principal matures in varying amounts through 2029. Security is provided through a bond insurance commitment enhanced by a standby bond purchase agreement. | 10,265 | 10,835 |
| Total | 630,150 | 500,437 |
| Unamortized bond premiums and discounts, net | 51,099 | 43,334 |
| Unamortized deferred financing costs, net | (8,448) | (7,505) |
| Total long-term indebtedness | $ 672,801 | $ 536,266 |

Variable rates are determined based on prevailing market rates and general financial conditions. The variable interest rates above include letter of credit and remarketing fees. The letter of credit fees are subject to change if the rating for the Company changes in the future. Certain debt provisions require the maintenance of the standby bond purchase agreements. Any standby bond purchase agreement used as security, if executed, has a five-year repayment term.

Anticipated principal repayments on long-term indebtedness are as follows (in thousands):

| | |
|---|---|
| Years ending December 31: | |
| 2019 | $ 16,804 |
| 2020 | 17,413 |
| 2021 | 18,082 |
| 2022 | 19,436 |
| 2023 | 37,985 |
| 2024 - 2028 | 107,510 |
| 2029 - 2033 | 144,775 |
| 2034 - 2038 | 116,460 |
| 2039 - 2043 | 67,805 |
| 2044 - 2048 | 83,880 |
| Total | $ 630,150 |

### Loss on Extinguishment of Debt

During 2018, ACTS OG completed financing transactions through the issuance of six series of revenue bonds to provide for overall debt service savings, while also establishing a project fund for certain capital projects in the Pennsylvania, Florida, Delaware, and South Carolina CCRCs. A portion of the proceeds of the bonds were used to refund the Series 2012 (SC) bonds. In conjunction with this transaction, ACTS OG recorded a loss on early extinguishment of debt that is included in the special-purpose combined statements of operations and changes in net assets. The loss consists of $255,000 in unamortized deferred financing costs.

## 10. Derivative Instruments and Hedging Activities

The Company has interest rate swap agreements with financial institutions that are considered derivative financial instruments. The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable rate debt. The swap agreements are contracts to exchange variable rate for fixed rate payments over the terms of the swap agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote and that the swap agreements are continuing to function as intended.

The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense. The Company does not utilize interest rate swap agreements or other financial instruments for trading or other speculative purposes.

Changes in fair value of the interest rate swap agreements are recorded as a component of net unrealized (loss) gain on investments and investment contracts. The change in unrealized gain was $1,986,000 in 2018 and $1,662,000 in 2017.

At December 31, 2018, the Company had the following interest rate swaps in effect:

| Debt Series | Notional Amount | Maturity Date | Effective Interest Rate | Accumulated Unrealized Loss |
|---|---|---|---|---|
| Series 2002 (PA) | $ 10,265,000 | 2029 | 3.64% | $ 1,222,000 |
| Series 2003B (GA) | 29,825,000 | 2033 | 3.54% | 4,459,000 |
| Series 2003B (FL) | 21,005,000 | 2029 | 3.35% | 1,907,000 |

The fair value of the interest rate swap agreements was $(7,588,000) and $(9,574,000) at December 31, 2018 and 2017, respectively, and was obtained from an independent third-party valuation specialist.

## 11. Net Assets

Net assets with donor restrictions are available for the following purposes:

| | 2018 | 2017 |
|---|---|---|
| | (In Thousands) | |
| Financial assistance to residents | $ 11,431 | $ 10,523 |
| Purchase of property and equipment | 3,314 | 3,463 |
| Resident services | 1,456 | 1,266 |
| Other | 6,282 | 4,467 |
| Restricted in perpetuity | 2,614 | 2,614 |
| Total net assets with donor restrictions | $ 25,097 | $ 22,333 |

The income distributions from net assets held in perpetuity are available to fund financial assistance to residents and other donor restricted purposes.

Net assets were released from donor restrictions by incurring costs satisfying the restricted purpose or by occurrence of other events specified by donors.

## 12. Resident Services and Patient Revenues

The Company disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Resident services and patient revenues consist of the following for the years ended December 31, 2018 and 2017:

| | 2018 | | | |
|---|---|---|---|---|
| | Independent Living | Assisted Living | Skilled Nursing | Total |
| Self-pay | $ 236,647 | $ 30,245 | $ 38,363 | $ 305,255 |
| Medicare and other | 2,766 | 4 | 25,224 | 27,994 |
| Medical assistance | - | - | 4,800 | 4,800 |
| Total resident services and patient services | $ 239,413 | $ 30,249 | $ 68,387 | $ 338,049 |
| Amortization of nonrefundable entrance fees | | | | $ 91,029 |

## 13. Retirement Plans

The Company participates in a 401(k) Plan (the "ACTS 401(k) Plan") covering substantially all full-time employees. The ACTS 401(k) Plan allows for qualified employees to voluntarily contribute up to the IRS maximum. In accordance with the terms of the ACTS 401(k) Plan, the Company matches up to 100% of the first 3% of the employee's contribution, plus an additional 50% of the next 2% of the employee's contribution. Plan expense was $4,215,000 in 2018 and $3,728,000 in 2017.

AMS provides a nonqualified Supplemental Executive Retirement Plan ("SERP") to certain members of senior executive management in addition to those benefits available under the ACTS 401(k) Plan. Retirement benefits, as defined in the plan document and amendments, are based on age, years of service, and average compensation during the last five years of employment. SERP expense was $789,000 in 2018 and $1,889,000 in 2017. The SERP liability is included in accounts payable and accrued expenses on the special-purpose combined balance sheets and was $2,673,000 and $1,884,000 at December 31, 2018 and 2017, respectively.

## 14. Concentrations of Credit Risk

The Company grants credit without collateral to its residents, some of whom are insured under third-party payor arrangements, primarily related to providing residential and healthcare related services.

The Company maintains cash accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses resulting from this, and management believes it is not subject to any significant credit risk related to cash accounts.

## 15. Commitments and Contingencies

### Senior Living Services Industry

The senior living services industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local governments and agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance.

### Workers Compensation

The Company maintains a self-insured workers compensation program with a per occurrence retention limit of $600,000. As of December 31, 2018 and 2017, the reserve for workers compensation liability claims was $3,062,000 and $2,988,000, respectively, and is included in accounts payable and accrued expenses on the special-purpose combined balance sheets. Reserves are based upon fully developed cases and are actuarially determined. These estimates are based on historical loss experience along with certain assumptions about future events. Changes in assumptions for such things as medical costs, as well as changes in actual loss experience could cause these estimates to change in the near term.

### Construction Agreements

The Company entered into construction agreements for certain development and renovation activities at various communities. Commitments were approximately $60,708,000 as of December 31, 2018.

### Litigation

The Company operates in an industry where various suits and claims arise in the normal course of business. Management is not currently aware of any claims that have been or will be asserted that will, after consideration of applicable insurance coverages, have a material adverse effect on the special-purpose combined financial statements.

## 16. Related-Party Transactions

### Management Agreements

AMS entered into Management, Marketing, and Development Agreements (the "Agreements") with EG, HP, and PRC, which are automatically renewable for one year on each anniversary date. Management fees are equal to 4% of gross revenues, plus any out-of-pocket expenses. Marketing fees are equal to 4% of gross entrance fee proceeds, plus any out-of-pocket expenses. Development fees are equal to 4% of project costs for qualified capital projects. AMS is also reimbursed for the costs related to certain key employees.

AMS has a management agreement with ALF, which is automatically renewable for one year on each anniversary date. Management fees are equal to 5% of gross program receipts (excluding investment income), plus any out-of-pocket expenses.

Total fees earned by AMS were $3,989,000 in 2018 and $2,049,000 in 2017. These balances are generally settled currently in the normal course of business.

AMS receives a fixed premium from EG, HP and PRC for their participation in workers compensation and health insurance programs, which is adjusted from time to time. Premiums collected by AMS in connection with these programs were $2,391,000 in 2018 and $1,178,000 in 2017.

### Beneficial Interest in Investments

As of December 31, 2018 and 2017, the Company has a beneficial interest in the investments of ALF of $25,097,000 and $22,333,000, respectively, related to donor restricted funds. These amounts are included in investments on the special-purpose combined balance sheets.

## 17. Functional Expenses

The Company provides housing, healthcare, and other related services to residents within its geographic location. The special-purpose combined financial statements report certain expense categories that are attributable to more than one program service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest, and other occupancy costs, are allocated to a function based on usage of space. Expenses relating to providing these services are approximately as follows:

| | Program Service | General and Administrative | Fundraising | Total |
|---|---|---|---|---|
| Salaries, wages and benefits | $ 208,072 | $ 21,919 | $ 719 | $ 230,710 |
| Contracted services | 16,723 | 3,018 | 48 | 19,789 |
| Utilities | 21,204 | 669 | - | 21,873 |
| Food | 22,559 | 528 | 39 | 23,126 |
| Supplies | 13,782 | 4,105 | 96 | 17,983 |
| Real estate taxes | 9,673 | 685 | - | 10,358 |
| Insurance | 3,791 | 494 | - | 4,285 |
| Other | 9,335 | 8,534 | 85 | 17,954 |
| Depreciation and amortization | 66,829 | 4,226 | - | 71,055 |
| Interest, net | 20,058 | - | - | 20,058 |
| Total | $ 392,026 | $ 44,178 | $ 987 | $ 437,191 |

In 2017, approximately $375,470,000 of expenses related to program service, $35,189,000 of expenses related to general and administrative, and $886,000 of expenses related to fundraising.

## 18. New Accounting Pronouncements and Change in Reporting Entity

In 2018, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified approach. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition,* and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements. Under the modified approach, the guidance is applied to the current period presented. The adoption of ASU No. 2014-09 resulted in a change in deferred costs of $29,000 as of January 1, 2018.

In 2018, the Company adopted the FASB ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Company has adjusted the presentation of these special-purpose combined financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have been presented for 2018 only, as allowed by ASU No. 2016-14.

The new standard changes the following aspects of the special-purpose combined financial statements:

- The unrestricted net assets class has been renamed net assets without donor restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions;
- The special-purpose combined financial statements include a disclosure about liquidity and availability of resources at December 31, 2018. (Note 3).
- The functional expense disclosure for 2018 includes expenses reported both by nature and function. (Note 17).

**Change in Reporting Entity**

The Company issued additional debt in June 2018 (Note 9). As of the date of issuance of the additional debt, PPV joined as Obligated Issuers of the ACTS Obligated Group created pursuant to the Master Trust Indenture dated as of December 1, 1996, as supplemented. Accordingly, the accompanying previously issued 2017 special-purpose combined financial statements were restated for the change in reporting entity to include the accounts of PPV.

The effects of the restatement on the Company's 2017 special-purpose combined financial statements, net of inter-affiliate transactions between members of the Company that have been eliminated, are shown in the following table. Additional inter-affiliate amounts eliminated from the Company's 2017 special-purpose combined financial statements as a result of the change in reporting entity include subordinated note receivable of $6,082,000 and property and equipment of $1,097,000 previously reported as a component of total assets, and management and marketing fees of $1,055,000 previously reported as a component of total operating revenue / total operating expenses.

The impact of these changes on the special-purpose combined financial statements in 2017 is as follows:

| | As Previously Reported | Adjustments for Change in Reporting Entity | As Restated |
|---|---|---|---|
| **Special-Purpose Combined Balance Sheets** | | | |
| Total assets | $ 1,405,123 | $ 52,018 | $ 1,457,141 |
| Total liabilities | $ 1,319,209 | $ 44,246 | $ 1,363,455 |
| Net Assets | | | |
| Net assets without donor restrictions | 63,930 | 7,423 | 71,353 |
| Net assets with donor restrictions | 21,984 | 349 | 22,333 |
| Total net assets | $ 85,914 | $ 7,772 | $ 93,686 |
| **Special-Purpose Combined Statements of Operations and Changes in Net Assets** | | | |
| Total operating revenues | $ 411,998 | $ 11,536 | $ 423,534 |
| Total operating expenses | 400,823 | 10,722 | 411,545 |
| Operating income | 11,175 | 814 | 11,989 |
| Net operating income (loss) | 15,829 | (5,155) | 10,674 |
| Increase (decrease) in net assets without donor restriction | 16,209 | (5,141) | 11,068 |
| Net assets without donor restriction, beginning | 47,721 | 12,564 | 60,285 |
| Net assets without donor restriction, ending | $ 63,930 | $ 7,423 | $ 71,353 |
| **Special-Purpose Combined Statements of Cash Flows** | | | |
| Net cash provided by operating activities: | | | |
| Increase in net assets | $ 18,490 | $ (5,154) | $ 13,336 |
| Net cash provided by operating activities | 106,930 | 4,696 | 111,626 |
| Net cash used in investing activities | (131,274) | (2,612) | (133,886) |
| Net cash provided by (used in) financing activities | 16,399 | (1,440) | 14,959 |
| Cash and equivalents, beginning | 14,876 | 247 | 15,123 |
| Cash and equivalents, ending | $ 6,931 | $ 891 | $ 7,822 |

## 19. Subsequent Events

### Integrace Affiliation

In January 2019, ACTS entered into an affiliation agreement with Integrace to which Integrace agreed to become an affiliate of ACTS. The affiliation, through which ACTS (through its affiliate AAC) became the sole corporate member of Integrace and its current entities, was effective April 1, 2019. Integrace operates three senior living campuses located throughout Maryland. Integrace and its current entities remain separate legal entities, and are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code. No cash consideration was paid or received by ACTS to consummate this affiliation. The initial accounting for the business combination is currently incomplete, therefore the qualitative description factors and the acquisition-date fair value of the consideration transferred in total or of each major class of consideration is not disclosed.

### PRC Debt Financing

In March 2019, PRC completed a $23,075,000 Series 2019 debt financing. The majority of the proceeds of the debt financing were used to satisfy the $17,750,000 note receivable with ACTS (Note 2) of which ACTS made a payment on its short-term indebtedness.

**ATTACHMENT NO. 2**

INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2019

(UNAUDITED)

ACTS RETIREMENT-LIFE COMMUNITIES, INC. (OBLIGATED GROUP)

**ACTS OBLIGATED GROUP**
**STATEMENT OF FINANCIAL POSITION**
**MARCH 31, 2019 AND 2018**

| | Unaudited ACTS Obligated Group* 3/31/19 | Unaudited ACTS Obligated Group* 3/31/18 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 11,047,687 | $ 13,970,453 |
| Investments | 361,716,000 | 279,735,967 |
| Accounts receivable and entrance fee receivables, net | 17,146,948 | 14,561,875 |
| Note receivable from affiliate | - | 17,750,000 |
| Prepaid expenses, inventory, and deposits | 7,649,724 | 7,674,177 |
| Property and equipment, net | 1,169,114,157 | 1,096,595,510 |
| Deferred costs, net | 2,753,096 | 1,619,857 |
| Due from affiliated organizations | 4,336,804 | 2,256,110 |
| TOTAL ASSETS | $ 1,573,764,416 | $ 1,434,163,949 |
| **LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 70,144,041 | $ 61,007,009 |
| Short-term indebtedness | 49,493,987 | 72,801,000 |
| Construction loan payable | - | 31,112,313 |
| Long-term indebtedness | 671,898,159 | 534,962,383 |
| Entrance fee deposits | 11,013,488 | 7,927,662 |
| Refundable portion of entrance fees | 9,913,806 | 13,317,075 |
| Deferred revenue from entrance fees | 637,799,333 | 609,233,370 |
| Accumulated loss on investment contracts | 8,373,001 | 7,917,857 |
| TOTAL LIABILITIES | 1,458,635,815 | 1,338,278,669 |
| **NET ASSETS** | | |
| Without donor restrictions | 87,779,349 | 71,607,664 |
| With donor restrictions | 27,349,252 | 24,277,616 |
| TOTAL NET ASSETS | 115,128,601 | 95,885,280 |
| TOTAL LIABILITIES AND NET ASSETS | $ 1,573,764,416 | $ 1,434,163,949 |

* Includes intercompany eliminations

**ACTS OBLIGATED GROUP**
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**
**FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018**

| | YEAR TO DATE | |
|---|---|---|
| | **Unaudited ACTS Obligated Group* 3/31/19** | **Unaudited ACTS Obligated Group* 3/31/18** |
| **OPERATING REVENUE** | | |
| Resident services revenue, net of amortization of entrance fees | $ 77,655,259 | $ 74,874,737 |
| Patient revenue from third-party payors | 8,581,164 | 8,887,901 |
| Investment income | 1,679,053 | 1,827,001 |
| Net assets released from restriction to provide resident services | 617,190 | 587,240 |
| Other revenue | 2,588,516 | 2,647,862 |
| Total operating revenue before amortization of entrance fees | 91,121,182 | 88,824,741 |
| Amortization of entrance fees | 22,816,140 | 21,055,451 |
| Total operating revenue | 113,937,322 | 109,880,192 |
| **OPERATING EXPENSES** | | |
| Salary, wages, and benefits | 59,057,261 | 56,458,268 |
| Contracted services | 4,543,263 | 4,530,823 |
| Utilities | 5,924,695 | 5,831,666 |
| Food | 5,709,953 | 5,510,458 |
| Supplies | 4,338,675 | 4,315,518 |
| Real estate taxes | 2,610,205 | 2,727,554 |
| Insurance | 1,218,130 | 1,237,493 |
| Other | 3,670,984 | 3,971,059 |
| Total operating expenses before depreciation, amortization and interest | 87,073,166 | 84,582,839 |
| Depreciation and amortization | 18,130,283 | 18,385,522 |
| Interest, net | 5,564,442 | 4,576,682 |
| Total operating expenses | 110,767,891 | 107,545,043 |
| **OPERATING INCOME** | $ 3,169,431 | $ 2,335,149 |

* Includes intercompany eliminations

**ACTS OBLIGATED GROUP**
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)**
**FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018**

| | YEAR TO DATE | |
|---|---|---|
| | Unaudited ACTS Obligated Group* 3/31/19 | Unaudited ACTS Obligated Group* 3/31/18 |
| **CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS** | | |
| Operating income | $ 3,169,431 | $ 2,335,149 |
| Net unrealized gain (loss) on investments and investment contracts | 5,623,021 | (3,218,196) |
| Net operating income (loss) | 8,792,452 | (883,047) |
| Net assets released from restriction to acquire property and equipment | 48,775 | 39,121 |
| Change in net assets without donor restrictions | 8,841,227 | (843,926) |
| **CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS** | | |
| Change in beneficial interest in investments of ACTS Legacy Foundation, Inc. | 2,253,150 | 1,945,064 |
| Change in net assets with donor restrictions | 2,253,150 | 1,945,064 |
| **INCREASE IN NET ASSETS** | 11,094,377 | 1,101,138 |
| **NET ASSETS, BEGINNING** | 104,034,224 | 94,784,142 |
| **NET ASSETS, ENDING** | $ 115,128,601 | $ 95,885,280 |

* Includes intercompany eliminations

**ACTS OBLIGATED GROUP**
**STATEMENT OF CASH FLOWS**
**FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018**

| | YEAR TO DATE | |
|---|---|---|
| | Unaudited ACTS Obligated Group* 3/31/19 | Unaudited ACTS Obligated Group* 3/31/18 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Increase in net assets | $ 11,094,377 | $ 1,101,138 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 18,130,283 | 18,385,522 |
| Amortization of entrance fees | (22,816,140) | (21,055,451) |
| Amortization of bond discount and premium | (877,207) | (802,466) |
| Amortization of deferred financing costs | 165,262 | 149,475 |
| Entrance fees from non-refundable resale contracts | 24,564,242 | 10,786,721 |
| Refunds of non-refundable entrance fees and deposits from resale contracts | (2,358,589) | (2,612,380) |
| Administrative fee included in gross entrance fees | (948,363) | (356,467) |
| Increase in deferred costs | (278,776) | - |
| Net realized and unrealized (gain) loss on investments | (6,071,444) | 4,885,395 |
| Change in fair value of investment contracts | - | (1,655,567) |
| Change in beneficial interest in investments of ACTS Legacy Foundation, Inc. | (2,253,150) | (1,945,064) |
| Net change in due to/from affiliated organizations | (598,839) | (277,993) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (360,734) | 390,365 |
| Decrease in prepaid expenses, inventory, and deposits | 144,018 | 543,760 |
| Increase in accounts payable and accrued expenses | 3,680,642 | 3,314,736 |
| Net cash provided by operating activities | 22,001,044 | 10,851,724 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (20,076,456) | (20,532,025) |
| Decrease in investments | 11,989,264 | 25,483,042 |
| Payment on note receivable from affiliate | 17,750,000 | - |
| Net cash provided by investing activities | 9,662,808 | 4,951,017 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Entrance fees from initial sale contracts | 462,260 | 2,369,225 |
| Refunds of entrance fees and deposits from initial sale contracts | (258,730) | (59,630) |
| Entrance fees from refundable resale contracts | - | 219,930 |
| Refunds of refundable entrance fees | (998,785) | (1,160,088) |
| Payment of accounts payable, construction | (23,969,558) | (19,201,648) |
| Proceeds from short-term indebtedness | 15,199,630 | 15,801,000 |
| Increase in deferred financing costs | (5,055) | (231,674) |
| Payments on short-term indebtedness | (35,750,000) | (2,000,000) |
| Payments on construction loan payable | - | (4,972,495) |
| Principal payments on long-term indebtedness | (186,000) | (419,000) |
| Net cash used in financing activities | (45,506,238) | (9,654,380) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (13,842,386) | 6,148,361 |
| **CASH AND CASH EQUIVALENTS, BEGINNING** | 24,890,073 | 7,822,092 |
| **CASH AND CASH EQUIVALENTS, ENDING** | $ 11,047,687 | $ 13,970,453 |

* Includes intercompany eliminations

**ATTACHMENT NO. 3**

FIVE YEAR FINANCIAL FORECAST

ACTS RETIREMENT-LIFE COMMUNITIES, INC. (OBLIGATED GROUP)

# ACTS Retirement-Life Communities, Inc.
# (Obligated Group)

Projected Special-Purpose
Combined Financial Statements
for Each of the Five Years Ending
December 31, 2023 and
Accountants' Compilation Report

bakertilly

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# Accountants' Compilation Report

To the Board of Directors of
ACTS Retirement-Life Communities, Inc.

Management is responsible for the accompanying financial projection of ACTS Retirement-Life Communities, Inc. (Obligated Group), which comprises the accompanying projected special-purpose combined balance sheets, statements of operations and changes in net assets, and cash flows as of and for each of the five years ending December 31, 2023, and the related summaries of significant assumptions and accounting policies in accordance with guidelines for the presentation of a financial projection established by the American Institute of Certified Public Accountants (AICPA). We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the financial projection nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on this financial projection.

The projected results may not be achieved as there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and these differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying financial projection and this report are intended solely for the information and use of ACTS Retirement-Life Communities, Inc. (Obligated Group) and the North Carolina Department of Insurance and are not intended to be and should not be used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
May 29, 2019

**ACTS Retirement-life Communities, Inc. (Obligated Group)**

Projected Special-Purpose Combined Balance Sheets
Under the Hypothetical Assumptions Described in Note 1
December 31, 2019 through 2023
(In Thousands)

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | $ 25,423 | $ 26,006 | $ 26,626 | $ 27,293 | $ 27,930 |
| Board-designated funds | 211,473 | 224,758 | 237,853 | 251,139 | 271,122 |
| Accounts receivables and entrance fee receivables, net | 20,985 | 21,755 | 22,558 | 23,230 | 24,355 |
| Prepaid expenses, inventory, and deposits | 8,105 | 8,430 | 8,767 | 9,118 | 9,482 |
| Due from affiliated organizations | 3,173 | 2,591 | 1,992 | 1,374 | 430 |
| Total current assets | 269,159 | 283,540 | 297,796 | 312,154 | 333,319 |
| Board-designated funds | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Assets whose use is limited | 101,125 | 100,512 | 97,589 | 86,334 | 88,013 |
| North Carolina operating reserve funds | 7,813 | 7,969 | 8,129 | 8,291 | 8,457 |
| Property and equipment, net | 1,265,423 | 1,344,350 | 1,402,176 | 1,445,782 | 1,454,430 |
| Deferred costs, net | 3,347 | 3,982 | 4,460 | 5,070 | 5,454 |
| Total assets | $ 1,656,867 | $ 1,750,353 | $ 1,820,150 | $ 1,867,631 | $ 1,899,673 |
| **Liabilities and Net Assets** | | | | | |
| Current Liabilities | | | | | |
| Accounts payable and accrued expenses | $ 83,859 | $ 87,584 | $ 89,993 | $ 93,077 | $ 96,201 |
| Entrance fee deposits | 9,382 | 9,485 | 9,591 | 9,701 | 9,813 |
| Short-term indebtedness | 60,618 | 53,133 | 99,833 | 25,338 | 37,838 |
| Current maturity of mortgage loan payable | 267 | 278 | 289 | 300 | 312 |
| Current maturities of long-term debt | 17,413 | 18,773 | 20,154 | 21,659 | 21,522 |
| Total current liabilities | 171,539 | 169,253 | 219,860 | 150,075 | 165,686 |
| Long-term indebtedness | 635,996 | 652,476 | 629,672 | 634,513 | 610,759 |
| Mortgage loan payable | 14,733 | 14,455 | 14,166 | 13,866 | 13,554 |
| Refundable portion of entrance fees | 8,293 | 5,670 | 3,439 | 1,655 | 317 |
| Deferred revenue from entrance fees | 696,851 | 760,087 | 784,299 | 877,235 | 896,521 |
| Accumulated loss on investment contracts | 7,588 | 7,588 | 7,588 | 7,588 | 7,588 |
| Total liabilities | 1,535,000 | 1,609,529 | 1,659,024 | 1,684,932 | 1,694,425 |
| **Net Assets** | | | | | |
| Without donor restrictions | 95,632 | 113,417 | 132,511 | 152,841 | 174,108 |
| With donor restrictions | 26,235 | 27,407 | 28,615 | 29,858 | 31,140 |
| Total net assets | 121,867 | 140,824 | 161,126 | 182,699 | 205,248 |
| Total liabilities and net assets | $ 1,656,867 | $ 1,750,353 | $ 1,820,150 | $ 1,867,631 | $ 1,899,673 |

**ACTS Retirement-life Communities, Inc. (Obligated Group)**

Projected Special-Purpose Combined Statements of Operations and Changes in Net Assets
Under the Hypothetical Assumptions Described in Note 1
For Each of the Five Years Ending December 31, 2023
(In Thousands)

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Operating Revenue** | | | | | |
| Resident services revenue, net of amortization of entrance fees | $ 318,634 | $ 332,676 | $ 343,445 | $ 357,723 | $ 372,019 |
| Patient revenue from third-party payors | 36,678 | 37,412 | 38,160 | 38,923 | 39,702 |
| Investment income | 7,849 | 9,568 | 9,862 | 9,950 | 10,547 |
| Net assets released from restrictions to provide resident services | 1,929 | 1,987 | 2,046 | 2,108 | 2,171 |
| Contributions | 100 | 103 | 106 | 109 | 113 |
| Other revenue | 14,509 | 15,965 | 16,283 | 16,599 | 16,953 |
| Total operating revenue before amortization of entrance fees | 379,699 | 397,711 | 409,902 | 425,412 | 441,505 |
| Amortization of entrance fees | 92,227 | 96,790 | 101,213 | 105,477 | 109,696 |
| Total operating revenue | 471,926 | 494,501 | 511,115 | 530,889 | 551,201 |
| **Operating Expenses** | | | | | |
| Administrative and general | 102,364 | 107,065 | 110,305 | 114,420 | 118,597 |
| Health care | 81,017 | 84,737 | 87,302 | 90,558 | 93,864 |
| Property management | 62,990 | 65,882 | 67,877 | 70,408 | 72,978 |
| Culinary services | 64,528 | 67,491 | 69,534 | 72,128 | 74,761 |
| Resident care | 35,902 | 37,550 | 38,687 | 40,130 | 41,595 |
| Environmental services | 12,944 | 13,538 | 13,948 | 14,468 | 14,996 |
| Total operating expenses before depreciation, amortization, and interest | 359,745 | 376,263 | 387,653 | 402,112 | 416,791 |
| Depreciation and amortization | 74,099 | 78,207 | 82,532 | 86,008 | 90,853 |
| Interest, net | 24,478 | 25,429 | 25,114 | 25,816 | 25,768 |
| Total operating expenses | 458,322 | 479,899 | 495,299 | 513,936 | 533,412 |
| Operating income | 13,604 | 14,602 | 15,816 | 16,953 | 17,789 |

Projected Special-Purpose Combined Statements of Operations and Changes in Net Assets (continued)
Under the Hypothetical Assumptions Described in Note 1
For Each of the Five Years Ending December 31, 2023
(In Thousands)

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Changes in Net Assets Without Donor Restrictions** | | | | | |
| Operating income and net operating income | $ 13,604 | $ 14,602 | $ 15,816 | $ 16,953 | $ 17,789 |
| Net assets released from restrictions to acquire property and equipment | 3,090 | 3,183 | 3,278 | 3,377 | 3,478 |
| Changes in net assets without donor restrictions | 16,694 | 17,785 | 19,094 | 20,330 | 21,267 |
| **Changes in Net Assets With Donor Restrictions** | | | | | |
| Change in beneficial interest in investments of ACTS Legacy Foundation, Inc. | 1,138 | 1,172 | 1,208 | 1,243 | 1,282 |
| Increase in net assets | 17,832 | 18,957 | 20,302 | 21,573 | 22,549 |
| **Net Assets, Beginning** | 104,035 | 121,867 | 140,824 | 161,126 | 182,699 |
| **Net Assets, Ending** | $ 121,867 | $ 140,824 | $ 161,126 | $ 182,699 | $ 205,248 |

**ACTS Retirement-life Communities, Inc. (Obligated Group)**

Projected Special-Purpose Combined Statements of Cash Flows
Under the Hypothetical Assumptions Described in Note 1
For Each of the Five Years Ending December 31, 2023
(In Thousands)

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Cash Flows From Operating Activities** | | | | | |
| Increase in net assets | $ 17,832 | $ 18,957 | $ 20,302 | $ 21,573 | $ 22,549 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 74,099 | 78,207 | 82,532 | 86,008 | 90,853 |
| Amortization of entrance fees | (92,227) | (96,790) | (101,213) | (105,477) | (109,696) |
| Amortization of bond premium and discount | (3,220) | (3,509) | (3,412) | (3,258) | (2,997) |
| Amortization of costs incurred to issue debt | 632 | 762 | 762 | 780 | 765 |
| Entrance fees from non-refundable resale contracts | 144,675 | 142,916 | 145,774 | 148,192 | 150,156 |
| Refunds of non-refundable entrance fees and deposits from resale contracts | (12,394) | (12,642) | (12,895) | (13,153) | (13,416) |
| Administrative fee included in gross entrance fees | (7,147) | (9,155) | (7,349) | (11,232) | (7,646) |
| Increase in deferred costs | (1,174) | (1,014) | (915) | (1,131) | (976) |
| Change in beneficial interest in investments of ACTS Legacy Foundation, Inc. | (1,138) | (1,172) | (1,208) | (1,243) | (1,282) |
| Net change in due from affiliated organizations | 565 | 582 | 599 | 618 | 944 |
| Changes in assets and liabilities: | | | | | |
| Increase in accounts receivable and entrance fee receivables | (746) | (770) | (803) | (672) | (1,125) |
| Increase in prepaid expenses, inventory, and deposits | (311) | (325) | (337) | (351) | (364) |
| Increase in accounts payable and accrued expenses | 2,204 | 3,725 | 2,409 | 3,084 | 3,124 |
| Net cash provided by operating activities | 121,650 | 119,772 | 124,246 | 123,738 | 130,889 |
| **Cash Flows From Investing Activities** | | | | | |
| Purchase of property and equipment | (154,382) | (131,739) | (119,701) | (110,935) | (84,796) |
| Decrease (increase) in investments | 36,108 | (11,656) | (9,124) | (950) | (20,546) |
| Collections of note receivable from affiliate | 17,750 | - | - | - | - |
| Net cash used in investing activities | (100,524) | (143,395) | (128,825) | (111,885) | (105,342) |
| **Cash Flows From Financing Activities** | | | | | |
| Entrance fees from initial sale contracts | 19,833 | 39,011 | - | 74,716 | - |
| Refunds of refundable entrance fees | (2,915) | (2,624) | (2,230) | (1,784) | (1,338) |
| Payment of accounts payable, construction | (26,281) | (25,016) | (20,220) | (18,158) | (14,113) |
| Proceeds from short-term indebtedness | 28,156 | 56,640 | 46,700 | 42,080 | 12,500 |
| Proceeds from mortgage loan payable | 15,000 | - | - | - | - |
| Net proceeds from long-term indebtedness | - | 38,760 | - | 29,558 | - |
| Increase in deferred financing costs | - | (760) | - | (580) | - |
| Payments on short-term indebtedness | (37,582) | (64,125) | - | (116,575) | - |
| Payments on mortgage loan payable | - | (267) | (278) | (289) | (300) |
| Payments on long-term indebtedness | (16,804) | (17,413) | (18,773) | (20,154) | (21,659) |
| Net cash (used in) provided by financing activities | (20,593) | 24,206 | 5,199 | (11,186) | (24,910) |
| **Net Increase in Cash and Cash Equivalents** | 533 | 583 | 620 | 667 | 637 |
| **Cash and Cash Equivalents, Beginning** | 24,890 | 25,423 | 26,006 | 26,626 | 27,293 |
| **Cash and Cash Equivalents, Ending** | $ 25,423 | $ 26,006 | $ 26,626 | $ 27,293 | $ 27,930 |

See summary of significant projection assumptions and accounting policies

This financial projection presents, to the best of management's knowledge and belief, the expected financial position, results of operations, changes in net assets, and cash flows of ACTS Retirement-Life Communities, Inc. (Obligated Group) for the projection period if the hypothetical assumptions occur. Accordingly, the projection reflects management's judgment as of May 29, 2019, the date of the projection, of the expected conditions and its expected course of action if the hypothetical assumptions occur. The assumptions disclosed herein are those that management believes are significant to the projection. There will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

This projection was prepared for submission to the North Carolina Department of Insurance as required by North Carolina General Statute 58-64-20(a)(12) and should not be used for any other purpose. This projection is not strictly limited to the North Carolina communities. As such, this projection includes all 20 communities considered part of the Obligated Group.

## 1. Hypothetical Assumptions

A hypothetical assumption is an assumption used in a financial projection to present a condition or course of action that is not necessarily expected to occur, but is consistent with the purpose of the presentation. Hypothetical assumptions are not derived from sources based upon supporting documentation such as contracts, agreements, or other empirical data. Because of the nature of financial projections, a hypothetical assumption is not intended to provide a reasonable basis for such assumptions.

Management has elected to use certain hypothetical assumptions in the preparation of the accompanying financial projections but does not have documented support for these assumptions. The hypothetical assumptions used by management in the preparation of the accompanying financial projections are that:

(a) Derivative instruments and investments do not reflect unrealized gains or losses or changes in the fair value of the asset or liability due to the inability to predict fair value changes.

(b) Interest rates for fixed rate debt are based upon actual interest rates, while variable rate bonds are based upon historical rates for similar debt outstanding.

(c) The composition of ACTS Retirement-Life Communities, Inc. (Obligated Group) will not change during the projection period.

(d) ACTS Retirement-Life Communities, Inc. (Obligated Group) will complete the proposed renovation and expansion projects at the campuses described in Note 10, obtain the related financing, and sell and collect entrance fees on the new independent living units.

## 2. Organization

ACTS Retirement Services, Inc. ("ARS") is a not-for-profit Pennsylvania corporation that serves as the parent organization providing the highest level of governance and control over all of its controlled entities.

The following is a listing of ARS' controlled entities:

ACTS Management Services, Inc. ("AMS"), a not-for-profit Pennsylvania corporation providing management, marketing, and development services to ACTS and affiliated entities.

ACTS Signature Community Services, Inc. ("ASCS"), a not-for-profit Pennsylvania corporation providing home and community-based services to ACTS and affiliated entities.

ACTS Legacy Foundation, Inc. ("ALF"), a not-for-profit Delaware corporation that provides fundraising, supports all charitable programs, and manages the donor restricted funds for ACTS and affiliated entities.

ACTS Retirement-Life Communities, Inc. ("ACTS"), a not-for-profit Pennsylvania corporation that, along with the affiliates (as herein defined) provides residential, assisted living, and skilled care services to senior adults in its 26 CCRCs, located in Alabama (2), Delaware (3), Florida (4), Georgia (1), Maryland (4), New Jersey (1), North Carolina (2), Pennsylvania (8), and South Carolina (1). As of the date of the projection, ACTS operates 20 CCRCs as divisions within the legal entity of ACTS, and 6 CCRCs within separate, related legal entities (the "Affiliates"). The Affiliates are as follows:

Heron Point of Chestertown, Inc. ("HP"), a not-for-profit Maryland corporation which operates a CCRC located in Chestertown, Maryland.

Presbyterian Retirement Corporation, Inc. ("PRC"), a not-for-profit Alabama corporation which operates Westminster Village, a CCRC located in Spanish Fort, Alabama.

The Evergreens ("EG"), a not-for-profit New Jersey corporation which operates a CCRC located in Moorestown, New Jersey.

Fairhaven, Inc. ("FH"), a not-for-profit Maryland corporation which operates a CCRC located in Sykesville, Maryland.

Buckingham's Choice, Inc. ("BUC"), a not-for-profit Maryland corporation which operates a CCRC located in Adamstown, Maryland.

Bayleigh Chase, Inc. ("BAC"), a not-for-profit Maryland corporation which operates a CCRC located in Easton, Maryland.

ACTS is also the sole member of the following corporations:

ACTS Acquisition Company, LLC ("AAC"), a Florida limited liability company that engages in acquisition related activity on behalf of ACTS.

Integrace, Inc. ("IG"), a not-for-profit Maryland corporation that is the sole member of FH, BUC, BAC, CR, IGI, IGH, and IGM.

Copper Ridge, Inc. ("CR"), a not-for-profit Maryland corporation which operates a long-term care facility for older people with Alzheimer's and other memory impairing illnesses located in Sykesville, Maryland.

Integrace Institute, Inc. ("IGI"), a not-for-profit Maryland corporation which operates an institute that focuses on education and research involving the needs of, and services to, aging persons in the area of memory impairment and other issues related to services for aging persons.

Integrace Health Services, Inc. ("IGH"), a not-for-profit Maryland corporation which arranges for the provision of medical services to residents of FH, CR, BUC and BAC.

Integrace Management, Inc. ("IGM"), a for-profit Maryland corporation which provides services to the Diocese of Maryland.

In March 2019, PRC completed a $23,075,000 Series 2019 debt financing. The majority of the proceeds of the debt financing were used to satisfy the $17,750,000 note receivable with ACTS of which ACTS made a payment on its short-term indebtedness.

The ACTS Obligated Group includes ACTS, AMS, and ASCS under the terms of a Master Trust Indenture (Note 6).

ARS, ACTS, AMS, ASCS, ALF, ACTS, HP, PRC, EG, FH, BUC, BAC, IG, CR, IGI, and IGH are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on their exempt income under Section 501(a) of the Code. AAC, as a single member limited liability company, is considered a "disregarded entity" for federal tax purposes. Because ACTS is exempt from federal income tax under Section 501(a) of the Code, as a charitable organization described in Section 501(c)(3) of the Code, and because AAC is a disregarded entity for federal tax purposes, AAC is considered exempt under Section 501(a) of the Code as a charitable organization described in Section 501(c)(3) of the Code. IGM is a for-profit corporation subject to federal and state taxes.

**Basis of Presentation and Principles of Combination**

The ACTS Obligated Group (the "Company") prepares special-purpose combined financial statements in accordance with the financial reporting provisions specified in the disclosure requirements of the Master Trust Indenture. The Master Trust Indenture specifies the preparation of combined financial statements of the Obligated Group members; accordingly, the accompanying projected special-purpose combined financial statements include only the accounts of the Obligated Group members and exclude the accounts of ARS, ALF, HP, PRC, EG, FH, BUC, BAC, IG, CR, IGI, IGH, IGM and AAC. The combination of financial statements for only certain controlled organizations differs from accounting principles generally accepted in the United States of America.

All inter-affiliate transactions between the members of the Company have been eliminated in combination.

## 3. Summary of Significant Accounting Policies

### Cash and Cash Equivalents

For purposes of the special-purpose combined statements of cash flows, cash and cash equivalents include working capital accounts invested in highly liquid instruments purchased with an original maturity of three months or less.

### Board-Designated Funds

Board-designated funds represent assets set aside by the Company's board of directors for future use by the Company, including capital projects and other special purpose approved by the board.

### Investments and Investment Risk

Investments with readily determinable fair values are measured at fair value in the projected special-purpose combined balance sheet. Investment income or loss is included in net operating income in the projected special-purpose combined statements of operations and changes in net assets unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Estimates of the future changes in fair values are not readily determinable at this date; thus, future changes in the fair value of investments are not reflected in the accompanying projected financial statements.

The Company's investments are comprised of a variety of financial instruments. The fair values reported in the projected special-purpose combined balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported on the projected special-purpose combined balance sheets could materially change during the projection period.

Investments include assets without restrictions and assets with restrictions. Assets without restrictions represent assets that are available for the general use and purposes of the Company. Assets with restrictions include amounts held in trust to meet statutory and debt related requirements and amounts restricted by donors for specific purposes or time periods.

### Accounts Receivable and Entrance Fee Receivables

The Company assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce its accounts receivable to its net realizable value for impairments of revenues for changes in resident credit worthiness. The allowance is estimated by management based on general factors such as aging of the accounts receivable, and anticipated collection of the consideration. Accounts are written off through bad debt expense when the Company has exhausted all collection efforts and accounts are deemed impaired.

Entrance fee receivables are evaluated for collectability prior to residents being admitted to the community based on the resident's credit worthiness. The terms and conditions of each entrance fee receivable are determined when a resident agreement is executed.

**Property and Equipment**

Property and equipment are stated at cost. Donated assets are recorded at their fair value at the date of donation. Depreciation is computed using the straight-line method based on the following estimated useful lives:

| | |
|---|---|
| Land improvements | 10 to 25 years |
| Building and improvements | 8 to 50 years |
| Furniture, fixtures, and equipment | 3 to 10 years |

Projected depreciation expense (in thousands) is $73,680, $77,828, $82,095, $85,487, and $90,261 in 2019 through 2023, respectively.

When assets are sold or retired, the asset values and related accumulated depreciation are eliminated from the accounts and any gain or loss is included in the special-purpose combined statements of operations and changes in net assets. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments are capitalized.

Gifts of long-lived assets such as land, buildings, or equipment are reported as other revenue unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

**Deferred Costs**

Deferred costs include incremental costs of obtaining agreements that would not have been incurred if the agreements were not obtained and are recorded at cost. Deferred costs are amortized over the estimated life expectancy of the residents using the straight-line method, which approximates the period of time that goods and services are expected to be transferred to residents.

Projected amortization expense is (in thousands) $419, $379, $437, $521, and $592 in 2019 through 2023, respectively.

**Deferred Financing Costs**

Deferred financing costs are amortized straight-line over the terms of the related debt, which approximates using the effective interest method. Projected amortization expense, which is included as a component of interest expense, is (in thousands) $632, $762, $762, $780, and $765 in 2019 through 2023, respectively.

**Derivative Financial Instruments**

The Company uses interest rate swap agreements which are considered derivative financial instruments, to manage its interest rate risk on its long-term debt. The interest rate swap agreements are reported at fair value in the projected special-purpose combined balance sheets.

### Deferred Revenue from Entrance Fees

Under a continuing care contract ("resident agreement") for a residential living unit, the Company receives entrance fee payments in advance. The Company offers both nonrefundable and refundable resident agreements. The majority of the Company's residential agreements are nonrefundable.

Under the majority of nonrefundable resident agreements, residents who terminate their contracts will generally be entitled to a full refund less an administrative fee of up to 5% and less 1%-2% (based on the resident agreement) of the remaining entrance fee per each month of residency. Under refundable resident agreements, the entrance fee is reduced to no less than the guaranteed refund, as specified in the resident agreement and refunds to residents are generally paid by the Company after a new resident occupies the residential living unit vacated by the former resident.

The nonrefundable portion of entrance fees is amortized to revenue over the actuarially computed life expectancy of the residents using the straight-line method and is classified as deferred revenue from entrance fees on the projected special-purpose combined balance sheets. The guaranteed refundable portion of entrance fees is classified as refundable portion of entrance fees on the projected special-purpose combined balance sheets and is not amortized to revenue.

Under the majority of existing resident agreements, residential living residents are entitled to assisted living or skilled care services, as needed, with no increases in the current monthly service fees as a result of transferring to a higher level of care.

### Obligation to Provide Future Services

The Company engages an independent actuary once every three years to calculate the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. Based upon the last calculation performed (as of December 31, 2017), the present value of the net cost of future services and the use of facilities, based on a discount rate of 5%, did not exceed the balance of deferred revenue from entrance fees. Based upon this calculation, the assumptions in this projection, and the analysis of management, management believes there will be no need to accrue a future service obligation during the projection period.

### Donor-Restricted Contributions

The Company reports gifts of cash and other assets as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the projected special-purpose combined statements of operations and changes in net assets as net assets released from restrictions.

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* - net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

*Net Assets With Donor Restrictions* - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or require to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

**Resident Services and Patient Revenues**

Resident services and patient revenues are reported at the amount that reflects the consideration the Company expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Resident services and patient revenues are recognized as performance obligations are satisfied.

Resident services and patient revenues are primarily comprised of the following revenue streams:

**Independent Living:** Independent living revenues are primarily derived from providing housing and services to residents. The Company has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, independent living monthly fees are recognized as services are rendered.

**Assisted Living:** Assisted living revenues are primarily derived from providing housing and assisted living services to lifecare residents at their monthly fee and non-lifecare residents at a stated monthly fee. The Company has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, assisted living revenues are recognized as services are rendered.

**Skilled Nursing:** Skilled nursing revenues are primarily derived from providing nursing services to lifecare residents at their monthly fee and non-lifecare residents at a stated daily fee, net of any explicit and implicit price concessions. The Company has determined that skilled nursing services are considered one performance obligation which is satisfied over time as services are provided. Therefore, skilled nursing revenues are recognized as services are rendered.

The guaranteed refund component of entrance fees is not amortized to income and is classified as refundable portion of entrance fees in the accompanying projected special-purpose combined balance sheets.

Revenue from nonrefundable entrance fees received are recognized through amortization of the nonrefundable entrance fee using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which approximates the period of time the goods and services under the agreements are expected to be transferred to residents. Upon contract termination, the remaining nonrefundable entrance fee balance is recognized as revenue. The unamortized portion is classified as deferred revenue from entrance fees in the projected special-purpose combined balance sheets. Amortization of nonrefundable entrance fees is included as amortization of entrance fees in the projected special-purpose combined statements of operations and changes in net assets.

The Company receives revenue for services under third-party payor programs, including Medicare, Medicaid and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are included in the determination of the estimated transaction price for providing services. The Company estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends, and retroactive adjustments are recognized in future periods as final settlements are determined.

### Income Taxes

AMS, ASCS, and ACTS are not-for-profit corporations. Each is exempt from federal income taxes on exempt income under Section 501(a) of the Code and other income taxes under similar statutes. Accordingly, no provision for income taxes has been recorded in the projected special-purpose combined financial statements.

### Net Operating Income

The performance indicator is identified in the projected special-purpose combined statements of operations and changes in net assets as net operating income. Contributions of long-lived assets are only included in changes in net assets without donor restrictions. Unrealized gains and losses on investments and investment contracts, which would be included in net operating income, are market-driven and not readily determinable, and as such, estimates were not included in the accompanying projected financial statements.

### New Accounting Pronouncements

In 2018, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified approach. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those good or services. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements.

In 2018, the Company adopted the FASB ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

## 4. Short-Term Indebtedness

ACTS has an available $65,000,000 revolving line of credit with a financial institution allowing for cash advances. The line of credit agreement also includes letters of credit. Interest is calculated monthly based on changes to the LIBOR Rate, as defined.

ACTS also has an available $65,000,000 revolving line of credit with another financial institution allowing for cash advances. Interest is calculated monthly based on changes to the LIBOR Rate, as defined.

The Company's obligations under the line of credit agreements are secured under the terms of a Master Trust Indenture dated December 1, 1996, as supplemented, on a parity basis by a pledge of gross revenues (as defined), a covenant not to create or allow to exist upon its property any lien except for permitted liens, and a promise to deliver mortgages and/or deeds of trust granting liens upon and security interest on its facilities to the Master Trustee if certain events occur, as defined.

## 5. Mortgage Loan Payable

It is assumed that AMS will obtain a mortgage loan in 2019 in the amount of $15,000,000. The proceeds from the loan are assumed to provide for the purchase and renovation of a corporate office building. It is assumed that the loan will have a 30 year term and carry a fixed interest rate of 4.0%. Certain existing office buildings are expected to be sold at no less than the carrying value.

## 6. Long-Term Indebtedness

The Company's long-term indebtedness has been issued under a Master Trust Indenture dated December 1, 1996, as supplemented, which secures the obligations of the Company and includes a pledge of gross revenues (as defined), a covenant not to create or allow to exist upon its property any lien except for permitted liens, and a promise to deliver mortgages and/or deeds of trust granting liens upon and security interest on its facilities to the Master Trustee if certain events occur, as defined. The Company is required to maintain certain reserves with a trustee. Such reserves are included in investments. The Company is also required to meet certain financial covenants.

It is assumed that the Company will issue fixed rate tax-exempt bonds in 2020 in the amount of $38,760,000. The proceeds from the issuance are assumed to provide for the payoff an amount outstanding on a line of credit of approximately $38,000,000 and to finance certain costs of issuance and other related costs. It is assumed that the bonds will mature in 2050 and carry a fixed interest rate of 4.00%.

It is also assumed that the Company will issue fixed rate tax-exempt bonds in 2022 in the amount of $29,558,000. The proceeds from the issuance are assumed to provide for the payoff of an amount outstanding on a line of credit of approximately $28,979,000 and to finance certain costs of issuance and other related costs. It is assumed that the bonds will mature in 2052 and carry a fixed interest rate of 4.00%.

Long-term debt is projected to be comprised of approximately 83% fixed rate, tax-exempt revenue bonds, 6% fixed rate, taxable term loans, and 11% variable rate, tax-exempt demand revenue bonds. The interest rate on substantially all variable rate bonds is fixed by interest rate swaps.

Scheduled principal repayments on long-term indebtedness are as follows (in thousands):

| | |
|---|---|
| Years ending December 31: | |
| 2019 | $ 16,804 |
| 2020 | 17,413 |
| 2021 | 18,773 |
| 2022 | 20,154 |
| 2023 | 21,659 |
| 2024 - 2028 | 117,460 |
| 2029 - 2033 | 156,892 |
| 2034 - 2038 | 131,215 |
| Thereafter | 198,098 |
| Total | $ 698,468 |

## 7. Revenue and Expense Assumptions

### Revenue

The Company derives revenue from six primary sources: monthly resident fees, entrance fee amortization, per-diem rates charged for nonresident nursing care patients, income from "fee-for-service" programs, investment income, and miscellaneous income. Monthly and per diem fees included in resident services revenue are assumed to increase approximately 3.5% per year during the projection period based on the 5-year historical average. Patient revenue from third-party payors is assumed to increase 2% per year during the projection period. Entrance fee amortization will increase as the resident population grows through the occupancy of vacant units, as existing occupied units are vacated and resold, and as expansion units are placed in service. Other revenue is projected to increase approximately 2% per year during the projection period.

Growth of occupied independent living units will be achieved as resales are expected to outpace turnover in 2019. During 2018, the Company's independent living units operated at an average occupancy level of 93%. Management projected gradual increases in independent living occupancy during the projection period as follows: 92% in 2019, 94% from 2020 to 2022, and 95% in 2023 based on historical trends. During 2018, the Company's assisted living units operated at an average occupancy level of 86%. Management projected assisted living occupancy to be 90% each year during the projection period. During 2018, the Company's skilled care units operated at an average occupancy level of 88%. Management projected skilled care occupancy to be 89% during the projection period.

Investment income was assumed to equal approximately 2.5% of the ending cash and investment balances each year during the projection period.

### Beneficial Interest in Investments

As of December 31, 2018, the Company has a beneficial interest in the investments of ALF of $25,097,000. This amount, as well as growth in this amount during the projection period, is included in investments in the projected special-purpose balance sheets.

The change in the Company's beneficial interest in investments of ALF is projected based upon historical experience and management's expectations of future net asset with donor restrictions activity, primarily contributions and net assets released from restrictions.

### Operating Expenses

Operating expenses are projected to increase based on an assumed average inflation factor of 3.0% per year during the projection period, incremental costs associated with increased occupancy levels, and incremental costs associated with the renovation and expansion projects disclosed in Note 10.

### Interest Expense

Interest expense is calculated based on the terms of current debt outstanding. Interest rates on fixed rate bonds and term loans outstanding were assumed to range from 2.5% to 5.0%. Interest rates on variable rate bonds outstanding were assumed to be approximately 2.7% to 3.7%, which represent the range of rates as of December 31, 2018 on the Company's existing variable rate bonds. Since variable interest rates are market-driven and not readily determinable, variable rate bonds were assumed to remain at these rates throughout the projection period.

Interest costs capitalized are (in thousands) $2,714, $1,462, $1,343, $1,501, and $15 in 2019 through 2023, respectively.

### Depreciation

Depreciation is projected based upon historical levels and assumed capital expenditures during the projection period.

## 8. Balance Sheet Assumptions

### Receivables

Receivables are projected to be 22 days of the resident services revenue and patient revenues from third-party payors.

### Investments

Investments are expected to be comprised primarily of money market funds, U.S. government securities, guaranteed investment contracts, and fixed income mutual funds and are as follows (in thousands):

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Investments related to: | | | | | |
| Unrestricted assets | $ 221,944 | $ 248,115 | $ 261,209 | $ 261,615 | $ 281,598 |
| State escrow requirements - NC | 7,813 | 7,969 | 8,129 | 8,291 | 8,457 |
| State escrow requirements - other | 39,531 | 39,952 | 40,336 | 40,718 | 41,115 |
| Beneficial interest in the investments of ALF | 26,235 | 27,407 | 28,615 | 29,858 | 31,140 |
| Debt related reserves | 34,888 | 19,796 | 15,282 | 15,282 | 15,282 |
| Total | $ 330,411 | $ 343,239 | $ 353,571 | $ 355,764 | $ 377,592 |

These amounts are included in the projected special-purpose financial statements as board-designated funds, assets whose use is limited, and North Carolina operating reserve funds.

In accordance with North Carolina General Statute 58-64-33, the Company maintains an operating reserve equal to twenty-five percent (25%) of the total operating expenses (excluding depreciation and amortization expenses) of Plantation Estates and Tryon Estates based on occupancy of each community exceeding ninety percent (90%). Plantation Estates and Tryon Estates are continuing care retirement communities located in North Carolina for which the Company serves as the provider of continuing care. Plantation Estates and Tryon Estates each achieved an occupancy rate in excess of ninety percent (90%) as of December 31, 2018 and are expected to continue to do so each year throughout the projection period.

### Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are projected to be 67 days of expenses excluding depreciation, amortization, and interest based on historical experience. Amounts for construction related accounts payable are also included in accounts payable and accrued expenses.

### Entrance Fee Deposits

Entrance fee deposits are projected as a percentage of sales activity based upon historical experience.

## 9. Cash Flows Assumptions

Entrance fees from resales are projected to increase as the result of increased occupancy and entrance fee price increases of 3% per year.

Purchases of property and equipment include expenditures for renovations and expansion of existing properties as well as ordinary capital expenditures.

## 10. Renovation and Expansion of Existing Properties

The following are assumed renovation and expansion projects at specific communities which are considered to be the most significant.

### Normandy Farms Estates

It is assumed that the skilled nursing center will be renovated during the projection period at an expected cost of $14,500,000. Approximately $7,200,000 of the expected cost will be funded by the permanent financing done in 2016 and the remaining expected cost of $7,300,000 will be funded by the permanent financing done in 2018. Renovations began in 2018 and are expected to be completed in 2020. It is also assumed that 21 new cottages will be constructed during the projection period. The construction period is expected to be 2019 to 2020. Construction costs will be funded through an established line of credit bearing interest at 2.0%, and will be subsequently repaid with proceeds from entrance fees from the new independent living units.

**Brittany Pointe Estates**

It is assumed that the café will be renovated during the projection period. The renovation period is expected to be 2019 with an expected cost of $1,600,000 which will be funded by the permanent financing done in 2018.

**Cokesbury Village**

It is assumed that renovations to the clubhouse, including main and lower floors, dining room, therapy suite, swimming pool, and corridors, and rehabilitation of the main building exterior will occur during the projection period. Renovations began in 2018 and are expected to be completed in 2023. The renovations have an expected cost of $19,100,000, which will be funded by the permanent financing done in 2018.

**Country House**

It is assumed that 20 new cottages and 56 independent living apartments will be built on the campus during the projection period. The construction period is expected to be 2019 to 2022 with a projected cost of $72,400,000. The expansion will be initially funded through an established line of credit bearing interest at 2.0%, which will be partially repaid with proceeds from entrance fees from the new cottages and apartments. The unpaid balance of the line of credit related to the construction of the new cottages and apartments is projected to be permanently financed in 2022; a 30 year term and a 4.0% interest rate were assumed for this permanent financing.

**Plantation Estates (North Carolina Property)**

It is assumed that construction of a new 90 bed skilled nursing center will be completed during the projection period. The projected project costs are $38,000,000 and construction will be initially funded through an established line of credit bearing interest at 3.0%. The unpaid balance of the line of credit related to the construction of the skilled nursing center is projected to be permanently financed in 2020; a 30 year term and a 4.0% interest rate were assumed for this permanent financing. It is also assumed that 16 new villas and 72 new independent living apartments will be built on the campus during the projection period. The construction period is expected to be 2020 to 2022 with a projected cost of $44,200,000 and will be funded by an established line of credit bearing interest at 2.0%. The unpaid balance of the line of credit related to the construction of the new villas and apartments will be paid with proceeds from entrance fees for the new units.

**Lanier Village Estates**

It is assumed that 31 new cottages will be built on the campus during the projection period. The construction period is expected to be 2019 to 2020 and is expected to cost $12,400,000. It is also assumed that assisted living will be renovated and expanded during the projection period. The renovation and expansion period began in 2018 is expected to be completed in 2020 and is projected to cost $4,000,000. Both of the above mentioned projects will be funded through an established line of credit bearing interest at 2.0% and will be subsequently repaid with proceeds from entrance fees from the new independent living units.

**Magnolia Trace**

It is assumed that 10 new duplex cottages will be constructed on the campus during the construction period. The construction period is expected to be 2019 with an expected cost of $2,900,000. The construction will be funded through an established line of credit bearing interest at 2.0% and will be subsequently repaid with proceeds from entrance fees from the cottage units.

**Park Pointe Village**

It is assumed that expansion of the dining facilities will be made during the projection period. The expansion period is expected to be 2019 to 2020 and is expected to cost $2,500,000 which will be funded by the permanent financing done in 2018.

**St. Andrews Estates**

It is assumed that the clubhouses and dining room will be renovated and enhancements will be made to the swimming pool during the projection period. The renovation period is expected to be 2019 and is expected to cost $2,500,000. The projects will be funded by the permanent financing done in 2018.

**Edgewater at Boca Pointe**

It is assumed that the first floor lobby will be renovated and enhancements will be made to landscaping, a perimeter wall/fence, and roofs and building envelopes during the projection period. Renovations and enhancements began in 2018 and are expected to be completed in 2020. The renovation and enhancements have a projected cost of $2,950,000 and will be funded by the permanent financing done in 2018.

**Indian River Estates**

It is assumed that the assisted living center will be renovated during the projection period. It is also assumed that renovations will be made to a café, entry lobbies, and clubhouses during the projection period. The expansion and renovation period is expected to be 2019 and is expected to cost $12,750,000. The expansion and renovations will be funded by the permanent financing done in 2018.

**Azalea Trace**

It is assumed that 30 cottages will be constructed on the campus during the projection period. The construction began in 2018 and is expected to be completed in 2020. The construction has an expected cost of $9,900,000 which will be funded through an established line of credit bearing interest at 2.0% and subsequently repaid with proceeds from entrance fees from the cottage units. It is also assumed that renovations will be made to convert skilled nursing center rooms from semi-private to private, the loop road, guard house, portico, carports, and clubhouse during the projection period. The renovation period is expected to be 2018 to 2020 with an expected cost of $20,806,000 which will be funded by the permanent financing done in 2018.

### Ordinary Capital Expenditures

In addition to the renovation and expansion of existing properties, the Company funds, through normal operations, a level of ordinary capital expenditures. During the projection period, ordinary capital expenditures are expected to range from $74 million to $87 million per year. Included in this amount are apartment restoration expenditures, which are based on units anticipated to return to inventory, and planned upgrades at certain communities.

## 11. Retirement Plans

The Company participates in a 401(k) Plan (the "ACTS 401(k) Plan") covering substantially all full-time employees. The ACTS 401(k) Plan allows for qualified employees to voluntarily contribute up to the IRS maximum. In accordance with the terms of the ACTS 401(k) Plan, the Company matches up to 100% of the first 3% of the employee's contribution, plus an additional 50% of the next 2% of the employee's contribution.

AMS provides a nonqualified Supplemental Executive Retirement Plan ("SERP") to certain members of senior executive management in addition to those benefits available under the ACTS 401 (k) Plan. Retirement benefits, as defined in the plan document and amendments, are based on age, years of service, and average compensation during the last five years of employment.

## 12. Contingencies

### Senior Living Services Industry

The senior living services industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local governments and agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Company, if any, are not determinable.

### Litigation

The Company operates in an industry where various suits and claims arise in the normal course of business. Management is not currently aware of any claims that have been or will be asserted that will, after consideration of applicable insurance coverages, have a material adverse effect on the projected special-purpose combined financial statements.

**ATTACHMENT NO. 4**

RESIDENT CONTRACT

ACTS RETIREMENT-LIFE COMMUNITIES, INC.

# ASSISTED LIVING RESIDENCE CONTINUING CARE CONTRACT

**NORTH CAROLINA**

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**ACTS RETIREMENT-LIFE COMMUNITIES, INC.**
**CONTRACT - ASSISTED LIVING RESIDENCE ON A CONTINUING CARE BASIS**

This Contract made this ______day of ___________________ 20____, is between ACTS Retirement-Life Communities, Inc., a nonprofit corporation, organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called "Acts"), which operates a retirement community at ________________________________________________ (the "Retirement Community") and ________________________________________________________________________ (hereinafter referred to as "Resident").

Acts and Resident, intending to be legally bound, hereby agree to the following terms and conditions:

1. **General Statements and Obligations.**

**A.** **General Statements Regarding Acts.** Acts is a nonprofit corporation which qualifies as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). Acts is exempt from federal income taxes on its exempt income pursuant to Section 501(a) of the Code. Acts is affiliated with other nonprofit organizations with similar missions and purposes to serve senior adults. These affiliated organizations are also organizations as described in Section 501(c)(3) of the Code and are exempt from federal income taxes on their exempt income pursuant to Section 501(a) of the Code, and include ACTS Retirement Services, Inc., ACTS Legacy Foundation, Inc., ACTS Management Services, Inc., ACTS Signature Community Services, Inc., ACTS Acquisition Company, LLC, Heron Point of Chestertown, Inc., Park Pointe Village, Inc., and Presbyterian Retirement Corporation, Inc. Acts is not affiliated with any other religious, nonprofit or proprietary organizations or management entity. Acts, ACTS Management Services, Inc. and ACTS Signature Community Services, Inc. (collectively, the "Obligated Group") are jointly and severally obligated on certain debt and other obligations of the Obligated Group. Other than as set forth in the preceding sentence, the affiliates of Acts are not responsible for the financial and contractual obligations of Acts.

**B.** **General Obligations.** Subject to the terms and conditions set forth in this Contract, Acts will provide to resident a room in the assisted living residence (commonly referred to as OakBridge Terrace) of the Retirement Community, together with the facilities, services and medical care specified hereafter in this Contract, for and during the balance of the Resident's life or for such shorter period as shall apply under this Contract in the event that it is terminated pursuant to its terms.

If all facilities, services and medical care to be provided to Resident hereunder are not available on the site of Retirement Community, Acts shall take measures to fulfill both the terms of this Contract and Acts responsibilities hereunder at facilities outside of the Retirement Community location.

This general description of continuing care to be provided by Acts is a summary only and the exact nature of continuing care provided by Acts under this Contract is more fully set forth in the remaining sections of this Contract.

2. **Fees: Charges.** Resident was presented with the choice of two different financial arrangements, Option A and Option B. Option A includes a larger entrance fee than Option B, but the monthly service charge under Option A for residency in the skilled care center is less under Option A than Option B. Resident has chosen Option ____. The fee and charges set forth below reflect the entrance fee and the initial charges under the Option that has been chosen by Resident.

**A.** **Entrance Fee.** Resident shall pay an entrance fee of ____________________ dollars ($________________) (the "Entrance Fee") to purchase a continuing care contract upon the terms and conditions set forth in this Contract. The Entrance Fee shall be due and payable upon execution of this Contract and shall be non-refundable, except as described in Section 3 hereunder. The Entrance Fee may be used by Acts for any proper corporate purposes of Acts, whether or not directly related to this Contract and without consulting Resident.

Acts reserves the right to establish entrance fee rates and monthly rates (as described below) of a different amount for persons being admitted to residency in the assisted living residence under a continuing care contract prior to or after the date hereof, and the rates charged such other persons need not be uniform with or proportional to those charged to Resident under this Contract.

**B.** **Monthly Service Charge.** In addition to other amounts paid by Resident to Acts under this Contract, Resident shall pay to Acts a periodic service charge initially equal to ______________________ dollars ($__________) per month (the "Monthly Service Charge"). The Monthly Service Charge shall commence on the date Resident occupies a room in the assisted living residence. Payment of the Monthly Service Charge will entitle Resident to receive (i) the services that are specifically identified in Section 5 of this Contract as being provided to Resident without additional charge by Acts and (ii) the nursing care that is specifically identified in Section 6 of this Contract as being provided to Resident. The Monthly Service Charge will be increased if and when Resident occupies a room in the skilled care center of the Retirement Community as further described in Section 6 hereunder. At the time of executing this Contract, the Monthly Service Charge for a room in the skilled care center is $_________________________.

The Monthly Service Charge is payable in advance each month within five (5) days of Resident's or the Designated Representative's receipt of the Monthly Statement. In the event that the date of occupancy occurs after the first day of the month, the Monthly Service Charge shall be reduced on a pro-rata basis for the number of days between the first day of the applicable month and the date of occupancy. In addition to increasing the Monthly Service Charge if and when Resident occupies a room in the skilled care center, Acts, in its sole discretion, may increase or decrease the Monthly Service Charge with sixty (60) days prior written notice to Resident.

**C.** **Additional Charges.** Acts will provide Resident with a monthly statement of additional charges not included in the Monthly Service Charge (the "Additional Charges"). The Additional Charge may include, but is not limited to, charges relating to guest meals, personal laundry, long distance phone calls on the Acts' account, medical or pharmacy supplies provided by Acts to Resident, special activities, and special nursing services. The Additional Charges shall be paid by Resident within five (5) days of the Resident's or the designated representative's receipt of monthly statement.

D. **Adjustments to Fees and Charges if Resident is Voluntarily Absent from the Retirement Community.** If Resident is away from the Retirement Community for a period of seven (7) consecutive days or more, he/she may be credited with a meal allowance established by Acts, which meal allowance will provide Resident with a credit for all meals which Resident misses as a result of such absence. Arrangements for this allowance must be made in advance, and the credit is applicable only when Resident is away from the Retirement Community. No other adjustment to the Monthly Service Charge or Additional Charges is allowed for the voluntary absence of Resident from the Retirement Community.

E. **Exclusions.** The Resident will pay for all medical, health and ancillary services not explicitly paid for by Acts under this Contract, including but not limited to, the cost of hospitalization, ambulance service, therapist or rehabilitation services, psychotherapy and psychiatric consultations or services, physician services, diagnostic services, private duty nurses, nursing assistants or companions, specialized treatment, refractions, eyeglasses, contact lenses, hearing aids, podiatry, dentistry, dentures, inlays, orthopedic devices and appliances such as walkers, braces, wheelchairs, special beds or chairs, incontinence supplies, personal care supplies such as disposable underpads, toiletries, digestive aids and pharmacy medications, drugs, including prescription and over-the-counter medications, medical equipment and supplies such as syringes, respirators, ventilators, oxygen tanks, intravenous items, catheterization materials, specialized treatment including ventilator dependent treatment, dialysis, and higher acuity nursing care services such as subacute care, transitional care or special rehabilitation services. Acts, in its discretion, may provide any or all of the services not covered by the Monthly Service Charge at an additional charge, or refer the Resident to another provider capable of providing higher acuity care services.

F. **Acts' Responsibility for Services Included in Monthly Service Charge.** Resident shall not be liable to any other health care provider for the cost of any services which are provided by Acts under this Contract and which are paid for by Resident through payment of the Monthly Service Charge. In the event that Acts authorizes any other health care provider to provide services which Acts is required to provide under this Contract, Acts shall assume responsibility for the payment of those health care services.

G. **Acts' Entitlement to Reimbursement from Medicare or Other Insurance.** If Resident requires nursing care as described in Section 6 of this Contract, and if Resident is eligible for coverage for such care under Medicare or any other insurance maintained by Resident, Acts will bill Medicare, or such other insurance carrier, to recover all allowable reimbursement for the cost of Resident's health care, which shall belong to Acts. Resident agrees to fully cooperate with Acts in recovering any available reimbursement for the cost of nursing care.

3. **Rescission of Contract by Resident.** Resident shall be entitled to rescind this Contract within thirty (30) days of the later of (i) the date of execution of this Contract or (ii) the date that Resident receives the Disclosure Statement required by North Carolina General Statutes Section 58-64-20 (the "Rescission Date"). This right of rescission exists whether or not Resident has already occupied a room in the assisted living residence. If Resident dies before occupying a room in the assisted living residence, or if on account of illness, injury, or incapacity, a Resident would be precluded from occupying a room in the assisted living residence under the terms of this Contract, this Contract is automatically cancelled. In the event that Resident elects to rescind this Contract prior to the Rescission Date or in the event

this Contract is automatically cancelled as described herein, all amounts paid by Resident to Acts shall be returned to Resident or Resident's designated representative, except for deductions regarding (i) the Monthly Service Charges already accrued while Resident was occupying a room in the assisted living residence, and (ii) any Additional Charges that have been incurred by Resident. Resident is not required to occupy a room in the assisted living residence prior to the Rescission Date.

4. **Entrance Procedure.**

**A.** Resident is required to submit the following documents (the "Application Documents") for consideration for residency in the assisted living residence:

(1) Application form.
(2) Financial statement.
(3) FL2 form
(4) Medical information form (including the necessary tests for tuberculosis).
(5) Satisfactory evidence that Resident will have reached his or her sixty second (62nd) birthday prior to the date of occupancy.

**B.** Resident must have completed FL2 and medical information forms to be admitted to the assisted living residence. These forms must be completed by a physician at Resident's expense and immediately returned to Acts.

**C.** Upon receipt of the Application Documents, Acts will determine, it its sole discretion, whether to admit Resident into the assisted living residence of the Retirement Community. The determination will be based upon the appropriateness of placement in the assisted living residence and the ability of Resident to meet the financial obligations set forth in this Contract. An interview with the Admissions Committee of Acts may be required.

5. **Services Provided by Acts to Resident and Resident's Duties.** Certain services and amenities described below (the "Services") will be provided by Acts to Resident at the Retirement Community. Unless otherwise indicated, the Services are included in the Monthly Service Charge described in Section 2.B above.

**A.** **Assisted Living.** Acts shall provide Resident with supervision and personal care appropriate to Resident's age or disability. Acts will provide direct assistance or supervision in personal grooming, bathing, dressing, administration of oral medications, and daily living tasks.

**B.** **Room.** Upon payment of the Entrance Fee, the Monthly Service Charge and any Additional Charges, Resident shall have the right to occupy and use, in accordance with this Contract, a room in the assisted living residence, subject to change as provided in this Contract.

**C.** **Furnishings.** Acts will furnish wall-to-wall carpeting (excluding bathroom), window treatment, and fixtures (plumbing, medicine cabinet, and bathroom shelving) in Resident's room in the assisted living residence. These furnishings shall be the permanent possession of Acts. All other furnishings shall be furnished by Resident, subject to the supervision of, and approval by, Acts, and shall remain Resident's personal property.

D. **Common Areas.** Subject to scheduling requirements and availability as established by Acts, Resident may use, in common with all other residents, the dining room(s), lobby or lobbies, auditorium, social and recreational rooms, and other common areas furnished by Acts.

E. **Utilities and Taxes.** Acts will furnish water, light, heat, electricity, air conditioning, and standard cable television service (excluding premium channels). The cost of these utilities and any real estate taxes are the responsibility of Acts and are included in the Monthly Service Charge.

F. **Telephone.** Resident may have a telephone in his or her room at Resident's expense. Telephone service charges (excluding international calls) and connection charges are included in the Monthly Service Charge. Acts shall provide an emergency telephone number for immediate access to Retirement Community personnel. Resident may have an option, at Resident's expense, to add international calling plans.

G. **Television and Internet.** Acts shall provide each room in the assisted living residence with connection(s) for television signal and internet access through either an external antenna or cable system. Acts shall provide standard cable television service (excluding premium channels) and internet service. Costs for cable premium channels are not included in the Monthly Service Charge and shall be paid by Resident. Resident may have an option, at Resident's expense, to upgrade the internet service provided by Acts.

H. **Housekeeping.** Resident shall maintain his or her room in a clean, sanitary and orderly condition. Acts will provide weekly housekeeping services. Acts reserves the right to inspect Resident's room.

I. **Maintenance and Repairs.** Necessary repairs, maintenance, and replacement of property and equipment owned by Acts will be performed and provided at the discretion of Acts. Repairs, maintenance, and replacement of property of Resident will be the responsibility of Resident.

J. **Laundry.** Automatic washers and dryers for personal laundry are located in the assisted living residence and are available to Resident. Acts will launder bed linens provided by the Resident on a weekly basis at no additional charge. Resident has the option of having Acts responsible for doing his/her personal laundry for an additional charge.

K. **Storage.** Limited storage facilities are available to Resident. Use of storage facilities shall be subject to the direction and supervision of Acts. Resident is responsible for the risk of loss for all items stored in the storage units.

L. **Redecoration.** Redecoration of Resident's room by Resident, in addition to or other than that scheduled by Acts, requires the advanced approval of Retirement Community's Executive Director or Administrator and will be at Resident's expense. Any redecoration or change of any furnishings provided by Acts hereunder vests title to such change or replacement in Acts, unless otherwise provided in writing.

M. **Transportation.** Acts will provide transportation services on a scheduled basis, for purposes such as shopping, certain medical services and other special functions, as defined by Acts.

**N.** **Food and Meals.** Acts will furnish to Resident three (3) meals a day in the assisted living residence dining room. Reasonable special dietary needs will be provided for on request, or as ordered by Resident's Attending Physician. In addition, Acts will make available, in accordance with its scheduling policies, a private dining room for family gatherings or other special occasions of Resident.

**O.** **Security.** Acts will provide certain security services at the Retirement Community in accordance with Acts' prevailing policy which is subject to change from time to time.

**P.** **Outpatient Nursing Services.** Outpatient nursing services are made available to Resident in the Retirement Community during regular office hours in accordance with prevailing policy which is subject to change from time to time. Certain outpatient nursing services including routine nursing consultations, weight checks and blood pressure readings are included in the Monthly Service Charge. Other services may be provided at a fee published in the nurse's office and are considered Additional Charges.

The scope of services and Additional Charges for services not included in the Monthly Service Charge are subject to change and may be modified by Acts from time to time with sixty (60) days advance written notice of any changes, except for changes required by state or federal assistance programs.

6. **Skilled Nursing Care.** If prescribed by Acts' Medical Director and/or Resident's Attending Physician, Acts will provide the following nursing care services and semi-private accommodations in the skilled care center of Acts as part of the Monthly Service Charge (as specified in Section 2 of this Contract) subject to the limitations set forth below; provided, however, that Resident must occupy his room in the assisted living residence of the Retirement Community for a period of thirty (30) days before being admitted to the skilled care center, except as may be permitted by applicable law and regulations. Resident will provide or pay for the services designated as Resident's responsibility.

**A.** **Short-Term Skilled Nursing Care.** If Resident requires short-term skilled nursing care (generally 30 days or less) as determined by Resident' Attending Physician and/or Retirement Community's Medical Director or Utilization Review Committee, Acts shall provide Resident with nursing care, dietary services and semi-private accommodations in Acts' skilled care center, Resident shall be responsible for all costs incurred for (i) services of all physicians, (ii) equipment, (iii) medical supplies, (iv) prescribed medicines and (v) any other costs or services not specifically paid by Acts pursuant to this Contract. Resident shall also be responsible for payment of the Monthly Service Charge applicable to the skilled care center as specified in Section 2 of this Contract, which charge shall be prorated based upon the actual number of days Resident occupied a bed in the skilled care center. For those days of the month that Resident is paying the Monthly Service Charge rate applicable to the skilled care center, Resident shall not also be responsible for payment of the Monthly Service Charge rate applicable to his/her room in the assisted living residence.

**B.** **Long-Term Skilled Nursing Care.** If Resident requires long-term skilled nursing care (generally 30 days or longer) as determined by Resident's Attending Physician and/or Retirement Community's Medical Director or Utilization Review Committee, Acts shall provide Resident with nursing care, dietary services and semi-private accommodations in Acts' skilled care center. Resident shall be responsible for all costs incurred for (i) services of all physicians, (ii) equipment, (iii) medical supplies,

(iv) prescribed medicines and (v) any other costs or services not specifically paid by Acts pursuant to this Contract. Resident shall also be responsible for payment of the Monthly Service Charge applicable to the skilled care center as specified in Section 2 of this Contract, which charge shall be prorated based upon the actual number of days Resident occupies a bed in the skilled care center.

C. **Additional Charge for Private Room.** Payment of the Monthly Service Charge applicable to the skilled care center entitles Resident to a semi-private room in Acts' skilled care center. If Resident desires a private room (if available), there will be an additional charge based upon the rates established by Acts from time to time for such accommodations. Acts shall give Resident written notice sixty (60) days in advance of any change in these rates.

7. **Transfer to Hospital or Other Specialized Service Facility.** Resident's Attending Physician and/or Retirement Community's Medical Director will have the right to transfer Resident to whatever hospital or other facility the Attending Physician/Medical Director deems to be in the best interests of the patient. Upon return of Resident to Retirement Community, Resident may be placed by the Attending Physician/Medical Director in Acts' skilled care center to receive nursing care as provided in this Contract. Acts guarantees a bed in its skilled care center or a bed of comparable quality in another health care facility. Ambulance, hospital and related costs shall be paid by Resident. In no event shall Acts be responsible for any charges incurred by Resident at any hospital or other facility, except as set forth in Section 9 below.

8. **Illness or Accident Away from Retirement Community.** If Resident suffers an accident or illness while away from Retirement Community, Acts will have no responsibility to pay for Resident's medical, surgical, hospital or nursing care obtained offsite; however, after Resident returns to Retirement Community, Acts shall assume its responsibility to provide those services as specified in this Contract that are deemed necessary by Acts.

9. **Mental Disorders or Other Conditions.** Acts is not equipped to care for persons who are afflicted with psychoses, psychiatric disorders, contagious conditions or diseases that may represent a risk to the life, health, care, peace or safety of Resident, other Residents of Acts, or employees of Acts. If Retirement Community's Medical Director, the Utilization Review Committee, or other person(s) authorized by Acts determines that, because of any of the conditions described in this subparagraph, Resident's continued presence in Retirement Community may represent a risk to the life, health, peace or safety of Resident, other Residents of Acts, or employees of Acts, Acts may transfer Resident to a facility equipped to handle Resident's condition and chosen in the sole discretion of Acts and Resident shall continue to pay the Monthly Service Charge directly to Acts. Such Monthly Service Charge shall be at the rate established by Acts for nursing care in a semi-private room in its skilled care center based upon the financial arrangement (Option A or Option B) chosen by Resident as described in Section 2 of this Contract. Acts shall then be responsible to pay to the facility to which Resident is transferred the same Monthly Service Charge amount paid by Resident. Such Monthly Service Charge amount may be increased or decreased as described in Section 2.B of this Contract. Any additional cost beyond the Monthly Service Charge as described herein must be paid by Resident to the new facility. If Resident or Resident's family prefer a facility other than that chosen by Acts, Acts shall contribute to the cost of Resident's care at such facility to the extent specified in this Section.

10. **<u>Relocation of Resident.</u>**

**A.** **<u>Relocation from Assisted Living Residence to Another Institution.</u>** In addition to the provisions of Section 9 above, if, after continued evaluation, it is determined by Resident's Attending Physician and/or Retirement Community's Medical Director and/or Acts' Utilization Review Committee that Resident cannot return to his/her room in the assisted living residence for the reasons described in Section 9 above, and if there is no other resident occupying said room at that time, Acts may declare the room vacant. After this decision has been made, Resident shall, within fifteen (15) days from the date of receipt of written notice from Acts, remove all personal possessions from his/her room in the assisted living residence of the Retirement Community. If Resident should recover, and in the opinion of Resident's Attending Physician and/or Retirement Community's Medical Director, is able to occupy a room in the assisted living residence of the Retirement Community, Acts shall, as soon as reasonably possible, provide Resident a room in the assisted living residence, or, if recommended by Resident's Attending Physician and/or Retirement Community's Medical Director and/or Acts' Utilization Review Committee, a bed in Acts' skilled care center.

**B.** **<u>Relocation from Assisted Living Residence to Skilled Care Center</u>.** When Resident is in need of nursing care as determined by Resident's Attending Physician and/or Retirement Community's Medical Director, Resident will be moved from his/her room in the assisted living residence to a semi-private room in Acts' skilled care center. (Upon request, resident may have access to a private room, if available in the skilled care center, upon payment of an additional charge based upon the rates established by Acts from time to time for such accommodation).

If it is determined by Resident's Attending Physician and/or Retirement Community's Medical Director and/or Acts' Utilization Review Committee that Resident requires short-term nursing care as defined in Section 6.A herein, Resident's room in the assisted living residence will remain available for Resident to return. However, unless Resident or Guarantor (as defined herein) agrees to pay the Monthly Service Charge applicable to the assisted living residence, in addition to the Monthly Service Charge applicable to the skilled care center, Acts may declare Resident's room in the assisted living residence vacant after 30 days if Resident is not able to return to the assisted living residence, or earlier than 30 days if it is determined by Resident's Attending Physician and/or Retirement Community's Medical Director and/or Acts' Utilization Review Committee that Resident requires long-term nursing care. If Acts has declared Resident's room vacant as provided herein, Resident shall remove all personal possessions from said room in the assisted living residence within 15 days of receipt of notification of such determination. If Resident's room in the assisted living residence has been declared vacant under the circumstances described herein, and later a determination is made that Resident no longer requires nursing care in the opinion of Resident's Attending Physician and/or Retirement Community's Medical Director and/or Acts' Utilization Review Committee, and is able to occupy a room in the assisted living residence, Acts shall, as soon as reasonably possible, provide to Resident a new room in the assisted living residence.

If it is determined by Resident's Attending Physician and/or Retirement Community's Medical Director and/or Acts' Utilization Review Committee that Resident requires long-term nursing care as defined in Section 6.B herein, Acts may declare Resident's room vacant. Resident shall remove all personal possessions from said room in the assisted living residence within fifteen (15) days of receipt of notification that Resident will be transferred to Acts' skilled care center. If Resident no longer requires nursing care in the opinion of Resident's Attending Physician and/or Retirement Community's Medical Director and/or Acts' Utilization review Committee and is able to occupy a room in the assisted living residence, Acts shall, as soon as reasonably possible, provide to Resident a new room in the assisted living residence.

**C.** **Discretionary Relocation.** Acts may relocate Resident to a new room in the assisted living residence of the Retirement Community from time to time if Acts determines, in its sole discretion, that such a move is necessary for the benefit of Resident, other residents, or for the proper operation of Retirement Community. In the event of such relocation, Acts shall be responsible for all reasonable moving and relocation expenses of Resident.

11. **Arrangement for Guardianship and Resident's Estate.** At the date of occupancy, or within thirty (30) days thereafter, Resident shall submit evidence to Acts that (i) a guardian has been appointed for Resident to manage his or her personal affairs, or (ii) Resident has executed a durable power of attorney which will allow Resident's appointed attorney-in-fact to manage his or her personal affairs in the event that Resident should become incapacitated or mentally incompetent. Resident shall provide Acts a copy of the document(s) creating the guardianship or power of attorney. If a power of attorney is established as set forth above, it shall enable the appointed attorney to act in Resident's behalf in case of accident or injury to Resident.

12. **Acts Policy Regarding Nonpayment and Financial Difficulty.**

**A.** **Failure to Make Payments.** If Resident fails to pay the Monthly Service Charge, or any Additional Charges shown on the monthly statement within the terms defined in Section 2 of this Contract, then Acts may give written notice to Resident to pay all such amounts. If payment is not received by Acts within fifteen (15) days of receipt of such notice by Resident or Guarantor, Acts may terminate this Contract pursuant to Section 14.B herein.

**B.** **Relocation to Another Facility.** In the event that Resident has been receiving nursing care, as described in Section 6, and continues to need such care, and the reason for Resident's failure to pay the Monthly Service Charge or any Additional Charges is insufficient funds, Acts will assist in relocating Resident to a nursing care facility that is eligible to receive reimbursement for such Resident's care from Medicaid or other assistance programs. However, this in no way qualifies or restricts the right of Acts to terminate this Contract for nonpayment, as set forth in Sections 12.A and 14.B herein.

**C.** **Reduction of Income.** Resident believes that his/her sources of income are adequate to meet his/her financial responsibility to Acts, to meet and pay any additional costs which are the responsibility of Resident pursuant to this Contract, and to pay personal and incidental expenses during the period of residency at the Retirement Community. Resident will submit an updated financial statement, and other financial documentation requested by Acts, to allow an annual review of Resident's financial status. If Resident's sources of income are not sufficient to meet his/her financial obligations under this Contract, Resident will make every reasonable effort to obtain assistance from family or other available means, and from public benefits, to the extent that Resident is eligible to receive them, including, but not limited to, federal, state or county aid or assistance (other than Medical Assistance), Aid to the Blind, Veterans' Pension, or other programs. Resident agrees that he/she will apply for and diligently seek such benefits.

13. **Personal Physician.** Resident is required to choose a physician to assume full responsibility for his or her medical care before moving into the assisted living residence (the "Resident's Attending Physician"). A list of local physicians is available from Acts at no charge.

14. **Termination.** This Contract shall remain in effect for the lifetime of Resident unless earlier terminated as provided herein. This Contract shall be terminated upon the occurrence of any of the following:

**A.** **Termination by the Death of Resident.** In the event of the death of Resident, liability for the Monthly Service Charge shall not terminate until all of Resident's personal property is removed from the room occupied by Resident. In the event Resident' personal property is removed prior to the end of the month, the amount of the Monthly Service Charge owed to Acts for that month shall be reduced on a pro-rata basis, and there shall be no responsibility to pay for those days that Resident's room has been vacated.

**B.** **Termination by Resident's Failure to Pay** the Monthly Service Charge or any Additional Charges as the same become due and payable as defined in Section 2.B herein. Acts may terminate this Contract upon fifteen (15) days prior written notice to Resident.

**C.** **Termination by Resident's Rescission** of this Contract prior to the Rescission Date pursuant to Section 3 herein.

**D.** **Termination by Thirty (30) Days Prior Written Notice** by Resident or Resident's designated representative. On the effective date of such termination, Resident' obligation to continue to pay the Monthly Service Charge shall cease (if all Resident's personal property has been removed).

**E.** **Termination by Acts**, based on the judgment of Acts, by serving upon Resident written notice of termination specified to be effective on a date not less than thirty (30) days nor later than one hundred twenty (120) days after the date of notice, under any of the following circumstances:

(i) If Resident makes any material misrepresentation or omission in his/her application, financial statement, medical record or interview with the admissions committee;

(ii) If the Administrator and Medical Director sign a written statement that continued occupancy in the assisted living residence or skilled care center by Resident creates a serious threat to the life, health, safety and peace of Resident or other residents or other persons on the premises;

(iii) If Resident, by gift or through any other financial transaction, weakens his/her ability or the ability of his/her personal estate to satisfy his/her financial obligations under this Contract; or

(iv) If Resident shall be in breach of, or default under, the terms of this Contract (except that a breach of Contract for failure to pay amounts owing to Acts, as set forth in Section 14.B above, shall be governed by the time periods set forth in Section 14.B).

Upon termination of this Contract as set forth herein, Acts is released from any further obligations to Resident. Termination of this Contract, however, does not release Resident from his or her obligation to pay the Monthly Service Charges and Additional Charges that have been incurred as set forth herein. Resident shall not be entitled to a refund of the Entrance Fee, or any part thereof, unless this Contract has been rescinded under Section 3 herein.

15. **Refunds of the Entrance Fee.** The refunds, if any, payable to Resident, if this Contract is terminated in accordance with its terms, are as follows:

**A.** **Notice of Termination Prior to or During the Thirty (30) Day Rescission Period.** In the event that Resident elects to rescind the Contract during the thirty (30) day rescission period, Resident will receive a refund of all or any portion of the Entrance Fee paid, except for those costs specifically incurred by Acts at the request of Resident to the extent those charges were not paid by Resident.

**B.** **Notice of Termination After the Thirty (30) Day Rescission Period.** In the event Resident or Acts receive notice of termination of this Contract after the thirty (30) day rescission period and prior to death, Resident is entitled to a refund of the Entrance Fee paid less a sum equal to eight percent (8%) per month, or fraction thereof, of the amount of the Entrance Fee for each month this Contract has been in force, starting on the first day of the month after the date of availability of the living unit. The effective date of termination of this Contract shall be the date of surrender of the living unit.

**C.** **Termination by Death of Resident.** In the event of the death of Resident before occupancy or during the thirty (30) day rescission period, the Entrance Fee paid, except those costs specifically incurred by Acts at the request of Resident, (to the extent those charges were not paid by Resident), will be refunded in FULL to Resident's estate or to Resident's personal representative. If death should occur after the thirty (30) day rescission period, the Entrance Fee is not refundable and shall automatically become the exclusive property of Acts upon the death of the Resident.

**D.** **Termination by Acts.** In the event that Acts terminates this Contract for "cause" (as described in Section 14.E), safety or peaceful enjoyment of Resident or other residents or persons in Acts. Resident shall be entitled to receive a refund, if any, for some or all of the Entrance Fee as provided in Section 15.B of this Contract, except those costs specifically incurred by Acts at the request of Resident.

**E.** **Time for Payment of Refunds.** Prior to occupancy, any refunds of the Entrance Fee shall be made no later than sixty (60) days after the effective date of termination of this Contract. After occupancy, any refunds of the Entrance Fees shall be made within one hundred twenty (120) days of the effective date of termination of this Contract.

**F.** **Release of Obligation.** Upon termination of this Contract, Acts is released from any further obligations to Resident except for the payment of any refund which may be due under this section. Resident is released from any further obligations except for the payment of any amounts due Acts, including the repayment of any financial assistance, the payment of the Monthly Service Charge until surrender and the recovery of all personal property.

16. **Marriages/Additional Occupant.** If a person who has entered Acts as a resident in the assisted living residence under a continuing care contract decides to marry a non-resident while occupying his or her room in the assisted living residence, such spouse will be treated as an independent resident and must comply with the physical and financial requirements for admission to Acts. The spouse will be obligated to pay the fees and charges described in his or her contract for independent living accommodations with Acts and will receive no discount on account of his or her marital relationship with resident. In the event that such spouse is not accepted as a resident, Resident may terminate his or her contract pursuant to Section 14 of the Contract. If Resident elects to terminate his or her Contract, there shall be no refund of the Entrance Fee, or any part thereof.

17. **Right to Real Property.** The rights and privileges of Resident do not include any rights, title or interest whether legal, equitable, beneficial or otherwise, in or to any part of the real property, including land, buildings and improvements owned or administered by Acts, except the right granted to Resident to occupy the assisted living residence in accordance with the terms of this Contract. Resident shall have no interest in the real property of the Acts. Resident's rights are primarily for services, and this Contract does not create the relationship of Landlord and Tenant and it does not confer any legal or equitable ownership or other interest in the real property or in Acts itself. Any rights, privileges or benefits arising under or related to this Contract shall be subordinate and inferior to all mortgages or deeds of trust on any of the premises or real properties of Acts, previously or subsequently given, to secure any loans or advances made to Acts or its successors, now outstanding or made in the future, and subordinate and inferior to all amendments, modifications, replacements, or refundings. Resident agrees that, upon request of Acts, or the holder of any such instrument, he/she will execute and deliver any document which is alleged to be necessary or required to effect or evidence such subordination.

18. **Responsibility for Damages.** Any loss or damage to real or personal property of Acts, caused by the negligence of Resident or Resident’s guests, shall be charged to and paid for by Resident. Similarly, if any negligence of any of the above-mentioned results in injury, illness or damage to any other resident, Acts assumes no responsibility and Resident hereby releases and discharges Acts from any injury to Resident or damage to Resident’s personal property caused by the fault or negligence of other residents of Acts or of their guests.

19. **Responsibility of Protection of Resident’s Property.** Acts shall not be responsible for the loss of any personal property belonging to Resident due to theft, fire or any other cause, unless said property has been specifically entrusted in writing to the care and control of Acts, and then only for lack of ordinary care to safeguard, and account for, such property.

20. **Removal of Personal Property.** If for any reason (other than the Resident’s need for short-term nursing care as defined in Section 6.A herein) Resident no longer occupies his or her room in the assisted living residence, Resident (or his or her designated representative) must remove all of Resident’s personal property within fifteen (15) days after Resident vacates his/her room in the assisted living residence or by the end of the month if the Monthly Service Charge has been paid to cover Resident’s room through the end of the month. In the event that the room in the assisted living residence of a Resident receiving short-term nursing care is declared vacant by Acts under the circumstances described in Section 10.B herein, Resident (or his or her designated representative) must remove all of Resident’s personal property

within fifteen (15) days after Resident (or his or her designated representative) has received notice that Acts has declared such room vacant. If all of Resident's personal property has not been removed as required herein, Acts shall have the right, at Resident's expense, to remove all personal property from Resident's room, and store the same at Resident's expense and risk. If the property is stored in a commercial storage warehouse or commercial storage facility, Acts shall have no responsibility for such property after it has been placed in storage, and Resident, or Resident's estate, shall be liable for all storage fees incurred. Until all of Resident's personal property has been removed, Resident will be charged and is responsible for the Monthly Service Charge set forth in Section 2 above.

21. **Indemnification.** Resident agrees to indemnify and hold Acts harmless from any and all loss, damage, injury, claim, and expense caused by the Resident's breach of any of the provisions of this Contract, or any loss, damage, injury, claim, and expense caused by Resident's family, guests, visitors, agents and employees.

22. **Responsibility of Resident.** Resident hereby relieves Acts from any and all liability resulting from or relating to any injury or damage to any person or property in his/her room at the Retirement Community unless such damage or injury is proximately caused by the negligence of Acts, its employees or agents.

23. **Financial Affairs of Resident.** Acts shall not be responsible in any way, including supervision, advise, and control, for Resident's personal financial management and affairs.

24. **Non-Transferable.** The rights and privileges of Resident under this Contract to the facilities, services and medical care are personal to Resident and cannot be transferred or assigned by any act of Resident, or by any proceeding at law, or otherwise. Any attempted assignment of this Contract shall be void and shall allow Acts the right to terminate this Contract.

25. **Quarterly Meetings.** The Board of Directors or a designated representative shall meet quarterly with the residents of the Retirement Community for the purpose of free discussion of subjects which may include, but are not limited to income, expenditures and financial matters as they apply to Acts and the Retirement Community and proposed changes in policies and services. Acts shall provide Residents with at least seven (7) days notice of each quarterly meeting.

26. **Waiver.** No act, agreement, or statement of any Resident, or other individual purchasing care for a Resident under this Contract or under any contract to furnish care to the Resident shall constitute a valid waiver of any provision of any North Carolina Statute enacted and intended to benefit or protect the residents of the Retirement Community, or any individual purchasing care for such residents.

27. **Notices.** All notices to be given in accordance with this Contract shall be deemed to have been properly given if and when delivered personally or sent by mail as follows:.

To Acts: ________________________________________
________________________________________
________________________________________

To Resident (before taking occupancy):

____________________________________________
____________________________________________
____________________________________________

Notice to Resident after occupancy shall be hand-delivered or sent by U.S. mail to Resident at the Retirement Community.

28. **Guarantor.** The person whose name and signature appear at the conclusion of the Contract as "Guarantor", unconditionally guarantees the prompt, punctual and full payment of the financial obligations of Resident under this Contract. This guaranty may be enforced by Acts, without resorting to or exhausting any collateral in which Resident has granted to Acts an enforceable security interest. The above guaranty is a guaranty of payment and not of collection. Without limiting the generality of the foregoing, the Guarantor hereby waives the benefits of North Carolina General Statutes Section 26-7 through 26-9 inclusive.

29. **Miscellaneous.**

**A.** **Entire Contract.** This Contract, the Application Documents, the rules and statutes described in Section 29.K and any related documents, constitute the entire Contract between Acts and Resident with respect to the subject matter hereof and supersedes all prior oral or written agreements between the parties. Resident warrants that all representations are true and correct. Acts is not liable and shall not be bound by any statements, representations or promises made by any person representing or purporting to represent Acts, unless such statements, representations or promises are set forth in this Contract.

**B.** **Policies, Procedures, Rules and Regulations.** Resident will observe all policies, procedures, rules and regulations which Acts shall adopt for the convenience, comfort, safety and well-being of all residents and the Retirement Community, which are subject to change from time to time. Resident will comply with all policies and rules contained in the Assisted Living Residence Handbook.

Resident and guests shall refrain from drinking alcoholic beverages in all common areas, except in certain designated areas as defined by Acts, which are subject to change.

Resident and guests shall refrain from smoking in the Retirement Community, including the Resident's room, common areas and grounds, except in the designated areas, which are subject to change.

**C.** **No Waiver.** Any failure by Acts to exercise any right or remedy under this Contract shall not be construed as a waiver of the right to exercise the same or any other right at any time, or from time to time thereafter.

**D.** **Invalidity, Unenforceability.** If any portion of this Contract shall, for any reason, be held invalid or unenforceable in any jurisdiction in which it is sought to be enforced, such invalidity and unenforceability shall not affect any other provision of this Contract, and it shall be construed as if such invalid or unenforceable provision were omitted.

**E.** **<u>Amendments.</u>** This Contract may be amended only in writing executed by both Resident and Acts' corporate officers.

**F.** **<u>Section Headings.</u>** Section headings are intended for reference purposes only.

**G.** **<u>Binding Effect.</u>** This Contract shall be binding upon, and inure to, the benefit of Acts and Resident, and their respective successors, permitted assigns and legal representatives.

**H.** **<u>Counterparts.</u>** This Contract may be executed in two or more counterparts, each of which shall be deemed an original, but all of which, when taken together, shall constitute but one Contract.

**I.** **<u>North Carolina Law.</u>** All matters affecting the interpretation of this Contract and the rights and obligations of the parties hereto shall be governed by and construed in accordance with the laws of the State of North Carolina.

**<u>J.</u>** **<u>Receipt of Copy of Contract and Disclosure Statement.</u>** Resident acknowledges that prior to the payment of any funds to Acts for admission to the assisted living residence on a continuing care basis, he/she has received and read a copy of this Contract and the Continuing Care Disclosure Statement required by North Carolina General Statutes Section 58-64-20 and understands the contents of both documents.

**<u>K.</u>** **<u>Receipt of Copy of North Carolina Statutes and Assisted Living Handbook.</u>** Resident and Designated Representative (and all other persons specified in N.C.G.S. §131E-120) have received a copy of the North Carolina General Statutes pertaining to patient's rights (N.C.G.S. §131E-115 through §131E-127) and Retirement Community's Assisted Living Residence Handbook, and have been advised of each.

*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGE TO FOLLOW.]*

IN WITNESS WHEREOF, Acts, by its duly authorized representatives, Resident, Designated Representative and Guarantor have executed this Contract the day and year first above written.

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

BY: ____________________________________________________

ACTS Retirement-Life Communities, Inc.
Authorized Representative

**RESIDENT:**

________________________________________________________
(NAME)

________________________________________________________
(SIGNATURE)

WITNESS: _____________________________________________

**DESIGNATED REPRESENTATIVE:**

________________________________________________________
(NAME)

________________________________________________________
(SIGNATURE)

**GUARANTOR:**

________________________________________________________
(NAME)

________________________________________________________
(SIGNATURE)

## ACKNOWLEGMENT OF RECEIPT OF STATUTES PERTAINING TO PATIENT'S RIGHTS AND STATEMENT OF SERVICES AND CHARGES

**I hereby acknowledge having been furnished with a copy of North Carolina General Statutes Sections 131E-115 through 131E-127 pertaining to patient's rights by Acts. I have also been furnished a statement of services provided by the facility and related charges. Prior to the payment of any funds to Acts for admission by me to the assisted living residence on a continuing care basis, I received and read a copy of my Contract with Acts and the Continuing Care Disclosure Statement required by North Carolina General Statute Section 58-64-20, and any addendums to such Statement.**

_______________________________________ ________________________

**Resident's Signature** **Date**

_______________________________________ ________________________

**Designated Representative's Signature** **Date**

_______________________________________ ________________________

**Witness** **Date**

## ATTACHMENT NO. 5

BALANCE SHEET

2018 ACTUAL VS. FORECAST

ACTS RETIREMENT-LIFE COMMUNITIES, INC. (OBLIGATED GROUP)

**ACTS RETIREMENT-LIFE COMMUNITIES, INC. (OBLIGATED GROUP)**
**BALANCE SHEET**
(In Thousands)

| | 2018 Actual | 2018 Forecast | Variance | |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 24,890 | $ 7,858 | $ 17,032 | (1) |
| North Carolina operating reserve funds | 7,660 | 7,508 | 152 | |
| Investments | 357,721 | 354,657 | 3,064 | (2) |
| Accounts receivable and entrance fees receivable, net | 20,239 | 19,064 | 1,175 | |
| Note receivable from affiliate | 17,750 | 17,750 | - | |
| Prepaid expenses, inventory, and deposits | 7,794 | 8,546 | (752) | |
| Property and equipment, net | 1,158,440 | 1,168,727 | (10,287) | (3) |
| Deferred costs, net | 2,592 | 1,432 | 1,160 | |
| Due from affiliated organizations | 3,738 | 1,459 | 2,279 | (4) |
| Total assets | $ 1,600,824 | $ 1,587,001 | $ 13,823 | |
| **Liabilities and Net Assets** | | | | |
| Accounts payable and accrued expenses | $ 81,655 | $ 77,145 | $ 4,510 | (5) |
| Short-term indebtedness | 70,044 | 40,010 | 30,034 | (6) |
| Long-term indebtedness | 672,801 | 673,657 | (856) | |
| Entrance fee deposits | 9,282 | 6,488 | 2,794 | (7) |
| Refundable portion of entrance fees | 11,209 | 10,858 | 351 | |
| Deferred revenue from entrance fees | 644,210 | 659,289 | (15,079) | (8) |
| Accumulated loss on investment contracts | 7,588 | 9,573 | (1,985) | (9) |
| Total liabilities | 1,496,789 | 1,477,020 | 19,769 | |
| **Net assets** | | | | |
| Without donor restrictions | 78,938 | 86,807 | (7,869) | (10) |
| With donor restrictions | 25,097 | 23,174 | 1,923 | (11) |
| Total net assets | 104,035 | 109,981 | (5,946) | |
| Total liabilities and net assets | $ 1,600,824 | $ 1,587,001 | $ 13,823 | |

# DISCUSSION OF 2018 ACTUAL RESULTS COMPARED TO FORECAST

## BALANCE SHEET

A threshold of $1.5 million between actual and forecasted results is considered material.

### ASSETS

Total assets were above forecasted expectations by $13.8 million (0.9%) in 2018 due to the following factors:

(1) Cash and cash equivalents were higher than forecasted by $17.0 million (216.8%) due to the collection of cash occurring close to year-end resulting in the inability to invest prior to the close of 2018.

(2) Investments were above forecasted expectations by $3.1 million (0.9%) primarily due to the timing of draws from project funds that were established in connection with a debt financing that closed in June 2018.

(3) Property and equipment, net of accumulated depreciation, was below forecasted expectations by $10.3 million (0.9%) due to the timing of expenditures related to certain capital projects.

(4) The amount due from affiliated organizations at the end of 2018 was greater than forecasted by $2.3 million (156.2%) due to the timing of repayment of certain corporate advances and transfers.

### LIABILITIES AND NET ASSETS

Total liabilities and net assets were above forecasted expectations by $13.8 million (0.9%) in 2018 due to the following factors:

(5) Accounts payable and accrued expenses were greater than forecasted by $4.5 million (5.9%) due to the timing of payments.

(6) Short-term indebtedness was above forecasted expectations by $30.0 million (75.1%) due to an increase in line of credit usage to temporarily fund certain capital projects.

(7) Entrance fee deposits were above the 2018 forecasted amount by $2.8 million (43.1%) due to the collection of initial sale entrance fee deposits related to independent living expansion projects at Normandy Farms Estates in Blue Bell, Pennsylvania, Azalea Trace in Pensacola, Florida, and Magnolia Trace in Huntsville, Alabama.

(8) Deferred revenue from entrance fees was lower than forecasted expectations by $15.1 million (2.3%) due to a lower than expected number of resales resulting in less entrance fee cash than anticipated.

(9) The accumulated loss on investment contracts was $2.0 million (20.7%) lower than forecasted due to a decrease resulting from changes in the fair market valuation related to certain interest rate swap agreements.

(10) Net assets without donor restrictions were below forecasted expectations by $7.9 million (9.1%) primarily due to a net unrealized loss on investments and investment contracts of $5.7 million coupled with a lower than expected amount of net assets released from restrictions to acquire property and equipment.

(11) Net assets with donor restrictions were greater than forecasted by $1.9 million (8.3%) due to positive funds advancement efforts.

# ATTACHMENT NO. 6

STATEMENT OF OPERATIONS

2018 ACTUAL VS. FORECAST

ACTS RETIREMENT-LIFE COMMUNITIES, INC. (OBLIGATED GROUP)

**ACTS RETIREMENT-LIFE COMMUNITIES, INC. (OBLIGATED GROUP)**
**STATEMENT OF OPERATIONS**
(In Thousands)

| | 2018 Actual | 2018 Forecast | Variance | |
|---|---|---|---|---|
| **Operating Revenue** | | | | |
| Resident services revenue, excluding amortization of entrance fees | $ 305,255 | $ 303,774 | $ 1,481 | (1) |
| Patient revenue from third-party payors | 32,794 | 34,848 | (2,054) | (2) |
| Investment income | 7,352 | 7,844 | (492) | (3) |
| Net assets released from restriction to provide resident services | 2,324 | 2,109 | 215 | |
| Contributions | 71 | 98 | (27) | |
| Other revenue | 11,583 | 9,958 | 1,625 | (4) |
| Total operating revenue before amortization of entrance fees | 359,379 | 358,631 | 748 | |
| Amortization of entrance fees | 91,029 | 86,831 | 4,198 | (5) |
| Total operating revenue | 450,408 | 445,462 | 4,946 | |
| **Operating Expenses** | | | | |
| Administrative and general | 94,248 | 94,632 | (384) | (6) |
| Health care | 75,928 | 75,833 | 95 | |
| Property management | 62,912 | 62,634 | 278 | |
| Culinary services | 62,338 | 61,589 | 749 | (7) |
| Resident care | 38,551 | 36,348 | 2,203 | (8) |
| Environmental services | 12,102 | 12,231 | (129) | |
| Total operating expenses before depreciation, amortization, and interest | 346,079 | 343,267 | 2,812 | |
| Depreciation and amortization | 71,054 | 71,239 | (185) | |
| Interest, net | 20,058 | 19,623 | 435 | (9) |
| Total operating expenses | 437,191 | 434,129 | 3,062 | |
| **Operating Income** | $ 13,217 | $ 11,333 | $ 1,884 | |

DISCUSSION OF 2018 ACTUAL RESULTS COMPARED TO FORECAST

STATEMENT OF OPERATIONS

A threshold of $300 thousand between actual and forecasted results is considered material.

Total Operating Revenue:

Operating revenue exceeded forecasted expectations by $4.9 million (1.1%) in 2018 due principally to a positive variance of $4.2 million in non-cash revenue and other factors as listed below:

(1) Resident services revenue exceeded forecasted expectations by $1.5 million (0.5%) due to; actual independent living unit census exceeding the forecast through the first quarter of the year; a greater than forecasted level of self pay resident census offset by lower than expected permanent resident census in skilled care centers; and lower than expected utilization of home health and senior services.

(2) Patient revenue from third party payors fell below forecasted expectations by $2.1 million (5.9%) due to lower than expected Medicare Part A and Medicaid census in the skilled care centers and lower than anticipated usage of Nurse Practitioner services.

(3) Investment income fell short of forecasted expectations by $0.5 million (6.3%) during 2018 due to a slightly lower than anticipated average rate of return on unrestricted investments as a result of market conditions.

(4) Other revenue was above forecasted levels by $1.6 million (16.3%), due to a higher than expected amount of apartment modification income.

(5) Amortization of entrance fees was greater than forecasted levels by $4.2 million (4.8%) commensurate with the higher than expected independent living unit census in the beginning of the year coupled with higher than expected termination income reflective of actual independent living unit turnover exceeding the forecast.

Total Operating Expenses:

Operating expenses were unfavorable to forecasted expectations by $3.1 million (0.7%) in 2018 due to the following factors:

(6) Administrative and general expenses were lower than forecasted by $0.4 million (0.4%) due to lower than expected costs related to office supplies, postage, dues and subscriptions, and trust and bank management fees.

(7) Culinary services expenses were greater than the forecasted amount by $0.7 million (1.2%) in 2018 due to higher than expected costs related to raw food and paper products.

(8) Independent and assisted living resident care costs were greater than forecasted expectations by $2.2 million (6.1%) due to higher than expected costs related to temporary services, outside medical care, medical supplies, and employee travel.

(9) Interest expense was over the forecasted amount by $0.4 million (2.2%) due to the debt financing transaction that closed in June 2018.

**ATTACHMENT NO. 7**

STATEMENT OF CASH FLOWS

2018 ACTUAL VS. FORECAST

ACTS RETIREMENT-LIFE COMMUNITIES, INC. (OBLIGATED GROUP)

**ACTS RETIREMENT-LIFE COMMUNITIES, INC. (OBLIGATED GROUP)**
**STATEMENT OF CASH FLOWS**
(In Thousands)

| | 2018 Actual | 2018 Forecast | Variance | |
|---|---|---|---|---|
| **Cash Flows from Operating Activities** | | | | |
| Increase in net assets | $ 10,378 | $ 9,082 | $ 1,296 | |
| Adjustments to reconcile change in net assets | | | | |
| to net cash provided by operating activities: | | | | |
| Satisfaction of subordinated note receivable related to merger of obligated meml | - | 6,082 | (6,082) | (1) |
| Depreciation and amortization | 71,054 | 71,239 | (185) | |
| Amortization of entrance fees | (91,029) | (86,831) | (4,198) | (2) |
| Amortization of bond discount and premium, net | (3,329) | (3,220) | (109) | |
| Amortization of deferred financing costs | 622 | 800 | (178) | |
| Entrance fees from non-refundable resale contracts | 121,024 | 136,648 | (15,624) | (3) |
| Refunds of non-refundable entrance fees and deposits from resale contracts | (12,152) | (10,304) | (1,848) | (4) |
| Administrative fee included in gross entrance fees | (6,197) | (6,782) | 585 | |
| Increase in deferred costs | (1,212) | - | (1,212) | |
| Net realized and unrealized gain on investments | 7,939 | - | 7,939 | (5) |
| Change in fair value of investment contracts | (1,986) | - | (1,986) | (5) |
| Loss on early extinguishment of debt | 255 | 255 | - | |
| Change in beneficial interest in investments of ACTS Legacy Foundation, Inc. | (2,764) | (841) | (1,923) | (6) |
| Net change in due to/from affiliated organizations | (1,760) | 519 | (2,279) | (7) |
| Changes in assets and liabilities: | | | | |
| Increase in accounts receivable | (317) | (821) | 504 | |
| Decrease (increase) in prepaid expenses, inventory, and deposits | 424 | (328) | 752 | |
| Increase in accounts payable and accrued expenses | 1,431 | 2,159 | (728) | |
| Net cash provided by operating activities | 92,381 | 117,657 | (25,276) | |
| **Cash Flows from Investing Activities** | | | | |
| Purchase of property and equipment | (111,882) | (117,954) | 6,072 | (8) |
| Increase in investments | (62,471) | (53,164) | (9,307) | (9) |
| Net cash used in investing activities | (174,353) | (171,118) | (3,235) | |
| **Cash Flows from Financing Activities** | | | | |
| Entrance fee deposits from initial sale contracts, net | 7,424 | - | 7,424 | (10) |
| Refunds of entrance fees and deposits from initial sale contracts | (402) | - | (402) | |
| Entrance fees from refundable contracts | - | - | - | |
| Refunds of refundable entrance fees | (2,720) | (3,642) | 922 | |
| Payments of accounts payable, construction | (19,202) | (27,342) | 8,140 | (11) |
| Proceeds from short-term indebtedness | 82,396 | 17,260 | 65,136 | (12) |
| Proceeds from construction loan payable | - | 1,414 | (1,414) | |
| Net proceeds from long-term indebtedness | 89,777 | 147,342 | (57,565) | (13) |
| Increase in deferred financing costs | (1,820) | (1,754) | (66) | |
| Payments on short-term indebtedness | (35,102) | (36,250) | 1,148 | |
| Payments on construction loan payable | (4,369) | (5,499) | 1,130 | |
| Principal payments on long-term indebtedness | (16,942) | (38,032) | 21,090 | (13) |
| Net cash provided by financing activities | 99,040 | 53,497 | 45,543 | |
| Net increase (decrease) in cash and cash equivalents | 17,068 | 36 | 17,032 | |
| **Cash and Cash Equivalents, Beginning** | 7,822 | 7,822 | - | |
| **Cash and Cash Equivalents, Ending** | $ 24,890 | $ 7,858 | $ 17,032 | |

## DISCUSSION OF 2018 ACTUAL RESULTS COMPARED TO FORECAST

### STATEMENT OF CASH FLOWS

A threshold of $1.5 million between actual and forecasted results is considered material.

Cash Flows from Operating Activities:

Net cash flows provided by operating activities fell below forecasted expectations by $25.3 million (21.5%) in 2018 due to the following factors:

(1) An amount of $6.1 million for the satisfaction of a subordinated note receivable related to the merger of an obligated member was forecasted for, but not recorded in, 2018. The amount was expected in connection with the merger of Park Pointe Village, Inc. by and into Acts. While the merger transaction did occur in 2018, recognition of the satisfaction of the subordinated note receivable was applied in 2017 for comparative purposes.

(2) Amortization of entrance fees was greater than forecasted levels by $4.2 million (4.8%) commensurate with the higher than expected independent living unit census in the beginning of the year coupled with higher than expected termination income reflective of actual independent living unit turnover exceeding the forecast.

(3) Entrance fees from non-refundable resale contracts were below the forecasted amount by $15.6 million (11.4%) due to a lower than expected number of resales in 2018.

(4) Refunds of non-refundable entrance fees and deposits from resale contracts were over the forecasted amount by $1.8 million (17.9%) the number of actual independent living unit turnover exceeding the forecast.

(5) In 2018, the net realized and unrealized gain on investments was $7.9 million and the change in the fair value of investment contracts was $2.0 million. The forecast does not consider realized and unrealized gains or losses or the change in fair market valuation of interest rate swap agreements due to the inability to predict market conditions.

(6) The change in beneficial interest in the investments of ACTS Legacy Foundation, Inc. was greater than forecasted by $1.9 million (228.6%) due to positive funds advancement efforts on behalf of Acts.

(7) The net change in the amount due from affiliated organizations in 2018 was an increase of $1.8 million versus a forecasted decrease of $0.5 million. The increase was due to the timing of repayment of certain corporate advances and transfers.

Cash Flows from Investing Activities:

Net cash flows used in investing activities were greater than forecasted expectations by $3.2 million (1.9%) in 2018 due to the following factors:

(8) The purchase of property and equipment was below the forecasted amount by $6.1 million (5.2%) in 2018. When taken with the payments of accounts payable, construction (see note 11 in the cash flows from financing activities section), cash flows for the purchase of property and equipment fell short of the forecasted amount by $14.2 million (9.8%) in 2018. The lower than expected amount of cash outflow for purchase of property and equipment is due to the timing of certain capital projects.

(9) The increase in investments was greater than forecasted by $9.3 million (17.5%) due to the timing of certain capital projects and resulting draws from project funds.

Cash Flows from Financing Activities:

Net cash flows provided by financing activities were above forecasted expectations by $45.5 million (85.1%) in 2018 due to the following factors:

(10) Entrance fee deposits from initial sale contracts were $7.4 million in 2018 due to the start of presale efforts related to independent living expansion projects at Normandy Farms Estates in Blue Bell, Pennsylvania, Azalea Trace in Pensacola, Florida, and Magnolia Trace in Huntsville, Alabama.

(11) Payments of accounts payable, construction, were lower than forecasted expectations by $8.1 million (29.7%) in 2018. The payments were made in connection with ordinary capital improvements, major renovation projects, and expansion projects.

(12) Proceeds from short-term indebtedness were greater than forecasted expectations by $65.1 million (377.4%) due to draws that were made on lines of credit to fund certain capital projects.

(13) The net proceeds from long-term indebtedness were lower than forecasted by $57.6 million (39.1%) while the principal payments on long-term indebtedness were lower than forecasted by $21.1 million (55.5%). Because an existing series of bonds were refunded as part of the 2018

permanent financing transaction, the amount of principal refunded is not included in the net proceeds or principal payments on long-term indebtedness on the actual statement of cash flows.