

**DISCLOSURE STATEMENT**

**June 30, 2020**

**MATTHEWS GLEN  
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 continuing care disclosure statement is June 30, 2020. 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 contract providing for continuing care. This continuing care disclosure statement shall be considered current and may be delivered by Matthews Glen at any time prior to November 28, 2021, unless Matthews Glen 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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## **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 Matthews Glen, a continuing care retirement community.

### **ORGANIZATION INTRODUCTION AND INFORMATION (Corporation)**

The provider and owner of Matthews Glen is ACTS Retirement-Life Communities, Inc.® (“Acts”), a Pennsylvania nonprofit corporation with business address at 420 Delaware Drive, P.O. Box 2222, Fort Washington, PA 19034. 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., and Copper Ridge, 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 facilities and currently owns or is affiliated with the following lifecare facilities in Pennsylvania, New Jersey, Delaware, Maryland, North Carolina, South Carolina, Georgia, Alabama, and Florida:

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

Presently, approximately 10,700 residents live in the above listed facilities.

As of June 30, 2020, all of Acts' life care communities have received accreditation from CARF-CCAC.

**COMMUNITY INTRODUCTION AND INFORMATION (Community)**

Matthews Glen is a lifecare community owned by Acts, a nonprofit company incorporated in the Commonwealth of Pennsylvania. Matthews Glen 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., 420 Delaware Drive, P.O. Box 2222, Fort Washington, PA 19034.

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**

<u>Name</u>	<u>Title</u>
Gerald T. Grant	Chief Executive Officer
Karen I. Christiansen, CMA*	President and Assistant Treasurer
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
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
Michael D. Kelly	Director
Daniel W. Lawson, II	Director
Larry D. Marr	Director
Marvin Mashner, CPA	Director
William W. Reynolds, Jr., Ed.D.	Director
James H. 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., 420 Delaware Drive, P.O. Box 2222, Fort Washington, PA 19034.

<u>Name</u>	<u>Title</u>
Gerald T. Grant	Chief Executive Officer
Karen I. Christiansen, CMA	President
Charles W. Coxson, III	Executive Vice President and Chief Operating Officer
Glenn D. Fox, Esq.	Executive Vice President, Legal, Compliance & Risk Management and General Counsel
Jefferson D. Kaighn	Executive Vice President and Chief Administrative Officer
Jonathan D. Grant	Senior Vice President, Community Operations
Deirdre E. Groenen, Esq.	Senior Vice President and Chief Human Resources Officer
Kenneth J. Karmeris	Senior Vice President, Real Estate Services
Peter J. Kress	Senior Vice President and Chief Information Officer
James H. Petty	Senior Vice President, Strategy & Business Development
Holly S. Schade	Senior Vice President, Health and Home Services
Richard A. Winter, CPA	Senior Vice President and Chief Financial Officer
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
Christopher J. Hartman, Sr.	Vice President, IT Operations
Stephen R. La Pierre	Vice President, Chesapeake Region
Megan Longley	Vice President, Sales
Teresa C. Moore	Vice President, Resident Health Services
Jeremy O. Neely	Vice President, Northeast Region
Patrick Plumadore	Vice President, Dining and Nutrition Services
Paul M. Reinbold, MD, CMD	Vice President and Chief Medical Director
Robert A. Westervelt	Vice President, Operational Audit and Compliance
Terri White	Vice President, Mid-Atlantic Region
Steve W. Messer	Campus Executive Director, Matthews Glen
Patrick Picciocchi	Executive Director, Matthews Glen

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

Gerald T. Grant serves as 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 President. Ms. Christiansen has been with Acts since 1996 and most recently served as Executive Vice President and Chief Financial Officer. 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.

Glenn D. Fox, Esquire serves as Executive Vice President, Legal, Compliance & Risk Management 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 currently serves on the LeadingAge Legal Committee, and previously served 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.

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 IAHSAs 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.

Jonathan D. Grant serves as Senior Vice President, Community Operations. 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, Executive Director at St. Andrews Estates and Tryon Estates, and Vice President, Mid-Atlantic Region. 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.

Deirdre E. Groenen, Esquire serves as Senior Vice President and Chief Human Resources Officer. Ms. Groenen joined Acts in 2020 and has a unique background of both legal and human resources experience. She practiced law in civil litigation for many years, including employment litigation and counseling. She also has significant experience in HR leadership, compliance, training and development, diversity and inclusion, discrimination and harassment training and prevention, federal and state leave laws, and employee benefits and compensation. Ms. Groenen is a frequent speaker on HR topics, including in the areas of diversity and inclusion and HR compliance, and is a member of the

Society of Human Resources Management and Tristate HRMA. Ms. Groenen has a Bachelor's degree in Political Science from Temple University and a Juris Doctorate from Temple University's Beasley School of Law. She is an Adjunct Professor at Rowan University teaching Legal Aspects of Human Resources Management and Legal Environment of Business.

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 and 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, Strategy & Business Development, previously serving as Vice President, Mid-South Region. He has 24 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 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 of Business Administration degree 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 and Chief Financial Officer. 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 Senior Vice President, Financial Services. 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 positions with Hamlyn Senior Marketing, Springpoint Senior Living, Sunrise Senior Living and Presbyterian Homes of New Jersey. Ms. Woodward serves on the advisory board of directors for the Twilight Wish Foundation and is a volunteer with Boys & Girls Club of Philadelphia. 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 1994 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 17 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. Egges 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 the Executive Director of Brittany Pointe Estates, Normandy Farms Estates, and Tryon Estates. Mr. Egges serves on the Board of Directors for the Senior Dining Association. He holds a Bachelor of Science degree from The Pennsylvania State University and a Master's degree from Eastern University. Mr. Egges 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 40 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.

Christopher J. Hartman, Sr. serves as Vice President, IT Operations. He has been with Acts since 2003, most recently serving as Corporate Director of Technology Services. Mr. Hartman has over 25 years of experience in the information technology industry. He maintains his CASP (Certified Aging

Services Professional) Certification through the University of North Texas, and he holds a Master's certificate in Business Leadership and Management from Michigan State University.

Stephen R. 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 six 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. Ms. Longley joined Acts in 2015 and has over 25 years in sales and marketing, operations and new business development in senior living services. At Acts, Ms. Longley provides leadership and guidance for the achievement of company-wide occupancy objectives and the strategic sales effort. She has held a series of senior leadership positions for senior living organizations operating in over 27 states to include adult daycare, CCRC, independent living, assisted living, memory care and home care. A few of her leadership positions have included Senior Vice President of Strategic Operations at Benchmark Senior Living and Director of Sales at Marriott Senior Living. She also holds a Personal Care Administrator license in the Commonwealth of Pennsylvania. She is an active supporter of ARC of Delaware County. Ms. Longley has presented sales and marketing best practices at multiple state and national conferences and has been awarded three National Mature Media promotion awards. Ms. Longley has a Bachelor of Arts degree in Gerontology/Social Work from The Pennsylvania State University and has completed post-graduate studies at Harvard University.

Teresa C. Moore serves as Vice President, Resident Health Services. Ms. Moore has more than 35 years of experience in healthcare and over 25 years of experience in the senior services industry. She has been with Acts since 1996 and most recently served as Corporate Director of Resident Health Services and, prior, as Regional Clinical Director, Nursing Home Administrator, and Director of Home Health. Ms. Moore has served as a CARF/CCAC surveyor and is a member of the American Association of Post-Acute Care Nursing. She is a registered nurse, a licensed Nursing Home Administrator, and holds a Bachelor's degree in Human Services from Gardner Webb 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. 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.

Patrick Plumadore serves as Vice President, Dining and Nutrition Services. He has held a series of leadership positions in the senior living and restaurant industries, including serving as Vice President of General Service and Vice President of Dining Services at Erickson Senior Living in Catonsville, MD. In addition, he served as District Manager for the Guest Services company in Fairfax, VA. Mr. Plumadore holds an Associate degree in Culinary Arts and a Bachelor's degree in Food Service Management from Johnson and Wales University. He also holds a Master of Business Administration degree from Frostburg State University.

Paul M. Reinbold, MD, CMD serves as Vice President and Chief Medical Director. Dr. Reinbold has served as Medical Director at multiple skilled nursing facilities since 1995. He most recently served as the Corporate Medical Director and Clinical Operations Advisor to the CEO at Integrace, prior to its affiliation with Acts. He has continued to serve as the Medical Director of Bayleigh Chase in Easton, MD. He previously served as Chief of the Medical Staff for the University of Maryland-Shore Medical Center Easton. Dr. Reinbold is certified as a Medical Director by the Society for Post-Acute and Long-Term Care Medicine and is Board Certified in Internal Medicine by the American Board of Internal Medicine. He holds a Bachelor's degree in Biology from the University of Delaware, a Medical Degree from Hahnemann University School of Medicine and completed his residency in Internal Medicine at Lehigh Valley Hospital.

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 the Campus Executive Director of Matthews Glen. He joined Acts in 1994 and has over 40 years' experience as a licensed Nursing Home Administrator and Executive Director. Mr. Messer holds a Bachelor's degree in History from the University of North Carolina in Charlotte.

Patrick Picciocchi serves as the Executive Director of Matthews Glen. Mr. Picciocchi has been with Acts since 2006. He is a licensed Nursing Home Administrator in the state of North Carolina and has served in several roles with Acts in his 14-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 community, or to residents of the community, 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 have 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 retirement community is situated in a suburban location on 50 acres in Matthews, North Carolina, approximately six miles southeast of Charlotte, in Mecklenburg County. Matthews Glen consists of: 1) 481 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 from 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 Matthews Glen through the development of 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 was also constructed.

Phase one of the project also includes the addition of assisted living and skilled care beds to accommodate the increase in independent living units. Construction of a new 90-bed skilled nursing facility as a stand-alone building on the existing campus of Matthews Glen is nearly complete as of the date of this disclosure statement. This will provide for a modern, person-centered care facility that enhances resident privacy. The final portion of phase one of the project is the conversion of the existing skilled nursing facility to additional assisted living beds, with the expected total unit count to be 100 assisted living units (an increase of 40 beds). The conversion is expected to be completed by January 2022. A project development budget for phase one of the expansion is summarized below.

<b><u>Sources:</u></b>	<b><u>\$ Millions</u></b>
Financing Proceeds*	<u>102.1</u>
<b>Total Sources</b>	<b><u>102.1</u></b>
<b><u>Uses:</u></b>	
Land Acquisition	5.6
Construction	86.8
Architectural and Design	5.0
Furniture, Fixtures and Equipment	2.2
Marketing and Development	<u>2.5</u>
<b>Total Uses</b>	<b><u>102.1</u></b>

\*Phase one of the expansion project was 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 2020. 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.



<b><u>Sources:</u></b>	<b><u>\$ Millions</u></b>
Financing Proceeds*	<u>44.2</u>
<b>Total Sources</b>	<b><u>44.2</u></b>
<b><u>Uses:</u></b>	
Construction	40.7
Architectural and Design	1.3
Furniture, Fixtures and Equipment	<u>2.2</u>
<b>Total Uses</b>	<b><u>44.2</u></b>

\*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, 2019, there were approximately 789 residents at Matthews Glen with 483 of the independent living units occupied.

### **ADMISSION POLICIES**

APPLICATION FOR RESIDENCY – Resident’s application to Acts for residency in facility shall include the following:

- a) Application Form
- b) Priority List Deposit
- c) Application Fee

HEALTH CRITERIA -- Acts’ policy is that residents be able to live safely alone in their own apartment at the time they are accepted as residents.

**MEDICAL EXAMINATION FORM.** Approximately thirty (30) days prior to the execution of the Resident Contract and payment of the reservation fee, a medical form is mailed to resident which must be completed by a physician at resident's expense, and immediately returned.

**INTERVIEW WITH ADMISSIONS COMMITTEE.** Approximately thirty (30) days prior to the execution of the Resident Contract and payment of the reservation 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 physical and mental conditions of entrance. If resident is deemed to have met the physical and mental requirements, he/she will be granted entrance upon meeting the financial requirements.

**INABILITY TO MEET HEALTH REQUIREMENTS.** In the event an applicant is denied admission, the priority list contract shall terminate and the priority list deposit shall be refunded within thirty (30) days of the date of termination. Acts reserves the right to determine whether the applicant is unable to take occupancy

due to illness, injury or incapacity. Where two individuals have signed the priority list contract, the death or a substantial change in the physical, mental or financial condition of one applicant shall not constitute termination.

INABILITY OF ONE RESIDENT TO MEET PHYSICAL REQUIREMENTS. Please reference the previous section, "Inability to Meet Health Requirements."

## FINANCIAL AND INSURANCE CRITERIA

REVIEW OF FINANCIAL CONDITION. Approximately thirty (30) days prior to the execution of the Resident Contract and payment of the reservation fee, resident will be given a financial qualification form which will be completed by resident and returned to Acts before the welcome interview is scheduled. The finance department will review the financial condition of the resident's estate and approve financial qualification prior to the execution of the Resident Contract. In the event that resident is unable to meet these financial conditions, the priority list contract shall terminate and the priority list deposit shall be refunded within thirty (30) days of the date of termination.

REQUIRED INSURANCE. As a condition to admission, resident will, prior to the date of availability, enroll in part A of the Medicare program and subscribe to and pay for coverage under part B of the Medicare program. If not eligible for Medicare, resident will enroll in some other insurance program providing equivalent benefits as approved in writing by Acts. Additionally, resident will subscribe to and pay for Medicare supplemental coverage (commonly referred to as "medigap insurance," covering days 21 through 100 of skilled care services), as approved by Acts. Throughout the duration of the Resident Contract, resident shall maintain, at resident's expense, the required insurance coverage. Proof of required insurance coverage must be provided to Acts prior to the date of availability. Acts may require resident to provide proof of required insurance from time to time after occupancy. Should resident fail to arrange for or maintain required medical insurance coverage, resident will be responsible for all charges that otherwise would have been reimbursed through these required insurance programs and shall demonstrate adequate financial resources for such coverage to Acts upon request.

Medicare Part A co-insurance for skilled days 21 through 100, and Medicare Part B annual deductible and co-insurance are the responsibility of resident.

ASSIGNMENT OF REQUIRED INSURANCE AND THIRD PARTY PAYMENTS. Resident assigns and transfers over to Acts all rights of resident to required public and private insurance and benefits to the extent necessary to pay Acts for services provided to resident under the Resident Contract. If resident becomes eligible to receive payment from any third party for services provided under the Resident Contract by Acts, resident shall at all times cooperate fully with Acts and each third party payor so that Acts may make claim for and receive any applicable third party payments. Resident authorizes Acts to make any and all claims for such insurance and benefits and agrees to execute all documents

necessary to enable Acts to collect or enforce such claims. If for any reason Acts cannot apply directly for such benefits, resident shall from time to time apply for the payments for services provided by Acts to which resident is entitled under applicable insurance benefit programs, and pay to Acts the benefits received within ten (10) days of payment by the third party payor.

**ENROLLMENT IN A HEALTH MAINTENANCE ORGANIZATION (“HMO”) OR OTHER MANAGED CARE PLAN.** Resident may only enroll in a health maintenance organization (“HMO”) or other managed care plan for which Acts is a network or participating provider unless Acts provides prior written consent. Prior to enrolling in any HMO or managed care plan, resident shall sign an addendum identifying the plan and reflecting Acts’ approval or disapproval. In the event that resident subscribes to an HMO or other managed care plan, including a managed care plan that provides Medicare benefits, and Acts is not a participating provider in resident’s managed care plan, Acts may elect, at its option, to attempt to negotiate a contract with and obtain payment from resident’s managed care plan for covered services to be provided by Acts. If Acts is or becomes a network provider in resident’s managed care plan, Acts reserves the right to withdraw from participation as a network provider. If resident’s managed care plan and Acts do not reach an agreement on the terms under which services would be provided, or if resident’s managed care plan does not agree to provide payment for covered services provided by Acts or if Acts withdraws from participation in resident’s managed care plan, resident shall either transfer to and receive services from a participating provider in resident’s managed care plan or shall pay Acts, in addition to the monthly rate, the daily rate for routine nursing care services which would have been covered by Medicare indemnity coverage, but only for the limited period of time during which Medicare or other required insurance coverage would have been available. In the event that resident is transferred to a provider participating in resident’s managed care plan, resident shall continue to pay the monthly rate and additionally all costs and charges related to the transfer to and occupancy of the participating provider. There will be no reduction in the monthly rate as a result of resident’s participation in any health insurance program or managed care plans which provide for payment for services rendered or made available by Acts. Any co-insurance required by the HMO or managed care plan shall be paid by resident.

**AGE REQUIREMENTS** -- As a condition to admission, resident will supply satisfactory evidence that he/she has obtained his/her sixty-second (62<sup>nd</sup>) birthday by the date of availability.

**CHANGES OF CONDITION OF RESIDENT PRIOR TO OCCUPANCY**

a) Change in financial condition. If, after the date of accepting and signing a Resident Contract by both parties and prior to the date of occupancy of a residential unit, a change in resident’s financial condition occurs and resident no longer qualifies under Section 2.1 of the Resident Contract, Acts reserves the right to terminate the Resident Contract. Any portion of the entrance fee that has been paid shall be refunded in full no later than sixty (60) days after the effective date of termination of the Resident Contract.

b) Change in medical condition. Once a Resident Contract is accepted and signed by both parties, the Resident Contract shall not terminate solely due to a change in medical condition. However, Acts reserves the right to determine the appropriate living accommodation.

CANCELLATION/TERMINATION -- (Please reference Section 13, "Termination of Resident Contract" of the Resident Contract and Section 5, "Termination of Addendum" of the Addendum for Modified Health Care Plan for more details).

**TERMINATION BY RESIDENT PRIOR TO OCCUPANCY.** If resident or resident's legal representative notifies Acts in writing of his/her election to withdraw or terminate the Resident Contract before resident takes occupancy, the Resident Contract with said resident shall automatically be terminated. If resident dies before the date of availability, or if, through illness, injury, or incapacity, resident is precluded from taking occupancy and becoming a resident under the terms of the Resident Contract, the Resident Contract shall be automatically rescinded. The resident or his/her designated beneficiary shall receive a refund in accordance with Subsection 14.1 of the Resident Contract.

**TERMINATION BY RESIDENT DURING THIRTY (30) DAY RESCISSION PERIOD.** Resident or resident's legal representative may terminate the Resident Contract within thirty (30) days of the later of the execution of the Resident Contract or the receipt date of this disclosure statement by signing the 'Notice of Right to Rescind' and delivering it to Acts. Resident is not required to move into the retirement community before the expiration of this thirty (30) day rescission period.

**TERMINATION BY RESIDENT DURING TRANSITION PERIOD.** After the lapse of the thirty (30) day rescission period and before the lapse of a one hundred twenty (120) day period commencing on the earlier to occur of (i) the date resident takes occupancy or (ii) the date of availability of residential unit (the "transition period"), resident or resident's legal representative, may terminate the Resident Contract by giving written and personally signed notice of termination to Acts. Resident shall surrender the residential unit within a period of thirty (30) days from the date on which such notice is received by Acts. The Resident Contract shall terminate on the date of surrender. Resident shall be entitled to a refund, as provided in Subsection 14.1 of the Resident Contract.

**TERMINATION BY RESIDENT AFTER THE TRANSITION PERIOD.** Resident or resident's legal representative has the right, at any time, to terminate the Resident Contract by delivery to Acts of written notice of his/her intent to do so. The written notice need not cite a specific reason for the termination but it shall state a date, of not less than thirty (30) days or more than one hundred and twenty (120) days, when the termination is to become effective, and on or prior to such date resident shall surrender the living accommodation. On the effective date of such termination, and contingent upon surrender of the living accommodation, resident's obligation to continue monthly rate payments shall

cease and resident shall be entitled to a refund, if any, as provided in Subsection 14.2 of the Resident Contract.

**TERMINATION BY DEATH OF RESIDENT.** Unless sooner terminated by its own provisions, the Resident Contract shall terminate at death of resident, whereupon all obligations of Acts under the Resident Contract, other than those relating to the removal of resident's personal property, shall cease. At the death of resident, resident shall have no further rights in the living accommodation, and Acts shall have immediate access to the living accommodation. The removal of any personal effects of resident in the living accommodation or from storage shall be the responsibility of resident's executor, administrator, or legal representative, or of other persons entitled by law to receive them. Acts will hold such personal effects for a period not to exceed thirty (30) days, but Acts is not responsible for loss or damage to personal property in its possession. At the death of resident, all entrance fee refunds, excess monthly rate payments (prorated daily to the date of surrender), and any other funds deposited with Acts under the Resident Contract shall be refunded in accordance with Section 14 of the Resident Contract.

In the event removal of resident's personal possessions is not accomplished within thirty (30) days, Acts has the right to continue charging the monthly rate or charge for storage of resident's personal possessions until such possessions have been removed from the living accommodation.

**LIMITATIONS ON TERMINATION FOR SHARED OCCUPANCY.** If any co-resident is precluded from taking occupancy of the residential unit because of death, illness, injury or incapacity, the Resident Contract shall remain in full force and effect as to the other co-resident(s), at the option of co-resident(s). The remaining co-resident(s) shall sign an addendum which changes the terms of the Resident Contract from shared occupancy to single occupancy, if applicable, and which reflects changes in the entrance fee and/or the monthly rate. As long as a co-resident continues to occupy any living accommodation within retirement community, the Resident Contract shall not terminate until the death, permanent transfer, discharge or voluntary departure of all co-residents from retirement community.

**TERMINATION BY ACTS.** Acts may terminate the Resident Contract prior to occupancy due to a change in financial condition or after occupancy for "just cause" (as described below), based on the judgment of Acts by providing resident with at least thirty (30) days written notice. If such action is taken by Acts, resident will have a maximum of sixty (60) days from the date of Acts' notice to surrender the residential unit. On or before the termination date, resident shall surrender. On the date of surrender, resident's obligation to continue monthly rate payments shall cease and resident or resident's designated beneficiary shall be entitled to receive a refund, if any, as provided in Section 14 of the Resident Contract or Section 6 of the 50% Refundable Plan Addendum, whichever is applicable.

Just cause shall include, but not be limited to, (i) a default in payment (a default in payment occurs when monthly payments are not received in accordance with Section 9 of the Resident Contract), (ii) the submission or omission of any material false information in the application documents and process, (iii) the failure of resident to abide by Acts' rules, regulations, policies and procedures, (iv) the breach of any of the other terms of the Resident Contract or addenda to the Resident Contract, or (v) a good faith determination in writing by Acts that continued occupancy by resident creates a serious threat or danger to the life, health, safety or peaceful enjoyment of resident or other residents or persons in retirement community. In situations where continued occupancy threatens the life, health, safety or peaceful enjoyment of resident or other residents, only such notice as is reasonably practicable under the circumstances will be provided to resident or resident's legal representative, and termination may be effective immediately.

In the event the Resident Contract may be terminated contemporaneously with the Addendum for Modified Health Care Plan pursuant to Section 5 of the addendum, Acts, in its discretion, may provide resident an option to pay a lifecare conversion fee in accordance with Acts' prevailing policy.

**SURRENDER.** The obligation to pay the monthly rate shall continue until surrender of the living accommodation by resident or by the estate or family or legal representative of resident in the case of death. The monthly rate shall be prorated for the month of surrender.

REFUND(S) APPLICABLE/NOT APPLICABLE -- (Please reference Section 14, "Refunds of Entrance Fee" of the Resident Contract for more details).

**NOTICE OF TERMINATION PRIOR TO OR DURING TRANSITION PERIOD.** Entrance fee payments will be refunded in full if the Resident Contract is terminated prior to occupancy or within the thirty (30) day rescission period, or if written notice of termination of the Resident Contract is received during the transition period and resident surrenders within thirty (30) days. The Entrance Fee refund will be reduced by any costs specifically incurred by Acts at the request of resident to the extent those charges were not paid by resident.

**NOTICE OF TERMINATION AFTER TRANSITION PERIOD.** In the event written notice of termination of the Resident Contract is received after the transition period and prior to death, resident is entitled to a refund of the entrance fee paid less the administrative fee and less a sum equal to two percent (2%) per month, or fraction thereof, of the amount of the entrance fee paid less the administrative fee for each month the Resident Contract has been in force, starting on the first day of the month after the earlier of the date of occupancy or date of availability, and ending on the date of surrender. The entrance fee refund will be reduced by any costs specifically incurred by Acts at the request of resident to the extent those charges were not paid by resident, and any amounts deducted to cover financial assistance.

In the event resident signed the 50% Refundable Plan Addendum to the Resident Contract for the Acts Life Care 50 plan, Acts will refund to the resident, resident's estate or designated beneficiary the refundable component of the entrance fee, which constitutes fifty percent (50%) of the net entrance fee plus any remaining balance of the amortizable portion of the net entrance fee, less any amounts deducted to cover financial assistance, as defined in the addendum, to cover costs incurred to refurbish, restore or repair the residential unit in the event of unreasonable wear and tear, or to cover costs incurred at the specific written request of resident, or to satisfy unpaid or subsidized charges.

**TERMINATION BY DEATH OF RESIDENT PRIOR TO OCCUPANCY OR DURING TRANSITION PERIOD.** In the event of the death of resident before occupancy or during the transition period, the entrance fee less those costs specifically incurred by Acts at the request of resident (to the extent those charges were not paid by resident), will be refunded to resident's estate or to resident's designated beneficiary. In situations of shared occupancy, in the event of the death of a co-resident before occupancy or during the transition period, resident's estate or his/her designated beneficiary shall receive a refund of the difference between the entrance fee for shared occupancy and the entrance fee for single occupancy for the residential unit at the time of signing the Resident Contract.

**TERMINATION BY DEATH OF RESIDENT AFTER TRANSITION PERIOD.** If death should occur after the transition period, resident is entitled to a refund of the entrance fee paid less the administrative fee and less a sum equal to two percent (2%) per month, or fraction thereof, of the amount of the entrance fee paid less the administrative fee for each month the Resident Contract has been in force, starting on the first day of the month after the earlier of the date of occupancy or the date of availability, and ending on the date of surrender. If death occurs after the fifty (50) month amortization period, the entrance fee is not refundable and shall automatically become the exclusive property of Acts upon the death of resident. In situations of shared occupancy, the amount of the entrance fee less the administrative fee shall be assigned to the surviving co-resident in the event of the death of a co-resident. Any entrance fee refund will be reduced by any costs specifically incurred by Acts at the request of resident to the extent those charges were not paid by resident, and any amounts deducted to cover financial assistance.

**TERMINATION BY DEATH OF RESIDENT - ELECTION OF ACTS LIFE CARE 50 PLAN (FORMERLY 50% REFUNDABLE PLAN).** In the event of the death of resident before occupancy or during the transition period, the entire entrance fee paid, less those costs specifically incurred by Acts at the specific written 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 designated beneficiary. If death should occur after the transition period, the refundable component of the net entrance fee shall be refunded to resident's estate or resident's designated beneficiary. Any unamortized balance of the amortizable portion of the net entrance fee shall be refunded with the refundable component. After the twenty-

five (25) month amortization period, the amortizable portion of the net entrance fee shall not be refunded and automatically shall be retained by Acts upon the death of resident. In situations of shared occupancy, the amount of the amortizable portion of the net entrance fee shall be assigned to the surviving co-resident in the event of the death of a co-resident.

**TERMINATION BY ACTS.** In the event that Acts terminates the Resident Contract in accordance with Subsection 13.6 of the Resident Contract, resident shall be entitled to receive a refund, if any, for some or all of the entrance fee as provided in Section 14 of the Resident Contract or Section 6 of the 50% Refundable Plan Addendum, whichever is applicable.

**CHANGE OF RESIDENTIAL UNIT.** If resident is authorized by Acts to change and move to a smaller residential unit in accordance with the terms of the Resident Contract, resident is entitled to a refund of the difference, if any, between:

- a) Present residential unit. The current entrance fee, less a sum equal to two percent (2%) per month, or fraction thereof, of the amount of such entrance fee for each month the Resident Contract has been in force, commencing from the date of availability, and,
- b) Proposed residential unit. The current entrance fee, less a sum equal to two percent (2%) per month, or fraction thereof, of the amount of such entrance fee for each month the Resident Contract has been in force, commencing from the date of availability. This refund is payable pursuant to Section 14.6 of the Resident Contract.

TIME FRAME OF REFUND(S) -- As per Section 14.6, "Timing of Refund Payments", of the Resident Contract, prior to occupancy, any refunds of the entrance fee shall be made within sixty (60) days of Acts' receipt of resident's written notice of intent to cancel the Resident Contract. After occupancy, any refund of the entrance fee shall be made within one hundred twenty (120) days of the effective date of termination of the Resident Contract, or death. Please see Section 6(d) of the 50% Refundable Plan Addendum to Resident Contract for time frame of refunds applicable to the Acts Life Care 50 Plan.

MOVES -- (Please reference Section 11, "Relocation to a Different Living Accommodation or Outside Facility" of the Resident Contract for more details).

**FROM ONE RESIDENTIAL UNIT TO ANOTHER AS REQUESTED BY RESIDENT.** Upon resident's written request and written approval of Acts, resident may exercise a limited option to move from one residential unit to another in accordance with the prevailing policy. Resident must notify Acts in writing of the type of residential unit desired. Acts reserves the right in its sole discretion to approve or deny requests to move. In the event resident receives approval from Acts to move to another residential unit, resident shall sign an addendum to the Resident Contract reflecting all costs and charges related to exercising the option to move, including the entrance fee and monthly rate for the selected residential unit. Resident may be required to pay a refurbishment fee as



determined by Acts in accordance with prevailing policy. If resident moves to a larger sized residential unit an additional entrance fee may be required in accordance with Subsection 11.1(a) of the Resident Contract.

FROM ONE RESIDENTIAL UNIT TO ANOTHER AS REQUIRED BY ACTS. Acts may relocate resident to a different residential unit in the retirement community, substantially similar to that selected by resident, if it determines that such a move should be made for the benefit of resident or for the proper operation of retirement community, as determined by Acts. In the event resident is directed to relocate, Acts shall be responsible for all reasonable moving and relocation expenses. Resident shall execute an addendum which shall reflect all changes in the monthly rate.

TRANSFER TO ASSISTED LIVING RESIDENCE, SKILLED CARE CENTER OR OUTSIDE FACILITY.

a) Conditions of continued occupancy. Resident shall have the right to occupy the residential unit for so long as resident satisfies the health and other conditions of continued occupancy.

b) Decision to Transfer.

- (i) Authority to transfer. Acts may transfer resident from and between the residential unit and skilled care center or assisted living residence, or any other appropriate care facility, if it determines that such a move should be made because of the health and/or welfare of the resident, for the proper operation of the retirement community, to comply with regulations of the North Carolina Division of Facility Services, the North Carolina Department of Health, local regulations of the fire department, or any other duly constituted authority or agency, or to otherwise meet the requirements of law.
- (ii) Role of Acts' utilization review committee. The decision as to whether a transfer shall be deemed temporary or permanent shall be made by Acts' utilization review committee. The utilization review committee shall consider the opinion of resident and the advice of a family representative, if available, and, if requested and at resident's expense, a private physician. The opinion of resident and advice of family and resident's physician is advisory only and shall not be binding on Acts. The utilization review committee's decision regarding the temporary or permanent nature of any transfer may be made at any time. Upon a determination by Acts' utilization review committee that resident is no longer capable of meeting the health or other requirements for occupancy of the residential unit, resident or resident's next of kin, legal representative or agent acting on resident's behalf, will be notified by Acts that arrangements will be made for resident's immediate

transfer to an assisted living residence, a skilled care center or other appropriate care facility.

c) Transfer to assisted living residence. When resident is in need of assisted living services as determined by Acts' medical director and/or the utilization review committee, and does not need routine nursing care services, resident may be transferred permanently to Acts' assisted living residence, if available, or other facility providing assisted living services. If there is no co-resident in the residential unit, resident will, within thirty (30) days, surrender the residential unit. The residential unit then occupied by such resident shall be declared vacant and Acts may reassign the residential unit to another person.

d) Transfer to skilled care center. When resident is in need of routine nursing care services as determined by Acts' medical director and/or the utilization review committee, resident will be moved to a shared accommodation in the skilled care center or other facility providing routine nursing care services under the Resident Contract. Upon request, resident may have access to a private room, if available, in Acts' skilled care center for which an additional fee may apply. If, after continued evaluation, it is determined by Acts that resident cannot return to his/her residential unit, and if there is no co-resident in said accommodation, Acts may declare the residential unit vacant, and may reassign the residential unit to another person. Resident will, within a thirty (30) day period after such decision has been made, surrender the residential unit.

e) Transfer to outside facility. If it is determined by Acts' medical director and/or Acts' utilization review committee that resident cannot be cared for within the scope of the services Acts provides in the retirement community, or resident cannot otherwise meet the conditions of continued occupancy, and if there is no co-resident in the residential unit, Acts may declare the transfer permanent and the residential unit vacant, and reassign the residential unit to another person. Resident will, within a thirty (30) day period from the date the decision is made, surrender the residential unit and have all personal possessions removed from it.

f) Temporary and permanent transfers under Acts Modified Life Care Plan (formerly Modified Health Care Plan).

- (i) Temporary transfer. If resident is temporarily transferred to a skilled care center or assisted living residence, resident shall pay the then current per diem rate for routine nursing care or assisted living services and any other charges for ancillary or miscellaneous services, and shall pay the monthly rate to retain possession of the residential unit. In situations of shared occupancy where one co-resident is temporarily transferred to a skilled care center or assisted living residence, the monthly rate shall be reduced to the monthly rate for single occupancy of the residential unit, and the transferred co-resident shall be charged, and both co-residents shall be collectively responsible to pay, the then current per diem rate for routine nursing care or assisted living services, and any

other additional charges for ancillary or miscellaneous services. In the event both co-residents are temporarily transferred to a skilled care center or assisted living residence, each co-resident shall be charged and shall pay the then current per diem rate for routine nursing care or assisted living services, and any additional charges for ancillary or miscellaneous services. In addition, the monthly rate shall be reduced to the monthly rate for single occupancy during any period of temporary transfer and will be paid by the resident or co-resident in order to retain possession of the residential unit.

- (ii) Permanent transfer. If resident is permanently transferred to a skilled care center or assisted living residence, then the obligation to pay the monthly rate shall cease, and resident shall be responsible for the payment of the then current per diem rate for routine nursing care or assisted living services, and any other additional charges for ancillary or miscellaneous services. In situations of shared occupancy where one co-resident is permanently transferred to a skilled care center or assisted living residence, the monthly rate shall be reduced to the monthly rate for single occupancy of the residential unit, and the transferred co-resident shall be charged, and both co-residents shall collectively be responsible to pay, the then current per diem rate for routine nursing care or assisted living services, and any other additional charges for ancillary or miscellaneous services, as well as the reduced monthly rate. In the event both co-residents are permanently transferred to a skilled care center or assisted living residence, each co-resident shall be charged and shall pay the then current per diem rate for routine nursing care or assisted living services, and any additional charges for ancillary or miscellaneous services and the obligation to pay the monthly rate shall cease and the residential unit shall revert to Acts.

After transfer to and occupancy in a skilled care center or assisted living residence for a cumulative period of three (3) years (calculated using the total number of days in which the then current per diem rate was paid for temporary or permanent use of a skilled care center or assisted living residence), the resident's obligation to pay the then current per diem rate for routine nursing care or assisted living services in accordance with the above terms and conditions shall be converted to an obligation to pay the then current monthly rate for routine nursing care or assisted living services under the "life care" arrangement provided for in the Resident Contract. Resident remains responsible for any other additional charges for ancillary or miscellaneous services. In situations of shared occupancy, the cumulative three (3) year period shall apply to each co-resident individually; meaning each co-resident pays the then current per diem rate during his/her first three (3) years of occupancy in a skilled care center or assisted living residence before his/her payment obligation is converted to the then current monthly rate.

g) Release of or return to residential unit after transfer.

- (i) Temporary transfer. If resident is admitted temporarily to Acts' skilled care center, assisted living residence, or a hospital or other outside facility, with a medical prognosis of recovery and return to health consistent with the conditions of continued occupancy, then resident shall retain occupancy of the residential unit for the purpose of resuming residency. During any period of temporary transfer, resident shall continue to pay the applicable monthly rate for the residential unit. Resident may return to the residential unit which has been retained in accordance with the terms of this provision at such time as Acts determines that resident can satisfy the conditions of continued occupancy.
- (ii) Permanent Transfer. If resident is permanently transferred to Acts' skilled care center, assisted living residence, or a hospital or other appropriate outside facility, resident shall surrender the residential unit within thirty (30) days of written notice of Acts' decision to permanently transfer resident. If Acts, with the advice of Acts' medical director, determines that resident subsequently has recovered sufficiently to satisfy the conditions of continued occupancy of a residential unit, resident, upon request, shall be eligible for consideration to receive the next available residential unit with a floor plan comparable to the one relinquished, provided resident repays Acts any amounts refunded to resident under the resident contract and pays the applicable monthly rate.

MARRIAGES/SECOND OCCUPANT

NEW SECOND OCCUPANT. As per Section 10 of the Resident Contract, if resident decides to marry/reside with a non-resident while occupying the residential unit and desires that the new spouse/additional occupant share the residential unit, the spouse/additional occupant must comply with the entrance procedure outlined in the Resident Contract and shall execute a then current version of the Resident Contract. The spouse/additional occupant shall pay an entrance fee equal to the then current entrance fee for the smallest residential unit in the retirement community at the time the spouse/additional occupant takes occupancy. The prevailing monthly rate for shared occupancy will commence on the day the spouse/second occupant moves into the residential unit. In the event the spouse/additional occupant is not accepted as a new resident, resident may terminate the Resident Contract pursuant to Section 13 and receive any refund as set forth in Section 14.

RESIDENT MOVES INTO ANOTHER RESIDENT'S RESIDENTIAL UNIT. The resident vacating his/her residential unit is entitled to a refund of the original entrance fee determined by the following calculation: depreciation of the original entrance fee as per Section 14.2 of the Resident Contract or Section 5 of the 50% Refundable Plan Addendum, whichever is applicable, less one-half (1/2) of

the entrance fee of the retirement community's smallest residential unit at the time the first of the two residents took occupancy. If the resident vacating his/her residential unit selected the Acts Life Care 50 Plan (formerly 50% Refundable Plan) at the time of original occupancy, only the amount that causes the vacating resident's refund to equal the refundable component of the entrance fee, as defined in Section 4 of the 50% Refundable Plan Addendum, shall be subtracted. If the depreciated entrance fee is less than one-half (1/2) of the smallest residential unit, then one-half (1/2) of the smallest residential unit shall not be subtracted. If the entrance fee is fully depreciated, the vacating resident shall receive a refund of ten percent (10%) of the net original entrance fee paid and payment of one-half (1/2) of the smallest residential unit shall be waived. The monthly rate for shared occupancy established for the original occupant of the residential unit will commence on the day the spouse/second occupant moves into the residential unit.

#### RESIDENTS LEAVE CURRENT RESIDENTIAL UNITS TO SHARE/OCCUPY LARGER RESIDENTIAL UNIT.

(a) If a larger residential unit is available when both residents choose to vacate the two smaller residential units: (1) the resident with the earlier Resident Contract will pay the difference between the smaller and the larger residential unit based upon the entrance fee schedule in effect at the time the first resident signed the Resident Contract, and (2) the other resident will be entitled to a refund of the original entrance fee determined by calculating the refund to which the resident would be entitled if he/she vacated the premises less one-half (1/2) of the entrance fee of the retirement community's smallest residential unit in effect at the time the earlier of the two residents took occupancy. If the depreciated entrance fee is less than one-half (1/2) of the smallest residential unit entrance fee, one-half (1/2) of the smallest residential unit shall not be retained by Acts. The prevailing monthly rate for shared occupancy will commence on the day both residents occupy the larger residential unit. However, residents must move to the new residential unit the earlier to occur of sixty (60) days from the date of selection or on the date the restoration of the new residential unit is completed. Failure to move will result in resident paying a prorated monthly fee for all three residential units from the date the new residential unit is available until the date of the move.

(b) If a larger residential unit is not immediately available, residents may choose to vacate one residential unit until a larger residential unit is available. The resident vacating the residential unit will be entitled to a refund as stated in RESIDENT MOVES INTO ANOTHER RESIDENT'S RESIDENTIAL UNIT. When a larger residential unit becomes available, the residents will move at their own expense from the smaller to the larger residential unit and will pay the difference between the smaller and larger residential unit based upon the entrance fee schedule in effect at the time the first resident signed the Resident Contract. The prevailing monthly rate for shared occupancy will commence on the day both residents occupy the smaller/larger residential unit.

(c) If transfers result in residents paying more for the larger residential unit than they would have paid for the residential unit as new residents at current prices, then residents may elect to cancel their current Resident Contracts and reenter the retirement community in the larger residential unit at the current entrance fee.

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

**FAILURE TO MAKE PAYMENTS.** If resident fails to make any of the monthly rate payments at the required time, or to pay any other amounts shown on the monthly statement within thirty (30) days after the first day of the month, then Acts may give written notice to resident to pay all such amounts and furnish most recent financial records. If resident fails to comply with such notice, Acts may terminate the Resident Contract, and shall provide resident with the refund, if any, set forth in Section 14, less any outstanding balances or financial obligations.

**SPECIAL CONSIDERATION.** Without in any way qualifying the right of Acts to terminate the Resident Contract, if the sole reason for non-payment is insufficient funds, beyond the control of resident, the matter will be reviewed by Acts with resident. If resident presents facts which justify special financial consideration, Acts may solely at its discretion, partly subsidize resident's monthly rate, provided that such subsidy can be granted without impairing the ability of Acts to meet and continue its objectives while operating on a sound financial basis. All determinations made by Acts shall be regarded as a confidential transaction between Acts and resident except for reports required by regulatory or other government bodies.

**SUBSIDY BY ACTS.** Should Acts subsidize resident's monthly rate, resident agrees that any property which was his/hers at, or subsequent to the date of the Resident Contract, and remaining in his/her possession at death, is to be transferred to Acts for the purpose of repaying (at least to the extent of the value of such property) an amount equal to the aggregate amount of subsidy furnished resident by Acts during the period of residency. If the value of resident's possessions/property exceeds the aggregate amount of subsidy furnished by Acts, all excess proceeds will be returned to resident's estate. The Resident Contract shall operate as a grant, assignment, transfer and conveyance to Acts of such property, and resident hereby grants to Acts a security interest in such property, all of which may be enforced as a claim against resident's estate, and to effect such assignment and to enable Acts to enforce such claim, resident shall execute such further documents, instruments or contracts, such as stock powers, Uniform Commercial Code financing statements, deeds, bills of sale and the like, as Acts shall deem necessary or appropriate to protect or perfect its rights, interest and claims granted in this subsection. Acts may, from time to time, request financial statements from any resident whose monthly rate is subsidized by Acts. This section shall apply whether or not resident is in residence at retirement community at time of death and shall survive termination of the Resident Contract.

REDUCTION OF INCOME. Resident believes that his/her sources of income are adequate to meet his/her financial responsibility to Acts and to meet and pay any additional costs to resident, and to pay personal and incidental expenses during the period of residency. If resident's sources of income do not meet these requirements, resident may be required to relocate to a smaller unit in the retirement community at the discretion of Acts, and 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, Aid to the Blind, veterans' pension, etc. resident agrees that he/she will apply for and diligently seek such benefits.

## **SERVICES**

**STANDARD SERVICES AVAILABLE** -- (Please reference Sections 4, "Living Accommodation and Common Areas" and 5, "Services Provided by Company to Resident and Resident's Responsibilities", of the Resident Contract for more details).

LIVING ACCOMMODATION. From and after the date of availability, resident has the right to occupy and use, in accordance with terms of the Resident Contract, the residential unit designated in Section 3, and accommodations in assisted living residence and skilled care center as defined in Section 11 of the Resident Contract.

FURNISHINGS. Acts will furnish wall to wall carpeting (except in kitchen and bath), range with oven, microwave oven, refrigerator, window blinds, and other fixtures in the residential unit in accordance with Acts' prevailing policy. Resident may upgrade, change or replace the furnishings provided by Acts at resident's cost. These furnishings, even if upgraded, changed or replaced at resident's cost, shall become the permanent property of Acts unless otherwise agreed to in writing by both parties. All other furnishings shall be furnished by resident, subject to supervision of, and approval by, Acts, and shall remain as resident's personal property, except as set forth in Subsections 5.6 and 5.9 of the Resident Contract.

COMMON AREAS. Subject to scheduling requirements and availability as established by Acts and as part of the services included in the monthly rate, 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.

UTILITIES AND TAXES. As part of the services included in the monthly rate, Acts will furnish water, light, heat, electricity, air conditioning, and standard cable television service (excluding premium channels). Payments of real estate taxes are also included in the monthly rate. Payment of the monthly rate does not give the resident any interest in the land, improvements, or real estate of Acts and the retirement community. Resident shall participate in and assign all rights to any real estate, property tax or utility credit program.

**TELEPHONE.** Resident is required to have a telephone, or alternative communication device which is approved by Acts, in the residential unit, at resident's expense. Telephone service charges (excluding international calls) and connection charges are included in the monthly rate. Acts shall provide a directory of telephone numbers for 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 residential unit 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 rate 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 the residential unit in a clean, sanitary and orderly condition, and is responsible for all usual light housekeeping tasks. Annually, Acts will provide such heavier cleaning services as it deems necessary. Acts reserves the right to inspect the residential unit periodically for cleanliness and safety. If resident fails to maintain the residential unit in a clean, sanitary and orderly condition as determined by Acts, then Acts reserves the right to clean the residential unit and resident shall pay the charges assessed by Acts for cleaning the residential unit. Additional housekeeping services are available to resident for an additional fee.

**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 within retirement community and are available to all residents. Acts will provide laundry service for flat linens, provided by resident, on a weekly basis as part of the monthly rate.

**STORAGE.** For each apartment style residential unit, Acts will make available additional storage in a designated area upon request of resident. Use of storage facilities shall be subject to direction and supervision of Acts. Resident is responsible for the risk of loss for all items stored in the storage units.

**GROUNDS.** Acts will furnish basic grounds keeping care including lawn service. Resident, at his/her own expense may plant and maintain the area adjacent to his/her residential unit, subject to the approval of Acts. All plants, trees and shrubs so planted shall immediately become and remain the permanent property of Acts.



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

**FOOD AND MEALS - DINING ROOM SERVICE.** Acts will, as part of the services included in the monthly rate, provide to resident, one meal for each day of the month (e.g. 30 meals in the month of November, 31 meals in the month of December), which may be utilized at resident's discretion, up to a maximum of three (3) meals per day, until the monthly meal allocation is exhausted for the applicable calendar month. Unused meals in one month may not be carried over to another month. Meals may be taken in excess of the monthly allocation and will be an additional charge. Meals shall be taken in a designated dining area at any time during the calendar month, at resident's discretion, although reasonable advance notice of attendance may be requested. Special dietary needs may be provided on request and subject to availability and Acts' policies and procedures. 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. For these occasions, in accordance with Acts' policies and procedures, resident may supply food from outside sources or use catering services provided by retirement community on a fee-for-service basis.

**FOOD AND MEALS - TRAY SERVICE.** Acts will, as part of the services included in the monthly rate, provide to resident tray service if ordered by Acts' medical director or persons authorized by Acts. Tray service shall be on a temporary basis, not to exceed three (3) days or fourteen (14) days following a three (3) day stay in the hospital or the skilled care center. Any resident requesting further tray service shall be evaluated by Acts' medical director and/or resident's physician to determine whether routine nursing care services are required. In the event that tray service extend beyond the above limits, Acts may charge resident for tray service meals in an amount determined by Acts, except if ordered by Acts' medical director.

**FOOD AND MEALS - MEAL ALLOWANCE.** If resident is away from retirement community for a period of fourteen (14) consecutive days or more, he/she may qualify for a limited meal allowance in accordance with Acts' prevailing policy which is subject to change. If the resident qualifies, the meal allowance will be applied as a credit on the monthly statement. Arrangements for this allowance must be made in advance and in writing, and is applicable only when resident is away from his/her residential unit, excluding stays in an assisted living residence or a skilled care center.

**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 rate. Other services may be provided at a fee published in the nurse's office. Acts

reserves the right to limit the outpatient nursing services which are included in the monthly rate.

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

**PARKING.** If resident owns and operates a registered motor vehicle, Acts shall provide a minimum of one uncovered parking space for each residential unit, which is included in the monthly rate. Any assignment of parking spaces will be made in accordance with prevailing policy which is subject to change from time to time. Guest parking is available in designated areas.

**SERVICES AVAILABLE AT EXTRA CHARGE** -- (Please reference Sections 4, "Living Accommodation and Common Areas" and 5, "Services Provided by Company to Resident and Resident's Responsibilities", of the Resident Contract for more details).

**STRUCTURAL CHANGES.** All structural or physical changes of any kind within or about the residential unit (i.e. shelves, framework, awnings, etc.) will be made only upon first being approved by Acts in writing and thereafter being subject to the supervision of Acts. The cost of any such change requested by resident shall be borne by resident and paid for before work begins, unless otherwise agreed to in writing by both parties, and all such changes shall immediately become and remain the permanent property of Acts.

**GUEST USE OF DINING ROOM.** Acts will serve meals to resident's guest in the dining room at an extra charge. Charges for guest meals will be included on resident's monthly statement. Resident is requested to provide Acts with advance notice of any anticipated guests.

**GUEST MEAL CHARGES.** Amounts charged to resident's monthly statement for guest meals will be made according to the currently established rates as set and periodically adjusted by Acts.

**RESPONSE SYSTEM.** Resident may contact retirement community personnel (i.e. security personnel or administrative staff) who will be available to respond twenty-four (24) hours a day. Retirement community personnel will contact emergency response personnel provided by county or city governments, or by various health care providers unaffiliated with Acts. Acts does not provide Emergency Medical Services ("EMS") or Emergency Medical Technicians ("EMT"). While the response system may be used to inform retirement community personnel of a medical emergency or a security concern, Acts disclaims any and all responsibility or liability for responding to medical emergencies or security concerns. Any costs associated with external emergency response personnel shall be payable by resident directly to the emergency response organization.

PROPERTY INSURANCE. Acts shall maintain insurance for Acts' property only, which is included in the monthly rate. Resident is required to purchase and maintain personal property and liability insurance in an amount acceptable to Acts as may be determined from time to time by Acts.

CHANGES IN THE SCOPE OF SERVICE AND ANCILLARY FEE SCHEDULE. The scope of services and related fees as reflected in the ancillary fee schedule for services not included in the monthly rate 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.

HEALTH AND ASSISTED LIVING SERVICES AVAILABLE -- (Please reference Section 6, "General Medical, Nursing and Assisted Living Services", of the Resident Contract for more details).

ASSISTED LIVING AND ROUTINE NURSING CARE SERVICES. As part of the monthly rate, Acts shall provide, or make available, in accordance with resident's needs, assisted living services in private accommodations and routine nursing care services in shared accommodations. In addition, residents who have executed the Addendum for Modified Health Care Plan shall be charged the then current per diem rate for assisted living services and routine nursing care services for a cumulative period of three (3) years (calculated using the total number of days in which the then current per diem rate is paid for temporary or permanent use of an assisted living residence or skilled care center). In the event that those services are provided on the campus of retirement community, resident shall sign an admission contract upon transfer to either the assisted living residence or skilled care center, which contract(s) will supplement the terms of the Resident Contract. In the event that any payment provision of the admission contracts in the assisted living residence or skilled care center are in conflict or inconsistent with any terms or provisions of the Resident Contract, then the Resident Contract shall control and govern the relationship between resident and Acts. As part of the monthly rate, Acts shall provide to resident three (3) meals per day when resident is in assisted living residence or skilled care center.

HOME CARE SERVICES. As part of the monthly rate, resident may be eligible for qualified home care services, as determined by Acts and in accordance with prevailing policy. Additional home care services may be available on a fee-for-service basis.

EXCLUSIONS (ITEMS AND SERVICES NOT COVERED BY THE MONTHLY RATE). Medical, health and ancillary services not included in or covered by the monthly rate include, but are 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, including temporary nursing or assistive services in the residential unit, 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 rate at an additional charge, or refer the resident to another provider capable of providing higher acuity care services. Ancillary and miscellaneous charges in an assisted living residence or skilled care center are not included in the monthly rate.

**TRANSFER TO HOSPITAL OR OTHER SPECIALIZED SERVICE FACILITY.** Acts does not provide ambulance services, hospital care, acute care, transitional care or subacute care or other services provided by a special service facility. Acts shall have the right to transfer resident to a hospital or other facility in accordance with the provisions of Subsection 11.3 of the Resident Contract.

**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 the Resident Contract that are deemed necessary by Acts.

**ACCIDENT OR ILLNESS CAUSED BY OTHERS.** In the event resident is physically injured by an individual or entity not a party to the Resident Contract, resident grants to Acts a right of subrogation, and authorizes Acts to bring such demands, claims or legal proceedings in the name of or on behalf of resident for purposes of recovering from any third party or third party's insurer responsible for resident's injury, the dollar value of all care provided by Acts to resident as a result of any such injury. Resident shall cooperate and sign any documents necessary to facilitate Acts' ability to exercise its subrogation right. After all costs and expenses incurred by Acts (including legal fees and cost of care furnished to resident by Acts because of such injury) have been reimbursed to Acts through subrogation, the balance of any recovery, will be refunded to resident.

**LIMITATIONS ON CARE.** Acts is not designed to care for persons who abuse alcohol or drugs or who require specialized psychiatric care or service not authorized or permitted under the skilled care or assisted living licensing regulations. If Acts determines that resident's continued presence in retirement community is either dangerous or detrimental to the health, safety or peace of resident or other residents, then Acts may temporarily transfer resident to an appropriate institution of Acts' choosing and resident shall continue to pay the monthly rate directly to Acts. Acts will then be responsible to pay to the institution an amount that shall not exceed Acts' prevailing daily rate for shared

accommodations in the skilled care center. Any additional charges beyond the amount paid by Acts are the obligation of and shall be paid by resident. If resident prefers an institution other than that chosen by Acts, Acts will then be responsible to pay the lesser of Acts' daily rate for shared accommodations in the skilled care center or the daily rate of the institution chosen by Acts.

**RESPONSIBILITY OF ACTS FOR SERVICES INCLUDED IN MONTHLY RATE.** Resident shall not be liable to any health care provider for the cost of any services which are covered by Acts under the Resident Contract and which are paid for by resident through payment of the monthly rate. In the event that Acts authorizes any health care provider to provide services, which Acts is required to provide under the Resident Contract, Acts shall assume responsibility for the payment of those health care services.

**PRIVATELY EMPLOYED PRIVATE DUTY CONTRACTORS.** Subject to the approval of Acts, resident may utilize the services of privately employed private duty contractors, or other licensed agencies unrelated to Acts, who provide personal or health care services in the residential unit. Such services are subject to Acts' prevailing policy and requirements, which are subject to change, and must be approved in advance and in writing by Acts. Resident is responsible to pay for all such services. In exchange for Acts' approval of resident's utilization of a private duty contractor or other licensed agencies unrelated to Acts, resident releases Acts from any liability for the acts or omissions of any individual or agency providing services to resident in the residential unit. Live-in companions, whether paid or unpaid by resident are not permitted, except with Acts' advance written consent.

**AVERAGE ANNUAL COST OF SERVICES** – The average annual cost to Acts (Obligated Group) of providing to resident the care specified in the Resident Contract, based on 2019 information, is \$52,804 for residential services and \$124,524 for medical care services.

## **FEES**

**APPLICATION FEE/PRIORITY LIST DEPOSIT** – Each resident, or couple of residents, executing a Resident Contract has paid to Acts a priority list deposit of one thousand (\$1,000) dollars. Additionally, a non-refundable application fee of two hundred (\$200) dollars is paid for each residential unit selected. The priority list deposit will be applied as a credit toward the reservation fee. If resident elects to terminate the Resident Contract before moving into and occupying his/her residential unit, the priority list deposit will be refunded. The application fee is not refundable in accordance with Acts' prevailing policy which is subject to change.

If resident elects to rescind the Resident Contract within thirty (30) days of the later of: (i) the date on which the Resident Contract is executed, or (ii) the date on which resident receives the disclosure statement required by North Carolina General Statutes, Section 58-64-20, resident shall receive reimbursement for all amounts paid, less any monthly fee applicable to any time resident actually occupied the apartment, the non-

refundable application fee, and those nonstandard costs specifically incurred by Acts at the request of resident, as specified on the addendum to the agreement. Resident shall not be required to move into the living accommodation prior to the expiration of the latest thirty (30) day period described above.

**ADMINISTRATIVE FEE** – An administrative fee in an amount equal to five percent (5%) of the total entrance fee paid will be retained by Acts. The administrative fee is non-refundable after the transition period.

**ENTRANCE FEE/MONTHLY FEE** – Persons entering Matthews Glen as residents will be offered the option of choosing between three different financial arrangements, as listed below and on the following pages.

### **Acts Life Care Premier Plan**

<u>LIVING ACCOMMODATION</u>	<u>SQ. FT. (approx.)</u>	<u>ENTRANCE FEE* Effective 11/1/2019</u>	<u>MONTHLY FEE Effective 1/1/2020</u>
Summerfield	600	\$166,900 - \$183,900	\$2,403
Lexington	715	\$243,900 - \$268,900	\$2,545
Lexington II	820	\$262,900	\$2,545
Fletcher	971	\$298,900 - \$323,900	\$2,738
Clayton	1,030	\$309,900 - \$342,900	\$2,977
Thomasville	1,165	\$328,900 - \$363,900	\$3,312
Wilmington	1,178	\$323,900 - \$351,900	\$3,312
Holly Springs	1,380	\$370,900 - \$409,900	\$3,312
Asheville	1,400	\$409,900	\$3,589
Cary	1,489	\$397,900 - \$414,900	\$3,504
Highlands	1,508	\$400,900 - \$442,900	\$3,504
Pinehurst	1,600	\$450,900	\$3,826
Madison	1,693	\$443,900 - \$452,900	\$3,504
<b>Villas</b>			
Raleigh	1,850	\$503,900	\$4,185
Charlotte	2,100	\$549,900	\$4,424
Second Person Fees		\$30,000	\$1,795

\*The entrance fee of a specific living accommodation may be higher or lower depending on certain attributes of the living accommodation. Please contact a Matthews Glen Life Care Consultant for further information.

## Acts Life Care 50 Plan

LIVING ACCOMMODATION	SQ. FT. (approx.)	ENTRANCE FEE*		MONTHLY FEE
		Effective 11/1/2019		Effective 1/1/2020
		Up to Age 79	Age 80-89	All Ages
Summerfield	600	\$240,900 - \$266,900	\$264,900 - \$291,900	\$2,643
Lexington	715	\$352,900 - \$389,900	\$386,900 - \$427,900	\$2,800
Lexington II	820	\$380,900	\$416,900	\$2,800
Fletcher	971	\$432,900 - \$468,900	\$474,900 - \$514,900	\$3,012
Clayton	1,030	\$448,900 - \$496,900	\$492,900 - \$544,900	\$3,275
Thomasville	1,165	\$476,900 - \$526,900	\$522,900 - \$577,900	\$3,643
Wilmington	1,178	\$469,900 - \$509,900	\$514,900 - \$558,900	\$3,643
Holly Springs	1,380	\$537,900 - \$593,900	\$588,900 - \$650,900	\$3,643
Asheville	1,400	\$594,900	\$651,900	\$3,948
Cary	1,489	\$577,900 - \$601,900	\$632,900 - \$659,900	\$3,854
Highlands	1,508	\$581,900 - \$642,900	\$637,900 - \$704,900	\$3,854
Pinehurst	1,600	\$653,900	\$716,900	\$4,209
Madison	1,693	\$643,900 - \$656,900	\$705,900 - \$720,900	\$3,854
<u>Villas</u>				
Raleigh	1,850	\$730,900	\$801,900	\$4,604
Charlotte	2,100	\$797,900	\$874,900	\$4,866
Second Person Fees		\$30,000	\$30,000	\$1,975

\*The entrance fee of a specific living accommodation may be higher or lower depending on certain attributes of the living accommodation. Please contact a Matthews Glen Life Care Consultant for further information.

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## Acts Modified Life Care Plan

<u>LIVING ACCOMMODATION</u>	<u>SQ. FT. (approx.)</u>	<u>ENTRANCE FEE* Effective 11/1/2019</u>	<u>MONTHLY FEE Effective 1/1/2020</u>
Summerfield	600	\$149,900 - \$165,900	\$2,163
Lexington	715	\$218,900 - \$241,900	\$2,291
Lexington II	820	\$235,900	\$2,291
Fletcher	971	\$268,900 - \$290,900	\$2,464
Clayton	1,030	\$278,900 - \$307,900	\$2,679
Thomasville	1,165	\$295,900 - \$326,900	\$2,981
Wilmington	1,178	\$291,900 - \$316,900	\$2,981
Holly Springs	1,380	\$333,900 - \$368,900	\$2,981
Asheville	1,400	\$368,900	\$3,230
Cary	1,489	\$358,900 - \$373,900	\$3,154
Highlands	1,508	\$360,900 - \$398,900	\$3,154
Pinehurst	1,600	\$405,900	\$3,443
Madison	1,693	\$399,900 - \$407,900	\$3,154
<u>Villas</u>			
Raleigh	1,850	\$453,900	\$3,767
Charlotte	2,100	\$500,900	\$3,982
Second Person Fees		\$30,000	\$1,795

\*The entrance fee of a specific living accommodation may be higher or lower depending on certain attributes of the living accommodation. Please contact a Matthews Glen Life Care Consultant for further information.

The entrance fees above and on the previous pages are subject to change without notice, and the monthly fees are subject to change with sixty (60) days prior written notice (in accordance with the terms of the Resident Contract).

The entrance fees and monthly fees on the following page correspond to the independent living units that are expected to be constructed as part of phase two of the expansion project identified on pages 12 and 13 of this disclosure statement. The entrance and monthly fees are subject to change.



### Acts Life Care Premier Plan

<u>LIVING ACCOMMODATION</u>	<u>SQ. FT. (approx.)</u>	<u>ENTRANCE FEE Effective 11/1/2019</u>	<u>MONTHLY FEE Effective 1/1/2020</u>
Seagrove	1,670	\$469,900	\$4,117
Southern Pines	1,755	\$490,900	\$4,247

#### Villas

Belmont	2,330	\$602,900	\$4,800
Second Person Fees		\$30,000	\$1,850

### Acts Life Care 50 Plan

<u>LIVING ACCOMMODATION</u>	<u>SQ. FT. (approx.)</u>	<u>ENTRANCE FEE Effective 11/1/2019</u>		<u>MONTHLY FEE Effective 1/1/2020</u>
		<u>Up to Age 79</u>	<u>Age 80-89</u>	<u>All Ages</u>
Seagrove	1,670	\$681,900	\$747,900	\$4,528
Southern Pines	1,755	\$711,900	\$780,900	\$4,672

#### Villas

Belmont	2,330	\$874,900	\$958,900	\$5,280
Second Person Fees		\$30,000	\$30,000	\$2,035

### Acts Modified Life Care Plan

<u>LIVING ACCOMMODATION</u>	<u>SQ. FT. (approx.)</u>	<u>ENTRANCE FEE Effective 11/1/2019</u>	<u>MONTHLY FEE Effective 1/1/2020</u>
Seagrove	1,670	\$422,900	\$3,705
Southern Pines	1,755	\$441,900	\$3,822

#### Villas

Belmont	2,330	\$554,900	\$4,320
Second Person Fees		\$30,000	\$1,850

The entrance fee is a one-time fee paid to Acts prior to the admission of resident to Matthews Glen. The entrance fee assures residents lifetime access to a living accommodation at Matthews Glen (subject to the terms and conditions of the Resident Contract). The amount of the entrance fee is based on the model, size, location and number of occupants of the residential unit. Residents who have chosen to enter Matthews Glen under the financial arrangement described as Acts Life Care 50 Plan

(formerly 50% Refundable Plan) will pay a greater entrance fee and a greater monthly fee than residents choosing the financial arrangement described as Acts Life Care Premier Plan (formerly Capital Preservation Plan). Residents who have chosen to enter Matthews Glen under the financial arrangement described as Acts Modified Life Care Plan (formerly Modified Health Care Plan) will pay a lesser entrance fee and a lesser monthly fee than residents choosing the financial arrangement described as Acts Life Care Premier Plan (formerly Capital Preservation Plan).

For the financial arrangements described as Acts Life Care Premier Plan (formerly Capital Preservation Plan) and Acts Modified Life Care Plan (formerly Modified Health Care Plan), the entrance fee less the administrative fee (the “net entrance fee”) is amortized by Acts in the amount of two percent (2%) per month for a period of fifty (50) months from the date resident actually takes occupancy of the residential unit or the date designated by Acts for resident to accept occupancy of the residential unit, whichever is earlier. After the fifty (50) month period, there will be no refund of the net entrance fee. For the financial arrangement described as Acts Life Care 50 Plan (formerly 50% Refundable Plan), the net entrance fee shall be amortized by Acts in the amount of two percent (2%) per month for a period of twenty five (25) months from the date resident actually takes occupancy of the residential unit or the date designated by Acts for resident to accept occupancy of the residential unit, whichever is earlier. After the twenty five (25) month period, an amount equivalent to fifty percent (50%) of the net entrance fee shall be retained in full by Acts and amortization of the net entrance fee shall cease. The remaining refundable component of the net entrance fee shall not be amortized. Please see pages 18 through 20 of this disclosure statement for details surrounding situations in which resident would be due an entrance fee refund under either financial arrangement.

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 and monthly fee rates of a different amount for persons entering Matthews Glen, and the rates need not be uniform with or proportional to those charged to resident.

The monthly fee is the charge per month for occupancy of the residential unit and shall commence on the date resident occupies a residential unit in Matthews Glen. Payment of the monthly fee will entitle resident to receive (i) the services that are specifically identified in Section 5 of the Resident Contract (and on pages 27 through 30 of this disclosure statement) as being provided to resident without additional charge by Acts and (ii) the general medical, nursing and assisted living services that are specifically identified in Section 6 of the Resident Contract (and on pages 31 through 33 of this disclosure statement) as being provided to resident without additional charge by Acts.

The monthly fee is payable in advance each month within five (5) days of resident’s receipt of the monthly statement. In the event that the date of occupancy occurs after the first day of the month, the monthly fee 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.

NOTIFICATION OF FEE INCREASE(S) -- Resident is required to pay a standard monthly fee for the size of unit selected effective as of the first day of occupancy or the date of availability, whichever occurs first. The amount may be increased or decreased, but no such increase or decrease shall be effective until resident shall have received at least sixty (60) days prior written notice of such change unless such change is required by state or federal assistance programs. The obligation to begin paying the monthly fee shall be due and payable within five (5) days of the date of resident's monthly statement.

CHANGES IN FEES FOR THE PREVIOUS FIVE YEARS -- Set forth below is a table which shows the average amount of the increase in the first person/second person monthly fees for occupancy in all units at Matthews Glen for the past five years:

<u>Unit Size</u> (approx. sq. ft.)	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Average</u>
600	70 / N/A	79 / N/A	71 / N/A	62 / N/A	47 / N/A	66 / N/A
715-820	74 / 52	84 / 59	75 / 53	65 / 46	49 / 35	69 / 49
971	80 / 52	90 / 59	81 / 53	70 / 46	53 / 35	75 / 49
1,030	87 / 52	98 / 59	88 / 53	76 / 46	58 / 35	81 / 49
1,165-1,380	96 / 52	109 / 59	98 / 53	85 / 46	64 / 35	90 / 49
1,400	105 / 52	118 / 59	106 / 53	92 / 46	70 / 35	98 / 49
1,489-1,508	102 / 52	115 / 59	103 / 53	90 / 46	68 / 35	96 / 49
1,600	111 / 52	126 / 59	113 / 53	98 / 46	74 / 35	104 / 49
1,693	102 / 52	115 / 59	103 / 53	90 / 46	68 / 35	96 / 49
1,850	122 / 52	137 / 59	124 / 53	107 / 46	81 / 35	114 / 49
2,100	129 / 52	145 / 59	131 / 53	113 / 46	86 / 35	121 / 49
% Increase	3.00% / 3.00%	3.50% / 3.50%	3.25% / 3.25%	2.90% / 2.90%	2.25% / 2.25%	3.00% / 3.00%

### **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 \$8,149,341. Acts also participates in an Obligated Group financing which maintains a total debt service reserve of \$11,194,000 and cash and discretionary reserves totaling \$253,664,000 at year end 2019. 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 audited 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 projected operating costs, excluding depreciation and amortized expenses, of Matthews Glen for the period ending December 31, 2020 based on community occupancy in excess of ninety percent (90%) (the "Operating Reserve Requirement"). Matthews Glen has historically maintained an occupancy rate in excess of ninety percent (90%) and expects to continue to do so throughout 2020.

Assets Designated For Operating Reserve

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

Matthews Glen Operating Reserve	\$ 5,294,664
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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 Matthews Glen as of December 31, 2019 that considered the anticipated expansion identified on pages 12 and 13 of this disclosure statement. The study resulted in the finding that the financial condition of Matthews Glen 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 2019 AND 2018**

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



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

Special-Purpose Combined  
Financial Statements and  
Supplementary Information

December 31, 2019 and 2018

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

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December 31, 2019 and 2018

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## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

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, 2019 and 2018, 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, 2019 and 2018, 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.

### **Emphasis of Matter**

As discussed in Note 2 to the special-purpose combined financial statements, ACTS Retirement-Life Communities, Inc. Obligated Group adopted accounting guidance related to Financial Accounting Standards Board Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

### **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.

### **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.

### **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the special-purpose combined financial statements as a whole. The combining information for 2019 on pages 28 to 32 is presented for purposes of additional analysis rather than to present the financial position, results of operations and changes in net assets and cash flows of the individual entities and is not a required part of the special-purpose combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the special-purpose combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the special-purpose combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose combined financial statements or to the special-purpose combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the special-purpose combined financial statements as a whole.

This report is intended solely for the information and use of the board of directors and management of ACTS Retirement-Life Communities, Inc. Obligated Group, and the North Carolina Department of Insurance and is not intended to be used and should not be used by anyone other than these specified parties.

*Baker Tilly Virchow Krause, LLP*

Philadelphia, Pennsylvania  
May 27, 2020

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

Special-Purpose Combined Balance Sheets

December 31, 2019 and 2018

(In Thousands)

	<u>2019</u>	<u>2018</u>		<u>2019</u>	<u>2018</u>
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash and cash equivalents	\$ 24,531	\$ 24,890	Accounts payable and accrued expenses	\$ 86,728	\$ 81,655
Board-designated funds	219,015	194,996	Entrance fee deposits	11,775	9,282
Current portion of assets whose use is limited	13,585	11,845	Short-term indebtedness	89,320	70,044
Receivables, net of allowances for uncollectible accounts of \$847 in 2019 and \$642 in 2018	22,469	20,239	Non-recourse indebtedness	11,740	-
Note receivable from affiliate	-	17,750	Current maturities of long-term debt	17,413	16,804
Prepaid expenses, inventory, and deposits	7,181	7,794			
Due from affiliated organizations	14,047	3,738	Total current liabilities	216,976	177,785
Total current assets	<u>300,828</u>	<u>281,252</u>	<b>Long-Term Debt</b>	635,716	655,997
<b>Board-Designated Funds</b>	<u>10,000</u>	<u>10,000</u>	<b>Accumulated Loss on Investment Contracts</b>	9,415	7,588
<b>Assets Whose Use is Limited</b>	<u>108,817</u>	<u>140,880</u>	<b>Refundable Portion of Entrance Fees</b>	7,874	11,209
<b>North Carolina Operating Reserve Funds</b>	<u>7,660</u>	<u>7,660</u>	<b>Deferred Revenue from Entrance Fees</b>	700,285	644,210
			Total liabilities	<u>1,570,266</u>	<u>1,496,789</u>
<b>Property and Equipment</b>					
Land and improvements	95,391	93,186	<b>Net Assets</b>		
Building and improvements	1,741,354	1,641,502	Without donor restrictions	106,480	78,938
Furniture, fixtures, and equipment	147,657	139,331	With donor restrictions	30,644	25,097
Construction in progress	151,138	83,102			
			Total net assets	137,124	104,035
	2,135,540	1,957,121			
Accumulated depreciation	<u>(859,421)</u>	<u>(798,681)</u>			
Property and equipment, net	<u>1,276,119</u>	<u>1,158,440</u>			
<b>Deferred Costs, Net</b>	<u>3,966</u>	<u>2,592</u>			
Total	<u>\$ 1,707,390</u>	<u>\$ 1,600,824</u>	Total	<u>\$ 1,707,390</u>	<u>\$ 1,600,824</u>

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

Years Ended December 31, 2019 and 2018

(In Thousands)

	<u>2019</u>	<u>2018</u>
<b>Operating Revenue</b>		
Resident services revenue, net of amortization of entrance fees	\$ 316,258	\$ 305,255
Patient revenue from third-party payors	33,575	32,794
Investment income	8,207	7,352
Net assets released from restrictions to provide resident services	2,477	2,324
Other revenue	<u>15,028</u>	<u>11,654</u>
Total operating revenue before amortization of entrance fees	375,545	359,379
Amortization of entrance fees	<u>94,052</u>	<u>91,029</u>
Total operating revenue	<u>469,597</u>	<u>450,408</u>
<b>Operating Expenses</b>		
Salaries, wages and benefits	241,062	230,710
Contracted services	19,237	19,789
Utilities	22,531	21,873
Food	23,757	23,126
Supplies	19,019	17,983
Real estate taxes	10,415	10,358
Insurance	4,987	4,285
Other	<u>17,473</u>	<u>17,955</u>
Total operating expenses before depreciation, amortization and interest	358,481	346,079
Depreciation and amortization	75,167	71,054
Interest, net	<u>23,791</u>	<u>20,058</u>
Total operating expenses	<u>457,439</u>	<u>437,191</u>
Operating income	<u>12,158</u>	<u>13,217</u>

*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 (continued)

Years Ended December 31, 2019 and 2018

(In Thousands)

	<u>2019</u>	<u>2018</u>
<b>Changes in Net Assets Without Donor Restrictions</b>		
Operating income	\$ 12,158	\$ 13,217
Net unrealized gain (loss) on investments and investment contracts	13,198	(5,701)
Loss on early extinguishment of debt	-	(255)
	<u>25,356</u>	<u>7,261</u>
Net assets released from restrictions to acquire property and equipment	1,351	353
Contribution of property and equipment	835	-
	<u>27,542</u>	<u>7,614</u>
Change in net assets without donor restrictions	27,542	7,614
<b>Changes in Net Assets With Donor Restrictions</b>		
Change in beneficial interest in the investments of ACTS Legacy Foundation, Inc.	5,547	2,764
	<u>33,089</u>	<u>10,378</u>
Increase in net assets	33,089	10,378
<b>Net Assets, Beginning</b>	<u>104,035</u>	<u>93,657</u>
<b>Net Assets, Ending</b>	<u>\$ 137,124</u>	<u>\$ 104,035</u>

*See notes to special-purpose combined financial statements*

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

Special-Purpose Combined Statements of Cash Flows

Years Ended December 31, 2019 and 2018

(In Thousands)

	<u>2019</u>	<u>2018</u> (as adjusted)
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$ 33,089	\$ 10,378
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	75,167	71,054
Amortization of entrance fees	(94,052)	(91,029)
Amortization of bond discount and premium, net	(3,496)	(3,329)
Amortization of deferred financing costs	641	622
Entrance fees and deposits from non-refundable resale contracts	153,436	121,024
Refunds of entrance fees and deposits from non-refundable resale contracts	(10,078)	(12,152)
Administrative fee included in gross entrance fees	(8,210)	(6,197)
Increase in deferred costs	(1,982)	(1,212)
Net realized and unrealized (gain) loss on investments	(14,815)	7,939
Change in fair value of investment contracts	1,827	(1,986)
Loss on early extinguishment of debt	-	255
Contribution of property and equipment	(835)	-
Change in beneficial interest in the investments of ACTS Legacy Foundation, Inc.	(5,547)	(2,764)
Net change in due from affiliated organizations	(10,309)	(1,760)
Changes in assets and liabilities:		
Increase in accounts receivable	(2,095)	(317)
Decrease in prepaid expenses, inventory and deposits	613	424
(Decrease) increase in accounts payable and accrued expenses	(826)	1,431
Net cash provided by operating activities	<u>112,528</u>	<u>92,381</u>
<b>Cash Flows From Investing Activities</b>		
Decrease in note receivable from affiliate	17,750	-
Purchase of property and equipment	(161,579)	(111,882)
Increase in investments	(15,747)	(5,868)
Net cash used in investing activities	<u>(159,576)</u>	<u>(117,750)</u>
<b>Cash Flows From Financing Activities</b>		
Entrance fees and deposits from initial sale contracts	17,683	7,424
Refunds of deposits from initial sale contracts	(726)	(402)
Refunds of refundable entrance fees	(2,910)	(2,720)
Payment of accounts payable, construction	(23,970)	(19,202)
Proceeds from short-term indebtedness	82,535	82,396
Proceeds from non-recourse debt	11,740	-
Net proceeds from long-term indebtedness	-	89,777
Increase in deferred financing costs	(13)	(1,820)
Payments on short-term indebtedness	(63,259)	(35,102)
Payments on construction loan payable	-	(4,369)
Payments on long-term indebtedness	(16,804)	(16,942)
Net cash provided by financing activities	<u>4,276</u>	<u>99,040</u>
Net (decrease) increase in cash, cash equivalents and restricted cash and cash equivalents	(42,772)	73,671
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning</b>	<u>112,143</u>	<u>38,472</u>
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 69,371</u>	<u>\$ 112,143</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid, net of amounts capitalized	<u>\$ 27,242</u>	<u>\$ 22,277</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Obligations incurred for the acquisition of property and equipment	<u>\$ 29,824</u>	<u>\$ 23,970</u>
Proceeds from long-term debt used to repay short-term debt and construction loan payable	<u>\$ -</u>	<u>\$ 68,046</u>

See notes to special-purpose combined financial statements

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

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Notes to Special-Purpose Combined Financial Statements

December 31, 2019 and 2018

### **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 26 continuing care retirement communities (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). ACTS operates 20 CCRCs as divisions within the legal entity of ACTS, and 6 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.

Integrace, Inc. (IG), a not-for-profit Maryland corporation which is the sole member of Fairhaven, Inc., Buckingham's Choice, Inc., Bayleigh Chase, Inc., Copper Ridge, Inc. and Integrace Health, Inc.

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

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

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

Copper Ridge, Inc. (CR), a not-for-profit Maryland corporation which operates a memory support residence located in Sykesville, Maryland.

Integrace Institute, Inc. (Institute) was a not-for-profit Maryland corporation which operated an institute that focused 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 located in Sykesville, Maryland. The Institute was dissolved on December 31, 2019, and the activities moved to the Acts Center for Applied Research, an operating division of ACTS.

Integrace Health, Inc. (IH), a not-for-profit Maryland corporation which arranges for the provision of medical services to residents of FH, CR, BC and BAY located in Maryland.

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

Notes to Special-Purpose Combined Financial Statements

December 31, 2019 and 2018

Integrace Management, Inc. (Integrace Management) was a for-profit Maryland corporation which provided services to the Diocese of Maryland. Integrace Management was dissolved on August 31, 2019.

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

All of the above organizations, with the exception of AAC, 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, BAY, BC, CR, EG, FH, HP, IG, IH, 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, Cash Equivalents and Restricted Cash and Cash Equivalents

For purposes of the special-purpose combined statements of cash flows, cash, cash equivalents and restricted cash and cash equivalents include working capital accounts invested in highly liquid instruments purchased with an original maturity of three months or less. The following table provides a reconciliation of cash, cash equivalents and restricted cash and cash equivalents reported within the special-purpose combined balance sheets that sum to the total of the same such amounts reported in the special-purpose combined statements of cash flows.

	<u>2019</u>	<u>2018</u>
	<u>(In Thousands)</u>	
Cash and cash equivalents	\$ 24,531	\$ 24,890
Cash and cash equivalents included in investments	<u>44,840</u>	<u>87,253</u>
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 69,371</u>	<u>\$ 112,143</u>



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

Notes to Special-Purpose Combined Financial Statements

December 31, 2019 and 2018

In 2019, the Company retrospectively adopted the Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts reported on the special-purpose combined statements of cash flows.

The following line items on the special-purpose combined statement of cash flows for the year ended December 31, 2018 were affected by this change in accounting principle:

	<u>As Previously Reported</u>	<u>As Reported Under ASU No. 2016-18</u>	<u>Effect of Change</u>
Increase in investments	\$ (62,471)	\$ (5,868)	\$ 56,603
Cash, cash equivalents and restricted cash and cash equivalents, beginning	7,822	38,472	30,650

### 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 and assets that are used to meet statutory reserve requirements. 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.

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

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### **Note Receivable From Affiliate**

Note receivable from affiliate of \$17,750,000 at December 31, 2018 consisted of an amount advanced to AAC related to the affiliation with PRC. Interest was 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 \$74,559,000 in 2019 and \$70,764,000 in 2018.

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 \$4,199,000 in 2019 and \$3,538,000 in 2018.

### **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 services are expected to be transferred to residents. Deferred costs are net of accumulated amortization of \$3,689,000 and \$3,081,000 at December 31, 2019 and 2018, respectively. Amortization of deferred costs was \$608,000 in 2019 and \$290,000 in 2018.

### **Deferred Financing Costs**

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 \$641,000 in 2019 and \$622,000 in 2018. Accumulated amortization was \$8,688,000 and \$8,047,000 at December 31, 2019 and 2018, respectively. The Company wrote off \$255,000 in deferred financing costs during 2018, which classified as loss on early extinguishment of debt on the special-purpose combined statements of operations and changes in net assets.

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

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Notes to Special-Purpose Combined Financial Statements

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### **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 gain (loss) 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, 2019 and 2018, 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, which approximates the period of time that services under the resident agreements are expected to be transferred to residents and the Company's performance obligation to the residents is satisfied, and is classified as deferred revenue from entrance fees on the special-purpose combined balance sheets. Amortization of nonrefundable entrance fees was \$94,052,000 in 2019 and \$91,029,000 in 2018.

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 \$311,501,000 and \$289,868,000 at December 31, 2019 and 2018, 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, 2019 and 2018.

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

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Notes to Special-Purpose Combined Financial Statements

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### **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 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.

Payment terms and conditions for the Company's resident agreements vary by contract type and payor source, although terms generally include payment to be made within 30 days. Resident services and patient revenues for recurring and routine monthly services due from self-pay residents are generally billed monthly in advance. Resident services and patient revenues for ancillary services due from self-pay residents are generally billed monthly in arrears. Patient revenues due from Medicare, Medicaid and other third-party payor programs are billed monthly in arrears.

Resident services and patient revenues are primarily comprised of skilled nursing, assisted living and independent living revenue streams, which are primarily derived from providing nursing, assisted living and housing services to residents at a stated daily or monthly fee, net of any explicit or implicit price concessions. The Company has determined that the services included in the stated daily or monthly fee for each level of care represents a series of distinct services that have the same timing and pattern of transfer. Therefore, the Company considers the services provided to residents in each level of care to be one performance obligation which is satisfied over time as services are provided. As such, skilled nursing, assisted living and independent living revenues are recognized on a daily or month-to-month basis as services are rendered.

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

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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 early 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 May 27, 2020, the date the special-purpose combined financial statements were issued.

## 3. Liquidity and Availability of Resources

As of December 31, 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:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Cash and cash equivalents	\$ 24,531	\$ 24,890
Accounts receivable, entrance fee receivables and other receivables, net	22,469	20,239
Investments without donor restrictions	<u>216,507</u>	<u>193,056</u>
Total	<u>\$ 263,507</u>	<u>\$ 238,185</u>

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 assets held for other donor-restricted purposes. These amounts have been excluded from the amounts above.

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

Notes to Special-Purpose Combined Financial Statements

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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 \$28,030,000 and \$22,483,000 at December 31, 2019 and 2018, respectively, 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 is set forth in the following table:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Investments without donor restrictions	\$ 229,133	\$ 205,144
State reserves	51,008	43,917
Other debt related reserves	37,098	79,556
Debt service reserve funds	11,194	11,197
Real estate held for investment	-	470
Beneficial interest in the investments of ALF	30,644	25,097
Total	<u>\$ 359,077</u>	<u>\$ 365,381</u>

Investment performance is as follows:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Without donor restrictions:		
Interest and dividend income	\$ 8,417	\$ 7,604
Net realized loss on investments	(210)	(252)
Total investment income	8,207	7,352
Net unrealized gain (loss) on investments	15,025	(7,687)
Total investment return	<u>\$ 23,232</u>	<u>\$ (335)</u>

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

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Notes to Special-Purpose Combined Financial Statements

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### **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.

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

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The fair value of the Company's investments (including alternative investments and real estate held for investment at cost) and derivative financial instruments were measured using the following inputs at December 31:

	2019			
	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:				
U.S. government securities	\$ 94,821	\$ -	\$ 94,821	\$ -
Corporate debt securities	84,285	-	84,285	-
Money market funds	63,580	63,580	-	-
Mutual and exchange traded funds, fixed income	37,776	37,776	-	-
Beneficial interest in the investments of ALF	30,644	-	30,644	-
Equities	16,830	16,830	-	-
Other	11,515	-	11,515	-
Guaranteed investment contracts	10,597	-	-	10,597
Municipal bonds	3,893	-	3,893	-
Alternative investments	14	-	-	14
Total	<u>\$ 353,955</u>	<u>\$ 118,186</u>	<u>\$ 225,158</u>	<u>\$ 10,611</u>
Reconciliation of investments to the special-purpose combined balance sheet:				
Cash and cash equivalents	\$ 5,122			
Investment measured at fair value	<u>353,955</u>			
Total investments	<u>\$ 359,077</u>			
Liabilities,				
Accumulated loss on investment contracts	<u>\$ 9,415</u>	<u>\$ -</u>	<u>\$ 9,415</u>	<u>\$ -</u>



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

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	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:				
U.S. government securities	\$ 82,805	\$ -	\$ 82,805	\$ -
Corporate debt securities	70,299	-	70,299	-
Money market funds	109,293	109,293	-	-
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	-
Real estate held for investment	470	-	-	470
Alternative investments	271	-	-	271
<b>Total</b>	<b><u>\$ 362,737</u></b>	<b><u>\$ 157,315</u></b>	<b><u>\$ 194,009</u></b>	<b><u>\$ 11,413</u></b>
Reconciliation of investments to the special-purpose combined balance sheet:				
Cash and cash equivalents	\$ 2,644			
Investment measured at fair value	<u>362,737</u>			
<b>Total investments</b>	<b><u>\$ 365,381</u></b>			
Liabilities:				
Accumulated loss on investment contracts	<u>\$ 7,588</u>	<u>\$ -</u>	<u>\$ 7,588</u>	<u>\$ -</u>

The Company's guaranteed investment contracts decreased \$75,000 in 2019 and increased \$300,000 in 2018, due to net deposits and withdrawals and the dissolution of certain debt service reserve funds.

The Company's alternative investments decreased \$257,000 in 2019 and \$261,000 in 2018 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.

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### Financial Instruments

Money market funds, 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 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:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Resident monthly fees	\$ 3,704	\$ 3,591
Resident entrance fees	8,288	8,153
Third-party accounts	9,083	6,937
Other	<u>2,477</u>	<u>2,405</u>
Total receivables	23,552	21,086
Allowance for uncollectible accounts	<u>(1,083)</u>	<u>(847)</u>
Accounts receivable, entrance fee receivables and other receivables, net	<u>\$ 22,469</u>	<u>\$ 20,239</u>

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

Notes to Special-Purpose Combined Financial Statements

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### 6. Property and Equipment

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

	2019	2018
	(In Thousands)	
Land and improvements	\$ 95,391	\$ 93,186
Building and improvements	1,741,354	1,641,502
Furniture, fixtures and equipment	147,657	139,331
Construction in progress	151,138	83,102
Total property and equipment	2,135,540	1,957,121
Accumulated depreciation	(859,421)	(798,681)
Property and equipment, net	\$ 1,276,119	\$ 1,158,440

### 7. Short-Term Indebtedness

ACTS 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 2.75% to 2.89% at December 31, 2019. Interest is calculated monthly based on changes to the LIBOR Rate, as defined. Borrowings were \$37,225,000 and \$45,250,000 at December 31, 2019 and 2018, respectively. 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. The line of credit is set to expire in November 2021. Letters of credit issued in connection with the line of credit were \$10,412,000 at December 31, 2019.

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 2.95% at December 31, 2019. Interest is calculated monthly based on changes to the LIBOR Rate, as defined. Borrowings were \$52,095,000 and \$24,794,000 at December 31, 2019 and 2018, respectively. 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. Non-Recourse Indebtedness

In May 2019, ACTS purchased a corporate services center located in Pennsylvania. The purchase was financed by an \$11,740,000 loan secured by the building. The loan is non-recourse indebtedness under the Master Trust Indenture (Note 9) and matures on August 21, 2020, and is expected to be refinanced or extended prior to maturity. The interest rate is variable (3.35% at December 31, 2019).

### 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.

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

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The Company's long-term indebtedness consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
	(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 4.07% at December 31, 2019).	\$ 46,815	\$ 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 4.13% at December 31, 2019).	35,775	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 4.11% at December 31, 2019).	21,540	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	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	31,615
Taxable Notes dated August 1, 2016. The interest rates ranged from 1.85% to 2.47%.	-	1,750
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 3.69% at December 31, 2019).	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 through 2032 (yield to maturity 2.97% at December 31, 2019).	98,310	105,585
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 3.45% at December 31, 2019).	7,190	7,190

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

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	2019	2018
	(In Thousands)	
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.	\$ 20,836	\$ 21,580
Taxable Term Loan dated December 19, 2013. The interest rate is 3.05% and resets in December 2023 and every five years thereafter. Principal matures in varying amounts through 2038.	13,165	13,490
Taxable Term Loan dated December 16, 2013. The interest rate is 3.24% at December 31, 2019 and may be adjusted annually, as defined. Principal matures in varying amounts through 2020.	2,500	4,970
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 3.66% at December 31, 2019).	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 2.50% at December 31, 2019).	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 2.39% at December 31, 2019).	7,125	8,045
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 2.16% at December 31, 2019 on \$14,000,000 of the bonds. Principal matures in varying amounts from 2021 through 2037.	47,675	47,675
Gainesville and Hall County Development Authority (GA) Senior Living Facility Variable Rate Demand Revenue Bonds Series 2003B. The interest rate was 2.26% at December 31, 2019. Principal matures in varying amounts through 2033. Security is provided through a bond insurance commitment enhanced by a standby bond purchase agreement.	28,685	29,825

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

Notes to Special-Purpose Combined Financial Statements

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Escambia County Health Facilities Authority (FL) Healthcare Facilities Variable Rate Revenue Refunding Bonds Series 2003B. The interest rate was 2.26% at December 31, 2019. Principal matures in varying amounts through 2029. Security is provided through a bond insurance commitment enhanced by a standby bond purchase agreement.	\$ 19,430	\$ 21,005
Montgomery County Industrial Development Authority (PA) Retirement Community Variable Rate Demand Revenue Bonds Series 2002. The interest rate was 2.26% at December 31, 2019. Principal matures in varying amounts through 2029. Security is provided through a bond insurance commitment enhanced by a standby bond purchase agreement.	<u>9,660</u>	<u>10,265</u>
	613,346	630,150
Bond premiums and discounts, net	47,603	51,099
Unamortized deferred financing costs, net	<u>(7,820)</u>	<u>(8,448)</u>
Total long-term indebtedness	<u>\$ 653,129</u>	<u>\$ 672,801</u>

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:	
2020	\$ 17,413
2021	18,082
2022	19,436
2023	37,985
2024	19,685
2025-2029	119,820
2030-2034	143,675
2035-2039	98,270
2040-2044	70,280
2045-2048	<u>68,700</u>
Total	<u>\$ 613,346</u>

### Loss on Early Extinguishment of Debt

During 2018, ACTS OG completed financing transactions through the issuance of five 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 from 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.

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

Notes to Special-Purpose Combined Financial Statements

December 31, 2019 and 2018

### 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 gain (loss) on investments and investment contracts. The change in fair value was \$(1,827,000) in 2019 and \$1,986,000 in 2018.

At December 31, 2019 the Company had the following interest rate swaps in effect:

<u>Debt Series</u>	<u>Notional Amount</u>	<u>Maturity Date</u>	<u>Effective Interest Rate</u>	<u>Accumulated Unrealized Loss</u>
Series 2002 (PA)	\$ 9,660,000	2029	3.64%	\$ 1,438,000
Series 2003B (GA)	28,685,000	2033	3.54%	5,679,000
Series 2003B (FL)	19,430,000	2029	3.35%	2,298,000

The fair value of the interest rate swap agreements was \$(9,415,000) and \$(7,588,000) at December 31, 2019 and 2018, 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 at December 31:

	<u>2019</u>	<u>2018</u>
	<u>(In Thousands)</u>	
Financial assistance to residents	\$ 12,491	\$ 11,431
Purchase of property and equipment	6,505	3,314
Resident services	1,740	1,456
Other	7,294	6,282
Restricted in perpetuity	2,614	2,614
Total net assets with donor restrictions	<u>\$ 30,644</u>	<u>\$ 25,097</u>

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.

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

Notes to Special-Purpose Combined Financial Statements

December 31, 2019 and 2018

### 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:

	2019			
	Independent Living	Assisted Living	Skilled Nursing	Total
	(In Thousands)			
Self-pay	\$ 224,971	\$ 34,125	\$ 57,162	\$ 316,258
Medicare and other	2,057	6	26,674	28,737
Medicaid	-	-	4,838	4,838
Total resident services and patient services	<u>\$ 227,028</u>	<u>\$ 34,131</u>	<u>\$ 88,674</u>	<u>\$ 349,833</u>
Amortization of nonrefundable entrance fees				<u>\$ 94,052</u>
	2018			
	Independent Living	Assisted Living	Skilled Nursing	Total
	(In Thousands)			
Self-pay	\$ 236,647	\$ 30,245	\$ 38,363	\$ 305,255
Medicare and other	2,766	4	25,224	27,994
Medicaid	-	-	4,800	4,800
Total resident services and patient services	<u>\$ 239,413</u>	<u>\$ 30,249</u>	<u>\$ 68,387</u>	<u>\$ 338,049</u>
Amortization of nonrefundable entrance fees				<u>\$ 91,029</u>

### 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 \$4,706,000 in 2019 and \$4,215,000 in 2018.

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 \$905,000 in 2019 and \$789,000 in 2018. The SERP liability is included in accounts payable and accrued expenses on the special-purpose combined balance sheets and was \$3,578,000 and \$2,673,000 at December 31, 2019 and 2018, respectively.



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

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Notes to Special-Purpose Combined Financial Statements

December 31, 2019 and 2018

### **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. At December 31, 2019 and 2018, the reserve for workers compensation liability claims was \$3,492,000 and \$3,062,000, 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 \$25,699,000 as of December 31, 2019.

#### **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.

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

Notes to Special-Purpose Combined Financial Statements

December 31, 2019 and 2018

### 16. Related-Party Transactions

#### Management Agreements

AMS entered into Management, Marketing and Development Agreements (the Agreements) with BAY, BC, CR, EG, FH, HP, IG, IH, Integrace Institute 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 \$7,416,000 in 2019 and \$3,989,000 in 2018. 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 \$2,593,000 in 2019 and \$2,391,000 in 2018.

#### Beneficial Interest in Investments

At December 31, 2019 and 2018, the Company has a beneficial interest in the investments of ALF of \$30,644,000 and \$25,097,000, 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 at December 31:

	2019			
	Program Service	General and Administrative	Fundraising	Total
	(In Thousands)			
Salaries, wages and benefits	\$ 218,754	\$ 21,570	\$ 738	\$ 241,062
Contracted services	16,830	2,364	43	19,237
Utilities	22,243	288	-	22,531
Food	23,070	635	52	23,757
Supplies	14,018	4,920	81	19,019
Real estate taxes	10,160	255	-	10,415
Insurance	4,946	41	-	4,987
Other	8,974	8,378	121	17,473
Depreciation and amortization	70,314	4,853	-	75,167
Interest, net	23,735	56	-	23,791
Total	\$ 413,044	\$ 43,360	\$ 1,035	\$ 457,439

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

Notes to Special-Purpose Combined Financial Statements

December 31, 2019 and 2018

	2018			
	<u>Program Service</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
	(In Thousands)			
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	<u>\$ 392,026</u>	<u>\$ 44,178</u>	<u>\$ 987</u>	<u>\$ 437,191</u>

### 18. Subsequent Event

In the first several months of 2020, the COVID-19 pandemic is having significant effects on global markets, supply chains, businesses and communities. The immediate impact of the pandemic is decreased occupancy as restrictions on movement and the isolation of residents present obstacles to resales and admissions. The Company's evaluation of the effects of these events is ongoing as of the date the special-purpose combined financial statements were issued. The extent of the impact will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions. Changes in conditions may result in impairment of long-lived assets, however, the Company continues to monitor the economy and the senior housing market, and the impact of the health crisis in each of the geographic regions where the Company operates, and will adapt fiscal and operational strategies accordingly.

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

Special-Purpose Combining Balance Sheet Schedule

December 31, 2019

(In Thousands)

	Plantation Estates**	Tryon Estates**	Other Obligated Group Members*	Total Obligated Group
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 24,531	\$ 24,531
Board-designated funds	-	-	219,015	219,015
Current portion of assets whose use is limited	141	129	13,315	13,585
Accounts receivables, entrance fee receivables, and other receivables, net	1,092	801	20,576	22,469
Prepaid expenses, inventory, and deposits	73	119	6,989	7,181
Due from affiliated organizations	2,393	-	11,654	14,047
	<u>3,699</u>	<u>1,049</u>	<u>296,080</u>	<u>300,828</u>
Total current assets				
	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>
<b>Board-Designated Funds</b>				
	<u>538</u>	<u>126</u>	<u>108,153</u>	<u>108,817</u>
<b>Assets Whose Use is Limited</b>				
	<u>4,908</u>	<u>2,752</u>	<u>-</u>	<u>7,660</u>
<b>North Carolina Operating Reserve Funds</b>				
	<u>14,796</u>	<u>2,429</u>	<u>78,166</u>	<u>95,391</u>
Land and improvements	168,817	93,198	1,479,339	1,741,354
Building and improvements	9,226	5,133	133,298	147,657
Furniture, fixtures, and equipment	6,610	309	144,219	151,138
Construction in progress	199,449	101,069	1,835,022	2,135,540
	<u>(56,388)</u>	<u>(43,636)</u>	<u>(759,397)</u>	<u>(859,421)</u>
Accumulated depreciation				
Property and equipment, net	<u>143,061</u>	<u>57,433</u>	<u>1,075,625</u>	<u>1,276,119</u>
	<u>169</u>	<u>-</u>	<u>3,797</u>	<u>3,966</u>
<b>Deferred Costs, Net</b>				
Total	<u>\$ 152,375</u>	<u>\$ 61,360</u>	<u>\$ 1,493,655</u>	<u>\$ 1,707,390</u>

\* Includes ACTS Retirement-Life Communities, Inc., other than the North Carolina divisions, ACTS Management Services, Inc., ACTS Signature Community Services, Inc. and associated intercompany eliminations.

\*\* Continuing care retirement community operates as a division of ACTS Retirement-Life Communities, Inc.

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

Special-Purpose Combining Balance Sheet Schedule (Continued)

December 31, 2019

(In Thousands)

	<b>Plantation Estates**</b>	<b>Tryon Estates**</b>	<b>Other Obligated Group Members*</b>	<b>Total Obligated Group</b>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	\$ 1,962	\$ 1,032	\$ 83,734	\$ 86,728
Entrance fee deposits	1,117	363	10,295	11,775
Short-term indebtedness	-	-	89,320	89,320
Non-recourse indebtedness	-	-	11,740	11,740
Current maturities of long-term debt	-	-	17,413	17,413
	<u>3,079</u>	<u>1,395</u>	<u>212,502</u>	<u>216,976</u>
Total current liabilities				
<b>Long-Term Debt</b>	-	-	635,716	635,716
<b>Accumulated Loss on Investment Contracts</b>	-	-	9,415	9,415
<b>Refundable Portion of Entrance Fees</b>	-	-	7,874	7,874
<b>Deferred Revenue from Entrance Fees</b>	76,822	30,449	593,014	700,285
<b>Corporate Advances and Transfers</b>	-	16,032	(16,032)	-
	<u>79,901</u>	<u>47,876</u>	<u>1,442,489</u>	<u>1,570,266</u>
Total liabilities				
<b>Net Assets</b>				
Without donor restrictions	72,049	13,358	21,073	106,480
With donor restrictions	425	126	30,093	30,644
	<u>72,474</u>	<u>13,484</u>	<u>51,166</u>	<u>137,124</u>
Total net assets				
Total	<u>\$ 152,375</u>	<u>\$ 61,360</u>	<u>\$ 1,493,655</u>	<u>\$ 1,707,390</u>

\* Includes ACTS Retirement-Life Communities, Inc., other than the North Carolina divisions, ACTS Management Services, Inc., ACTS Signature Community Services, Inc. and associated intercompany eliminations.

\*\* Continuing care retirement community operates as a division of ACTS Retirement-Life Communities, Inc.

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

Special-Purpose Combining Statement of Operations and Changes in Net Assets Schedule

Year Ended December 31, 2019

(In Thousands)

	<u>Plantation Estates**</u>	<u>Tryon Estates**</u>	<u>Other Obligated Group Members*</u>	<u>Total Obligated Group</u>
<b>Operating Revenue</b>				
Resident services revenue, net of amortization of entrance fees	\$ 25,953	\$ 14,269	\$ 276,036	\$ 316,258
Patient revenue from third-party payors	1,615	614	31,346	33,575
Investment income	518	291	7,398	8,207
Net assets released from restriction to provide resident services	98	42	2,337	2,477
Other revenue	650	497	13,881	15,028
	<u>28,834</u>	<u>15,713</u>	<u>330,998</u>	<u>375,545</u>
Total operating revenue before amortization of entrance fees				
Amortization of entrance fees	11,039	3,498	79,515	94,052
	<u>39,873</u>	<u>19,211</u>	<u>410,513</u>	<u>469,597</u>
Total operating revenue				
<b>Operating Expenses</b>				
Salaries, wages and benefits	11,821	6,910	222,331	241,062
Contracted services	1,658	883	16,696	19,237
Utilities	1,530	1,081	19,920	22,531
Food	1,931	1,117	20,709	23,757
Supplies	1,039	590	17,390	19,019
Real estate taxes	620	308	9,487	10,415
Insurance	367	180	4,440	4,987
Other	5,741	3,027	8,705	17,473
	<u>24,707</u>	<u>14,096</u>	<u>319,678</u>	<u>358,481</u>
Total operating expenses before depreciation, amortization and interest				
Depreciation and amortization	6,126	3,842	65,199	75,167
Interest, net	1,443	160	22,188	23,791
	<u>32,276</u>	<u>18,098</u>	<u>407,065</u>	<u>457,439</u>
Total operating expenses				
Operating Income	<u>\$ 7,597</u>	<u>\$ 1,113</u>	<u>\$ 3,448</u>	<u>\$ 12,158</u>

\* Includes ACTS Retirement-Life Communities, Inc., other than the North Carolina divisions, ACTS Management Services, Inc., ACTS Signature Community Services, Inc., and associated intercompany eliminations.

\*\* Continuing care retirement community operates as a division of ACTS Retirement-Life Communities, Inc.

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

Special-Purpose Combining Statement of Operations and Changes in Net Assets Schedule (continued)

Year Ended December 31, 2019

(In Thousands)

	Plantation Estates**	Tryon Estates**	Other Obligated Group Members*	Total Obligated Group
<b>Changes in Net Assets Without Donor Restrictions</b>				
Operating income	\$ 7,597	\$ 1,113	\$ 3,448	\$ 12,158
Net unrealized gain on investments and investment contracts	1,363	758	11,077	13,198
	<u>8,960</u>	<u>1,871</u>	<u>14,525</u>	<u>25,356</u>
Net operating income	8,960	1,871	14,525	25,356
Net assets released from restrictions to acquire property and equipment	629	261	461	1,351
Contribution of property and equipment	-	-	835	835
	<u>9,589</u>	<u>2,132</u>	<u>15,821</u>	<u>27,542</u>
Change in net assets without donor restrictions	9,589	2,132	15,821	27,542
<b>Changes in Net Assets With Donor Restrictions</b>				
Change in beneficial interest in the investments of ACTS Legacy Foundation, Inc.	(458)	(80)	6,085	5,547
	<u>9,131</u>	<u>2,052</u>	<u>21,906</u>	<u>33,089</u>
Increase in net assets	9,131	2,052	21,906	33,089
<b>Net Assets, Beginning</b>	<u>63,343</u>	<u>11,432</u>	<u>29,260</u>	<u>104,035</u>
<b>Net Assets, Ending</b>	<u>\$ 72,474</u>	<u>\$ 13,484</u>	<u>\$ 51,166</u>	<u>\$ 137,124</u>

\* Includes ACTS Retirement-Life Communities, Inc., other than the North Carolina divisions, ACTS Management Services, Inc., ACTS Signature Community Services, Inc., and associated intercompany eliminations.

\*\* Continuing care retirement community operates as a division of ACTS Retirement-Life Communities, Inc.

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

Special-Purpose Combining Statement of Cash Flows Schedule  
Year Ended December 31, 2019  
(In Thousands)

	Plantation Estates**	Tryon Estates**	Other Obligated Group Members*	Total Obligated Group
<b>Cash Flows from Operating Activities</b>				
Increase in net assets	\$ 9,131	\$ 2,052	\$ 21,906	\$ 33,089
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Depreciation and amortization	6,126	3,842	65,199	75,167
Amortization of entrance fees	(11,039)	(3,498)	(79,515)	(94,052)
Amortization of bond discount and premium, net	-	-	(3,496)	(3,496)
Amortization of deferred financing costs	-	-	641	641
Entrance fees and deposits from non-refundable resale contracts	13,684	8,037	131,715	153,436
Refunds of entrance fees and deposits from non-refundable resale contracts	(1,442)	(139)	(8,497)	(10,078)
Administrative fee included in gross entrance fees	(687)	(366)	(7,157)	(8,210)
Increase in deferred costs	-	-	(1,982)	(1,982)
Net realized and unrealized gain on investments	(1,337)	(743)	(12,735)	(14,815)
Change in fair value of investment contracts	-	-	1,827	1,827
Contribution of property and equipment	-	-	(835)	(835)
Change in beneficial interest in the investments of ACTS Legacy Foundation, Inc.	458	80	(6,085)	(5,547)
Net change in due from affiliated organizations	-	-	(10,309)	(10,309)
Changes in assets and liabilities:				
Increase in receivables	(151)	(101)	(1,843)	(2,095)
Decrease in other prepaid expenses, inventory, and deposits	17	351	245	613
Increase (decrease) in accounts payable and accrued expenses	319	370	(1,515)	(826)
Net cash provided by operating activities	<u>15,079</u>	<u>9,885</u>	<u>87,564</u>	<u>112,528</u>
<b>Cash Flows from Investing Activities</b>				
Decrease in notes receivable from affiliate	-	-	17,750	17,750
Purchase of property and equipment	(11,082)	(5,733)	(144,764)	(161,579)
Decrease (increase) in investments	1,273	736	(17,756)	(15,747)
Net cash used in investing activities	<u>(9,809)</u>	<u>(4,997)</u>	<u>(144,770)</u>	<u>(159,576)</u>
<b>Cash Flows from Financing Activities</b>				
Entrance fees and deposits from initial sale contracts	-	-	17,683	17,683
Refunds of entrance fees and deposits from initial sale contracts	(7)	-	(719)	(726)
Refunds of refundable entrance fees	-	-	(2,910)	(2,910)
Payment of accounts payable, construction	-	-	(23,970)	(23,970)
Proceeds from short-term indebtedness	-	-	82,535	82,535
Proceeds from non-recourse debt	-	-	11,740	11,740
Increase in deferred financing costs	-	-	(13)	(13)
Payments on short-term indebtedness	-	-	(63,259)	(63,259)
Payments on long-term indebtedness	-	-	(16,804)	(16,804)
Net change in corporate advances and transfers	(5,358)	(4,894)	10,252	-
Net cash (used in) provided by financing activities	<u>(5,365)</u>	<u>(4,894)</u>	<u>14,535</u>	<u>4,276</u>
Net decrease in cash, cash equivalents and restricted cash and cash equivalents	(95)	(6)	(42,671)	(42,772)
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning</b>	<u>234</u>	<u>40</u>	<u>111,869</u>	<u>112,143</u>
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 139</u>	<u>\$ 34</u>	<u>\$ 69,198</u>	<u>\$ 69,371</u>
<b>Supplemental Disclosure of Cash Flow Information</b>				
Interest paid, net of amounts capitalized	<u>\$ 1,443</u>	<u>\$ 160</u>	<u>\$ 25,639</u>	<u>\$ 27,242</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>				
Obligations incurred for the acquisition of property and equipment	<u>\$ 1,892</u>	<u>\$ 2,624</u>	<u>\$ 25,308</u>	<u>\$ 29,824</u>
<b>Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Balance Sheet</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 24,531	\$ 24,531
Cash and cash equivalents included in investments	139	34	44,667	44,840
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 139</u>	<u>\$ 34</u>	<u>\$ 69,198</u>	<u>\$ 69,371</u>

\* Includes ACTS Retirement-Life Communities, Inc., other than the North Carolina divisions, ACTS Management Services, Inc., ACTS Signature Community Services, Inc. and associated intercompany eliminations.

\*\* Continuing care retirement community operates as a division of ACTS Retirement-Life Communities, Inc.



**ATTACHMENT NO. 2**

INTERIM FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED MARCH 31, 2020

(UNAUDITED)

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



**ACTS OBLIGATED GROUP**  
**STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2020 AND 2019**

	<b>Unaudited ACTS Obligated Group* 3/31/20</b>	<b>Unaudited ACTS Obligated Group* 3/31/19</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,110,171	\$ 11,047,687
Investments	344,614,157	361,716,000
Accounts receivable and entrance fee receivables, net	21,695,053	17,146,948
Prepaid expenses, inventory, and deposits	7,598,053	7,649,724
Property and equipment, net	1,283,398,001	1,169,114,157
Deferred costs, net	4,213,224	2,753,096
Due from affiliated organizations	12,802,895	4,336,804
	<u>1,679,431,554</u>	<u>1,573,764,416</u>
<b>TOTAL ASSETS</b>	<b>\$ 1,679,431,554</b>	<b>\$ 1,573,764,416</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 68,433,836	\$ 70,144,041
Short-term indebtedness	82,919,215	49,493,987
Non-recourse indebtedness	11,740,000	-
Long-term indebtedness	652,215,116	671,898,159
Entrance fee deposits	12,399,987	11,013,488
Refundable portion of entrance fees	7,553,926	9,913,806
Deferred revenue from entrance fees	694,050,639	637,799,333
Accumulated loss on investment contracts	12,631,422	8,373,001
	<u>1,541,944,141</u>	<u>1,458,635,815</u>
<b>TOTAL LIABILITIES</b>	<b>1,541,944,141</b>	<b>1,458,635,815</b>
<b>NET ASSETS</b>		
Without donor restrictions	107,860,911	87,779,349
With donor restrictions	29,626,502	27,349,252
	<u>137,487,413</u>	<u>115,128,601</u>
<b>TOTAL NET ASSETS</b>	<b>137,487,413</b>	<b>115,128,601</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,679,431,554</b>	<b>\$ 1,573,764,416</b>

\* Includes intercompany eliminations

**ACTS OBLIGATED GROUP**  
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**  
**FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019**

	<b>YEAR TO DATE</b>	
	<b>Unaudited ACTS Obligated Group* 3/31/20</b>	<b>Unaudited ACTS Obligated Group* 3/31/19</b>
<b>OPERATING REVENUE</b>		
Resident services revenue, net of amortization of entrance fees	\$ 81,279,571	\$ 77,655,259
Patient revenue from third-party payors	9,170,729	8,581,164
Investment income	2,291,244	1,679,053
Net assets released from restriction to provide resident services	584,290	617,190
Other revenue	3,915,939	2,588,516
	<hr/>	<hr/>
Total operating revenue before amortization of entrance fees	97,241,773	91,121,182
	<hr/>	<hr/>
Amortization of entrance fees	24,571,342	22,816,140
	<hr/>	<hr/>
Total operating revenue	121,813,115	113,937,322
	<hr/>	<hr/>
<b>OPERATING EXPENSES</b>		
Salary, wages, and benefits	63,562,169	59,057,261
Contracted services	4,308,202	4,543,263
Utilities	5,924,391	5,924,695
Food	5,812,315	5,709,953
Supplies	5,262,413	4,338,675
Real estate taxes	2,796,914	2,610,205
Insurance	1,490,650	1,218,130
Other	4,280,440	3,670,984
	<hr/>	<hr/>
Total operating expenses before depreciation, amortization and interest	93,437,494	87,073,166
	<hr/>	<hr/>
Depreciation and amortization	18,970,389	18,130,283
Interest, net	6,121,825	5,564,442
	<hr/>	<hr/>
Total operating expenses	118,529,708	110,767,891
	<hr/>	<hr/>
<b>OPERATING INCOME</b>	<b>\$ 3,283,407</b>	<b>\$ 3,169,431</b>

\* Includes intercompany eliminations

**ACTS OBLIGATED GROUP**  
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)**  
**FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019**

	YEAR TO DATE	
	Unaudited ACTS Obligated Group* 3/31/20	Unaudited ACTS Obligated Group* 3/31/19
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Operating income	\$ 3,283,407	\$ 3,169,431
Net unrealized loss (gain) on investments and investment contracts	(2,049,757)	5,623,021
Net operating income	1,233,650	8,792,452
Net assets released from restriction to acquire property and equipment	146,635	48,775
Change in net assets without donor restrictions	1,380,285	8,841,227
<b>CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
Change in beneficial interest in investments of ACTS Legacy Foundation, Inc.	(1,016,963)	2,253,150
Change in net assets with donor restrictions	(1,016,963)	2,253,150
<b>INCREASE IN NET ASSETS</b>	363,322	11,094,377
<b>NET ASSETS, BEGINNING</b>	137,124,091	104,034,224
<b>NET ASSETS, ENDING</b>	\$ 137,487,413	\$ 115,128,601

\* Includes intercompany eliminations

**ACTS OBLIGATED GROUP  
STATEMENT OF CASH FLOWS  
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019**

	YEAR TO DATE	
	Unaudited ACTS Obligated Group* 3/31/20	Unaudited ACTS Obligated Group* 3/31/19
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 363,322	\$ 11,094,377
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	18,970,389	18,130,283
Amortization of entrance fees	(24,571,342)	(22,816,140)
Amortization of bond discount and premium	(852,900)	(877,207)
Amortization of deferred financing costs	150,201	165,262
Entrance fees from non-refundable resale contracts	20,716,078	24,564,242
Refunds of non-refundable entrance fees and deposits from resale contracts	(2,161,863)	(2,358,589)
Administrative fee included in gross entrance fees	(1,084,190)	(948,363)
Increase in deferred costs	(393,250)	(278,776)
Net realized and unrealized gain on investments	(1,399,439)	(6,071,444)
Change in fair value of investment contracts	3,216,451	785,462
Change in beneficial interest in investments of ACTS Legacy Foundation, Inc.	1,016,963	(2,253,150)
Net change in due to/from affiliated organizations	1,243,780	(598,839)
Changes in assets and liabilities:		
Increase in accounts receivable	(210,297)	(360,734)
(Increase) decrease in prepaid expenses, inventory, and deposits	(418,162)	144,018
Increase in accounts payable and accrued expenses	10,972,669	3,680,642
	<u>25,558,410</u>	<u>22,001,044</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(26,103,231)	(20,076,456)
Decrease in investments	11,683,071	2,599,456
Payment on note receivable from affiliate	-	17,750,000
	<u>(14,420,160)</u>	<u>273,000</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Entrance fees from initial sale contracts	3,054,210	462,260
Refunds of entrance fees and deposits from initial sale contracts	(53,590)	(258,730)
Refunds of refundable entrance fees	(287,842)	(998,785)
Payment of accounts payable, construction	(29,823,826)	(23,969,558)
Proceeds from short-term indebtedness	24,972,898	15,199,630
Increase in deferred financing costs	(18,630)	(5,055)
Payments on short-term indebtedness	(31,373,360)	(35,750,000)
Principal payments on long-term indebtedness	(192,000)	(186,000)
	<u>(33,722,140)</u>	<u>(45,506,238)</u>
<b>NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS</b>	(22,583,890)	(23,232,194)
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>69,371,054</u>	<u>112,143,080</u>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 46,787,164</u>	<u>\$ 88,910,886</u>
<b>Reconciliation of Cash and Restricted Cash to Balance Sheet</b>		
Cash and cash equivalents	\$ 5,110,171	\$ 11,047,687
Cash and cash equivalents included in investments	41,676,993	77,863,199
	<u>\$ 46,787,164</u>	<u>\$ 88,910,886</u>
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 46,787,164</u>	<u>\$ 88,910,886</u>

\* 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, 2024 and  
Accountants' Compilation Report

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

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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 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, 2024, 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  
June 30, 2020

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

Projected Special-Purpose Combined Balance Sheets  
Under the Hypothetical Assumptions Described in Note 1  
December 31, 2020 through 2024  
(In Thousands)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
<b>Assets</b>					
Current Assets					
Cash and cash equivalents	\$ 24,975	\$ 25,545	\$ 25,965	\$ 26,528	\$ 26,997
Board-designated funds	205,477	224,066	242,563	260,658	270,490
Accounts receivables, entrance fee receivables and other receivables, net	23,139	23,963	24,862	25,983	26,831
Prepaid expenses, inventory, and deposits	7,467	7,766	8,076	8,399	8,735
Due from affiliated organizations	24,982	24,400	19,800	17,183	15,239
Total current assets	286,040	305,740	321,266	338,751	348,292
Board-designated funds	10,000	10,000	10,000	10,000	10,000
Assets whose use is limited	167,593	129,630	109,845	103,481	107,404
North Carolina operating reserve funds	8,149	8,312	8,479	8,813	9,163
Property and equipment, net	1,328,621	1,396,131	1,488,544	1,527,190	1,543,369
Deferred costs, net	3,354	3,268	3,213	3,134	2,958
Total assets	<u>\$ 1,803,757</u>	<u>\$ 1,853,081</u>	<u>\$ 1,941,347</u>	<u>\$ 1,991,369</u>	<u>\$ 2,021,186</u>
<b>Liabilities and Net Assets</b>					
Current Liabilities					
Accounts payable and accrued expenses	\$ 86,941	\$ 89,956	\$ 92,883	\$ 97,155	\$ 99,495
Entrance fee deposits	11,875	11,978	12,084	12,194	12,306
Short-term indebtedness	58,089	71,000	57,502	35,208	35,208
Current maturity of non-recourse indebtedness	211	220	230	239	249
Current maturities of long-term debt	19,157	20,566	22,013	22,173	22,813
Total current liabilities	176,273	193,720	184,712	166,969	170,071
Long-term indebtedness	739,935	717,334	718,998	695,175	670,707
Non-recourse indebtedness	11,326	11,106	10,876	10,637	10,388
Refundable portion of entrance fees	4,987	3,062	1,779	924	354
Deferred revenue from entrance fees	720,956	764,831	848,529	926,923	963,431
Accumulated loss on investment contracts	9,415	9,415	9,415	9,415	9,415
Total liabilities	<u>1,662,892</u>	<u>1,699,468</u>	<u>1,774,309</u>	<u>1,810,043</u>	<u>1,824,366</u>
<b>Net Assets</b>					
Without donor restrictions	107,045	116,521	126,575	137,391	149,309
With donor restrictions	33,820	37,092	40,463	43,935	47,511
Total net assets	<u>140,865</u>	<u>153,613</u>	<u>167,038</u>	<u>181,326</u>	<u>196,820</u>
Total liabilities and net assets	<u>\$ 1,803,757</u>	<u>\$ 1,853,081</u>	<u>\$ 1,941,347</u>	<u>\$ 1,991,369</u>	<u>\$ 2,021,186</u>

See summary of significant projection assumptions and accounting policies

**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, 2024  
(In Thousands)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
<b>Operating Revenue</b>					
Resident services revenue, net of amortization					
of entrance fees	\$ 321,117	\$ 333,528	\$ 346,654	\$ 365,170	\$ 376,210
Patient revenue from third-party payors	37,734	38,678	39,645	40,636	41,652
Investment income	8,289	9,078	8,930	9,087	9,349
Net assets released from restrictions to provide resident services	2,913	3,000	3,090	3,183	3,279
Contributions	93	96	99	102	105
Other revenue	15,738	15,454	15,934	16,412	16,911
	<u>385,884</u>	<u>399,834</u>	<u>414,352</u>	<u>434,590</u>	<u>447,506</u>
Total operating revenue before amortization of entrance fees					
Amortization of entrance fees	96,871	100,212	103,765	107,905	111,142
	<u>482,755</u>	<u>500,046</u>	<u>518,117</u>	<u>542,495</u>	<u>558,648</u>
Total operating revenue					
<b>Operating Expenses</b>					
Administrative and general	102,209	105,765	109,501	114,871	118,176
Health care	82,988	85,876	88,909	93,269	95,952
Property management	66,710	69,032	71,469	74,975	77,131
Culinary services	67,076	69,411	71,861	75,386	77,554
Resident care	39,246	40,612	42,046	44,108	45,377
Environmental services	13,441	13,909	14,400	15,106	15,541
	<u>371,670</u>	<u>384,605</u>	<u>398,186</u>	<u>417,715</u>	<u>429,731</u>
Total operating expenses before depreciation, amortization, and interest					
Depreciation and amortization	76,846	78,814	82,236	86,256	90,050
Interest, net	25,851	27,619	28,123	28,204	27,460
	<u>474,367</u>	<u>491,038</u>	<u>508,545</u>	<u>532,175</u>	<u>547,241</u>
Total operating expenses					
Operating income	8,388	9,008	9,572	10,320	11,407

*See summary of significant projection assumptions and accounting policies*

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

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, 2024  
(In Thousands)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
<b>Changes in Net Assets Without Donor Restrictions</b>					
Operating income	\$ 8,388	\$ 9,008	\$ 9,572	\$ 10,320	\$ 11,407
Loss on early extinguishment of debt	(8,277)	-	-	-	-
Net operating income	111	9,008	9,572	10,320	11,407
Net assets released from restrictions to acquire property and equipment	454	468	482	496	511
Changes in net assets without donor restrictions	565	9,476	10,054	10,816	11,918
<b>Changes in Net Assets With Donor Restrictions</b>					
Change in beneficial interest in investments of ACTS Legacy Foundation, Inc.	3,176	3,272	3,371	3,472	3,576
Increase in net assets	3,741	12,748	13,425	14,288	15,494
<b>Net Assets, Beginning</b>	<u>137,124</u>	<u>140,865</u>	<u>153,613</u>	<u>167,038</u>	<u>181,326</u>
<b>Net Assets, Ending</b>	<u>\$ 140,865</u>	<u>\$ 153,613</u>	<u>\$ 167,038</u>	<u>\$ 181,326</u>	<u>\$ 196,820</u>

See summary of significant projection assumptions and accounting policies

**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, 2024  
(In Thousands)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
<b>Cash Flows From Operating Activities</b>					
Increase in net assets	\$ 3,741	\$ 12,748	\$ 13,425	\$ 14,288	\$ 15,494
Adjustments to reconcile increase in net assets to net cash provided by operating activities:					
Depreciation and amortization	76,846	78,814	82,236	86,256	90,050
Amortization of entrance fees	(96,871)	(100,212)	(103,765)	(107,905)	(111,142)
Amortization of bond discount and premium, net	(3,393)	(2,844)	(2,564)	(2,460)	(2,459)
Amortization of deferred financing costs	828	809	816	810	804
Entrance fees and deposits from non-refundable resale	118,421	151,960	159,906	164,204	168,130
Refunds of entrance fees and deposits from contracts non-refundable resale contracts	(10,380)	(10,692)	(11,013)	(11,343)	(11,683)
Administrative fee included in gross entrance fees	(5,974)	(7,767)	(8,186)	(10,641)	(8,685)
Loss on early extinguishment of debt	8,277	-	-	-	-
Increase in deferred costs	(300)	(465)	(523)	(527)	(461)
Change in beneficial interest in investments of ACTS Legacy Foundation, Inc.	(3,176)	(3,272)	(3,371)	(3,472)	(3,576)
Net change in due from affiliated organizations	(10,935)	582	4,600	2,617	1,944
Changes in assets and liabilities:					
Increase in accounts receivable and entrance fee receivables	(670)	(824)	(899)	(1,121)	(848)
Increase in prepaid expenses, inventory, and deposits	(286)	(299)	(310)	(323)	(336)
Increase in accounts payable and accrued expenses	213	3,015	2,927	4,272	2,340
Net cash provided by operating activities	<u>76,341</u>	<u>121,553</u>	<u>133,279</u>	<u>134,655</u>	<u>139,572</u>
<b>Cash Flows From Investing Activities</b>					
Purchase of property and equipment	(112,798)	(128,302)	(153,850)	(108,995)	(91,635)
Decrease (increase) in investments	<u>14,868</u>	<u>(18,927)</u>	<u>(18,773)</u>	<u>(18,534)</u>	<u>(10,278)</u>
Net cash used in investing activities	<u>(97,930)</u>	<u>(147,229)</u>	<u>(172,623)</u>	<u>(127,529)</u>	<u>(101,913)</u>
<b>Cash Flows From Financing Activities</b>					
Entrance fees from initial sale contracts	15,575	10,689	46,862	44,189	-
Refunds of refundable entrance fees	(2,887)	(1,925)	(1,283)	(855)	(570)
Payment of accounts payable, construction	(15,638)	(17,471)	(20,221)	(15,301)	(13,957)
Proceeds from short-term indebtedness	34,344	23,600	58,789	21,895	-
Net proceeds from long-term indebtedness	207,781	-	25,675	-	-
Increase in deferred financing costs	(1,867)	-	(250)	-	-
Payments on short-term indebtedness	(65,575)	(10,689)	(72,287)	(44,189)	-
Payments on non-recourse indebtedness	(203)	(211)	(220)	(230)	(239)
Payments on long-term indebtedness	<u>(105,663)</u>	<u>(19,157)</u>	<u>(20,566)</u>	<u>(22,013)</u>	<u>(22,173)</u>
Net cash provided by (used in) financing activities	<u>65,867</u>	<u>(15,164)</u>	<u>16,499</u>	<u>(16,504)</u>	<u>(36,939)</u>
<b>Net Increase in Cash, Cash Equivalents and Restricted Cash and Cash Equivalents</b>	<u>44,278</u>	<u>(40,840)</u>	<u>(22,845)</u>	<u>(9,378)</u>	<u>720</u>
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning</b>	<u>69,371</u>	<u>113,649</u>	<u>72,809</u>	<u>49,964</u>	<u>40,586</u>
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 113,649</u>	<u>\$ 72,809</u>	<u>\$ 49,964</u>	<u>\$ 40,586</u>	<u>\$ 41,306</u>

See summary of significant projection assumptions and accounting policies

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

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## 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 and 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 June 30, 2020, 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. Because of the nature of financial projections, management need not have a reasonable basis for the hypothetical 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.



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

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### Summary of Significant Projection Assumptions and Accounting Policies

## **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 continuing care retirement communities (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). 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.

Integrace, Inc. (IG), a not-for-profit Maryland corporation which operates Fairhaven, a CCRC located in Sykesville, Maryland, Buckingham's Choice, a CCRC located in Adamstown, Maryland, and Bayleigh Chase, a CCRC located in Easton, Maryland.

Copper Ridge, Inc. (CR), a not-for-profit Maryland corporation which operates a memory support residence located in Sykesville, Maryland.

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

## **Summary of Significant Projection Assumptions and Accounting Policies**

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

All of the above organizations, with the exception of AAC, 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 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, IG, CR 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, Cash Equivalents and Restricted Cash and Cash Equivalents**

For purposes of the projected special-purpose combined statements of cash flows, cash, cash equivalents and restricted cash and cash equivalents include working capital accounts invested in highly liquid instruments purchased with an original maturity of three months or less. The following table provides a reconciliation of cash, cash equivalents and restricted cash and cash equivalents reported within the projected special-purpose combined balance sheets that sums to the total of the same such amounts reported in the projected special-purpose combined statements of cash flows.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<u>(in thousands)</u>				
Cash and cash equivalents	\$ 24,975	\$ 25,545	\$ 25,965	\$ 26,528	\$ 26,997
Cash and cash equivalents included in investments and assets whose use is limited	<u>88,674</u>	<u>47,264</u>	<u>23,999</u>	<u>14,058</u>	<u>14,309</u>
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 113,649</u>	<u>\$ 72,809</u>	<u>\$ 49,964</u>	<u>\$ 40,586</u>	<u>\$ 41,306</u>

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

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### Summary of Significant Projection Assumptions and Accounting Policies

#### **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, 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 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.

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

### **Summary of Significant Projection Assumptions and Accounting Policies**

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#### **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 \$75,934, \$78,263, \$81,658, \$85,650, and \$89,413 in 2020 through 2024, 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) \$912, \$551, \$578, \$606, and \$637 in 2020 through 2024, 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) \$828, \$809, \$816, \$810, and \$804 in 2020 through 2024, 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.

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

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### Summary of Significant Projection Assumptions and Accounting Policies

#### **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.

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

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### Summary of Significant Projection Assumptions and Accounting Policies

#### **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.

Payment terms and conditions for the Company's resident agreements vary by contract type and payor source, although terms generally include payment to be made within 30 days. Resident services and patient revenues for recurring and routine monthly services due from self-pay residents are generally billed monthly in advance. Resident services and patient revenues for ancillary services due from self-pay residents are generally billed monthly in arrears. Patient revenues due from Medicare, Medicaid and other third-party payor programs are billed monthly in arrears.

Resident services and patient revenues are primarily comprised of skilled nursing, assisted living and independent living revenue streams, which are primarily derived from providing nursing, assisted living and housing services to residents at a stated daily or monthly fee, net of any explicit or implicit price concessions. The Company has determined that the services included in the stated daily or monthly fee for each level of care represents a series of distinct services that have the same timing and pattern of transfer. Therefore, the Company considers the services provided to residents in each level of care to be one performance obligation which is satisfied over time as services are provided. As such, skilled nursing, assisted living and independent living revenues are recognized on a daily or month-to-month basis as services are rendered.

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

### **Summary of Significant Projection Assumptions and Accounting Policies**

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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 Pronouncement**

In 2019, the Company retrospectively adopted the Financial Accounting Standards Board (FASB) Account Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts reported on the special-purpose combined statements of cash flows.

#### **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.

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

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### Summary of Significant Projection Assumptions and Accounting Policies

#### **5. Non-Recourse Indebtedness**

In May 2019, ACTS purchased a corporate services center located in Pennsylvania. The purchase was financed by an \$11,740,000 loan secured by the building. The loan is non-recourse indebtedness under the Master Trust Indenture (Note 6) and matures on August 21, 2020. It is assumed that the loan will be permanently financed in 2020; a 30 year term and 4.2% interest rate were assumed for this permanent financing. 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 \$114,690,000 and fixed rate taxable bonds in 2020 in the amount of \$84,685,000. The proceeds from the issuance of the fixed rate tax-exempt bonds are assumed to provide for the payoff an amount outstanding on a line of credit of approximately \$50,000,000, establish a project construction fund in the approximate amount of \$61,110,000 and to finance certain costs of issuance and other related costs. It is assumed that the fixed rate tax-exempt bonds will mature in 2045 and carry fixed interest rates ranging from 4.00% to 5.00%. The proceeds from the issuance of the fixed rate taxable bonds are assumed to provide for the refunding of the outstanding Pennsylvania Series 2012 tax-exempt revenue bonds and to finance certain costs of issuance and other related costs. It is assumed that the fixed rate taxable bonds will mature in 2029 and carry fixed interest rates ranging from 2.18% to 2.93%.

It is also assumed that the Company will issue fixed rate tax-exempt bonds in 2022 in the amount of \$25,675,000. The proceeds from the issuance are assumed to provide for the payoff of an amount outstanding on a line of credit of approximately \$25,425,000 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 75% fixed rate, tax-exempt revenue bonds, 16% fixed rate, taxable revenue bonds and taxable term loans, and 9% variable rate, tax-exempt demand revenue bonds. The interest rate on substantially all variable rate bonds is fixed by interest rate swaps.



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

### Summary of Significant Projection Assumptions and Accounting Policies

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

Years ending December 31:	
2020	\$ 17,413
2021	19,157
2022	20,566
2023	22,013
2024	22,173
2025 - 2029	124,737
2030 - 2034	150,465
2035 - 2039	139,601
Thereafter	<u>241,806</u>
Total	<u>\$ 757,931</u>

## **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 3.0% per year during the projection period based on the 5-year historical average. Patient revenue from third-party payors is assumed to increase 2.5% 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 2.5% per year during the projection period.

In the first several months of 2020, the COVID-19 pandemic had significant effects on global markets, supply chains, businesses and communities. The immediate impact of the pandemic is decreased occupancy as restrictions on movement and the isolation of residents present obstacles to resales and admissions. As such, management projected that the number of occupied independent living units will decline in 2020 compared to 2019, but will rebound as growth of occupied independent living units will be achieved as resales are expected to outpace turnover in the remainder of the projection period. During 2019, the Company's independent living units operated at an average occupancy level of 93%. Management projected decreases in average independent living occupancy in 2020 to 2022 followed by gradual increases in independent living occupancy during the remainder of the projection period as follows: 92% from 2020 to 2022, and 93% in 2023 and 2024 based on historical trends. During 2019, the Company's assisted living units operated at an average occupancy level of 87%. Management projected assisted living occupancy to be 89% in 2020 and 88% in each year during the remainder of the projection period. During 2019, the Company's skilled care units operated at an average occupancy level of 87%. Management projected skilled care occupancy to be 87% during the projection period.

Investment income was assumed to equal approximately 2.2% of the ending cash and investment balances each year during the projection period.

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

### **Summary of Significant Projection Assumptions and Accounting Policies**

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#### **Beneficial Interest in Investments**

As of December 31, 2019, the Company has a beneficial interest in the investments of ALF of \$30,644,000. 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 2.2% 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, 2019 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) \$3,379, \$2,418, \$2,143, \$306, and \$704 in 2020 through 2024, 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 23 days of the resident services revenue and patient revenues from third-party payors.

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

### Summary of Significant Projection Assumptions and Accounting Policies

#### **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):

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Investments related to:					
Investments without donor restrictions	\$ 215,477	\$ 234,066	\$ 252,563	\$ 270,658	\$ 280,490
State reserves - NC	8,149	8,312	8,479	8,813	9,163
State reserves - other	49,021	49,426	49,771	50,120	50,467
Beneficial interest in the investments of ALF	33,820	37,092	40,463	43,935	47,511
Debt related reserves	84,752	43,112	19,611	9,426	9,426
Total	<u>\$ 391,219</u>	<u>\$ 372,008</u>	<u>\$ 370,887</u>	<u>\$ 382,952</u>	<u>\$ 397,057</u>

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, 2019 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 70 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.

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

### **Summary of Significant Projection Assumptions and Accounting Policies**

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#### **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 25 new cottages will be constructed during the projection period. Construction began in 2019 and is expected to be completed in 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.

##### **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 62 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 \$76,980,000. 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 conjunction with the planned 2020 financing (Note 6). 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 2021 to 2023 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.

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

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### Summary of Significant Projection Assumptions and Accounting Policies

#### **Lanier Village Estates**

It is assumed that 31 new cottages will be built on the campus during the projection period. Construction began in 2019 and is expected to be completed in 2021 with projected costs of \$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 and is expected to be completed in 2020 with projected costs of \$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.

#### **Park Pointe Village**

It is assumed that land adjacent to the community will be purchased during the projection period. The purchase is expected to be during 2020 and is anticipated 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 renovations began in 2019 and are expected to be completed in 2021 with projected costs of \$2,500,000. The projects 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 2021 with an expected cost of \$20,806,000 which will be funded by the permanent financing done in 2018.

#### **2020 Project Construction Fund**

It is assumed that the assisted living and skilled care centers at various communities located in Pennsylvania, North Carolina, and Florida will be renovated during the projection period. Renovations are expected to begin in 2020 and completed in 2023. The renovations have an expected cost of \$61,110,000 and will be funded by the project construction fund established in connection with the 2020 planned financing transaction (Note 6).

#### **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 \$64 million to \$104 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.

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

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### Summary of Significant Projection Assumptions and Accounting Policies

#### **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.

##### **CARES Act**

The Coronavirus Aid, Relief and Economic Security (CARES) Act provided relief funds to healthcare providers on the front lines of the COVID-19 pandemic. All healthcare providers that received Medicare fee-for-service reimbursements in 2019 are eligible for the relief funds. The Company received approximately \$12,452,000 of these funds as of June 30, 2020. This funding supports healthcare-related expenses or lost revenue attributable to COVID-19 and ensures uninsured Americans can get treatment for COVID-19. The Company is required to make certain attestations and has certain reporting requirements as a condition of receiving the funds. In addition, healthcare providers must agree not to seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider.

**ATTACHMENT NO. 4**

RESIDENT CONTRACT

ACTS RETIREMENT-LIFE COMMUNITIES, INC.







*Where Loving-Kindness Lives*

# **RESIDENT CONTRACT**

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NORTH CAROLINA

ACTS RETIREMENT-LIFE COMMUNITIES, INC.  
A NONPROFIT CORPORATION

ACTS NC-RC001 06/01/2017



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## Definitions

**ADMINISTRATIVE FEE:** The Administrative Fee is equal to five percent (5%) of the Entrance Fee, as designated in Section 3.

**ANCILLARY FEE SCHEDULE:** The schedule of charges for services not included in the Monthly Rate.

**APPLICATION FEE:** The Application Fee is a non-refundable fee submitted with Resident's application and priority list contract.

**ASSISTED LIVING SERVICES:** Assistance with activities of daily living, such as eating, bathing, dressing, grooming and toileting, provided in an Assisted Living Residence.

**ASSISTED LIVING RESIDENCE:** A licensed assisted living residence which provides Assisted Living Services under this Resident Contract and which may or may not be located on the campus of Retirement Community.

**COMPANY:** ACTS Retirement-Life Communities, Inc., a nonprofit corporation organized and existing under the laws of the Commonwealth of Pennsylvania; which has qualified as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code") and is exempt from federal income taxes on its exempt income pursuant to Section 501(a) of the Code.

**CONDITIONS FOR CONTINUED OCCUPANCY:** The health and safety requirements, (as defined by Company's prevailing policy which is subject to change) for continued Occupancy of the Residential Unit or other accommodation in Retirement Community.

**DATE OF AVAILABILITY:** The date designated by Company for the Resident to accept Occupancy, for the Entrance Fee to become due and begin payment of the Monthly Rate.

**ENTRANCE FEE:** A one-time fee paid to Company prior to admission to Retirement Community. The amount of the Entrance Fee is based on the model, size and location of the Residential Unit and the number of occupants of the Residential Unit.

**EXTENDED DATE OF AVAILABILITY:** An extension to the Date of Availability for a reasonable period of time granted by Company.



**HOME CARE SERVICES:** Assistance with activities of daily living provided by nurses or aides in Resident's Living Accommodation, as defined by and in accordance with prevailing policy.

**LEGAL REPRESENTATIVE:** A personal representative with legal standing authorized to act on behalf of Resident or a representative who has provided the funds necessary for Resident to enter into this Resident Contract.

**LIVING ACCOMMODATION:** The Residential Unit of the Retirement Community, an assisted living room in an Assisted Living Residence or a nursing care bed in a Skilled Care Center.

**MONTHLY RATE:** The charge per month for Occupancy of the Living Accommodation.

**OCCUPANCY:** The right to reside in and use the Living Accommodation.

**PRIORITY LIST DEPOSIT:** A payment the applicant made at the time of submitting an application, in consideration of which the name of the applicant is placed on a list awaiting availability of a Residential Unit. The Priority List Deposit is applied as a credit toward the payment of the Entrance Fee.

**RESERVATION FEE:** The amount paid by Resident in consideration of which Company reserves the Residential Unit designated for Occupancy by Resident. The Reservation Fee is paid at the time of signing the Resident Contract and is applied as a credit toward the payment of the Entrance Fee.

**RESIDENTIAL UNIT:** The living unit identified in Section 3 which is designated for Occupancy under this Resident Contract.

**RETIREMENT COMMUNITY:** The Company's facility and campus identified in this Resident Contract as the location Resident will take Occupancy of the Residential Unit.

**ROUTINE NURSING CARE SERVICES:** The level of nursing care services provided by Company. Company reserves the right to define the acuity level of care services it provides in exchange for the Monthly Rate. Certain higher acuity nursing care services, if available, and supplemental or ancillary services and items shall be provided at an additional charge.

**SHARED OCCUPANCY:** The right to reside in and use a Residential Unit vested in two or more persons.

**SINGLE OCCUPANCY:** The right to reside in and use a Residential Unit vested in one person.

**SKILLED CARE CENTER:** A licensed nursing facility which provides Routine Nursing Care Services under this Resident Contract and which may or may not be located on the campus of the Retirement Community.

**SPECIAL SERVICE FACILITY:** A psychiatric institution, drug or alcohol treatment facility, renal treatment facility, rehabilitation unit, Subacute or Transitional Care provider, including other licensed nursing facilities providing specialized medical care and treatment, such as some subacute services, not provided by Company.

**SUBACUTE CARE:** Short-term care (10 to 40 days) for patients who require medical care and monitoring at least weekly, skilled nursing care of approximately 4.0 hours per day, rehabilitative therapies and I.V. therapies without significant medical complications.

**SURRENDER:** To cease Occupancy, to remove all possessions from Company, and to return all Company's property, including, but not limited to, keys and emergency alert equipment, if applicable.

**TRANSITION PERIOD:** The first one hundred twenty (120) days of Occupancy in the Residential Unit.

**TRANSITIONAL CARE:** Short-term care (5 to 30 days) for patients who require regular medical care and monitoring, intensive skilled nursing care of approximately 5.5 to 8 hours per day, an integrated program of therapies (both rehabilitative and respiratory) including utilization of pharmaceuticals and laboratory services.

**UTILIZATION REVIEW COMMITTEE:** The Utilization Review Committee shall consist of members of the skilled care and administrative staff designated by Company, and shall make determinations relating to level of care transfers.

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

This Resident Contract made this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_\_, is between ACTS RETIREMENT-LIFE COMMUNITIES, INC. (hereinafter called "Company"), AND \_\_\_\_\_

(hereinafter referred to as "Resident," and where this Resident Contract is executed by one or more individuals, they are called collectively "Resident" where the context permits and individually as "Co-Resident") who has applied for and has been conditionally approved for admission to the Retirement Community by Company. Subject to the signing of this Resident Contract, Company and Resident, intending to be legally bound, agree to the following terms and conditions.

**SECTION 1. General Statements**

**1.1 General Statements Regarding Company**

Company is a nonprofit corporation which qualifies as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). Company is exempt from federal income taxes on its exempt income pursuant to Section 501(a) of the Code. Company 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., Park Pointe Village, Inc., and Presbyterian Retirement Corporation, Inc. Company is not affiliated with any other religious, nonprofit or proprietary organizations or management entity. Company, 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 Company are not responsible for the financial and contractual obligations of Company.

**1.2 General Statements Regarding Extent of Continuing Care**

Upon execution of this Resident Contract and payment of Entrance Fee, and prior to the Date of Availability, Resident is entitled to access, if necessary, the services specified in this Resident Contract.

Beginning with the date of Occupancy of a Living Accommodation in the Retirement Community, or the Date of Availability, whichever is earlier,

Company will provide a Living Accommodation, together with the facilities, services and medical care specified in this Resident Contract until the Resident's death or earlier termination of this Resident Contract.

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

## **SECTION 2. Conditions to Admission**

### **2.1 Financial Qualifications**

As a condition to admission, Company requires that Resident have assets and income which are sufficient under foreseeable circumstances and after provision for payment of Resident's obligations hereunder to meet ordinary and customary living expenses after assuming Occupancy over Resident's projected lifetime.

### **2.2 Change in Financial Condition Prior to Occupancy**

If, after the date of accepting and signing a Resident Contract by both parties and prior to the date of Occupancy of a Residential Unit, a change in Resident's financial condition occurs and Resident no longer qualifies under Subsection 2.1, Company reserves the right to terminate this Resident Contract. Any refund due to Resident shall be paid in accordance with Subsection 14.1.

### **2.3 Medical Qualifications**

As a condition to admission into Residential Unit, Company requires that Resident be able to meet health and safety requirements, as defined by Company's prevailing policy which is subject to change.

### **2.4 Change in Medical Condition Prior to Occupancy**

Once a Resident Contract is accepted and signed by both parties, the Resident Contract shall not terminate solely due to a change in medical condition. However, Company reserves the right to determine the appropriate Living Accommodation.

### **2.5 Required Insurance**

As a condition to admission, Resident will, prior to the Date of Availability, enroll in Part A of the Medicare Program and subscribe to and pay for coverage under Part B of the Medicare Program. If not eligible for Medicare, Resident will enroll in some other insurance program providing equivalent benefits as approved in writing by Company. Additionally,

Resident will subscribe to and pay for Medicare supplemental coverage (commonly referred to as “medigap insurance”, covering days 21 through 100 of skilled care services), as approved by Company. Throughout the duration of this Resident Contract, Resident shall maintain, at Resident’s expense, the required insurance coverage. Proof of required insurance coverage must be provided to Company prior to the Date of Availability. Company may require Resident to provide proof of required insurance from time to time after Occupancy. If Resident fails to maintain required insurance, the terms as set forth in Subsection 6.7(a) will prevail.

**2.6 Age Requirements**

As a condition to admission, Resident will supply satisfactory evidence that he/she has obtained his/her 62nd birthday by the Date of Availability.

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**SECTION 3. The Designation of the Residential Unit and Consideration to be Paid**

The Residential Unit assigned to Resident is:

Type of Unit \_\_\_\_\_; Unit Number \_\_\_\_\_; Date of Availability \_\_\_\_\_

Location: \_\_\_\_\_ (“Retirement Community”)

Payment of Entrance Fee:

Gross Entrance Fee \$ \_\_\_\_\_

Adjustments (defined below) \$ \_\_\_\_\_

Entrance Fee \$ \_\_\_\_\_

Less Priority List Deposit previously paid, if any \$ \_\_\_\_\_

Less Reservation Fee (balance of 10% of Entrance Fee paid at signing of this Resident Contract) \$ \_\_\_\_\_

Balance of Entrance Fee due prior to Occupancy \$ \_\_\_\_\_

Payments made under Exhibit “B”, as of signing this Resident Contract, for modifications to the Residential Unit, if any \$ \_\_\_\_\_

Current Monthly Rate (as of the date of the signing of this Resident Contract) \$ \_\_\_\_\_

The Entrance Fee and Monthly Rate specified above are based on the current price plan known as: \_\_\_\_\_

Adjustment explanation: \_\_\_\_\_

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**SECTION 4. Living Accommodation and Common Areas**

**4.1 Living Accommodation**

From and after the Date of Availability, Resident has the right to occupy and use, in accordance with the terms of this Resident Contract, the Residential Unit designated in Section 3, and accommodations in Assisted Living Residence and Skilled Care Center as defined in Section 11 of this Resident Contract.

**4.2 Furnishings**

Company will furnish wall to wall carpeting (except in kitchen and bath), range with oven, microwave oven, refrigerator, window blinds, and other fixtures in the Residential Unit in accordance with Company's prevailing policy. Resident may upgrade, change or replace the furnishings provided by Company at Resident's cost. These furnishings, even if upgraded, changed or replaced at Resident's cost, shall become the permanent property of Company unless otherwise agreed to in writing by both parties. All other furnishings shall be furnished by Resident, subject to supervision of, and approval by, Company, and shall remain as Resident's personal property, except as set forth in Subsections 5.6 and 5.9.

**4.3 Optional Furnishings or Appliances**

Company may provide at Resident's request optional furnishings, fixtures or appliances identified and approved by Company. The cost for optional items is not included in the Entrance Fee or the Monthly Rate and is an additional charge established by Company. The costs for any optional items requested by Resident shall be paid prior to the beginning of the work or before the time of installation. Upon installation, all additional furnishings, fixtures or appliances immediately become the property of Company and shall remain in the Residential Unit after termination of this Resident Contract. Exhibit B of this Resident Contract reflects all optional furnishings or fixtures and the related cost.

**4.4 Common Areas**

Subject to scheduling requirements and availability as established by Company and as part of the services included in the Monthly Rate, 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 Company.

**4.5 Assisted Living Residence**

Company shall provide Assisted Living Services in a licensed Assisted Living Residence at either the Retirement Community, another affiliated

retirement community or an outside provider not located at the Retirement Community.

**4.6 Skilled Care Center**

Company shall provide Routine Nursing Care Services in a licensed Skilled Care Center, at either the Retirement Community, another affiliated retirement community or an outside provider not located at the Retirement Community.

**4.7 Date of Availability**

Resident shall take possession of the Residential unit as of the Date of Availability. If the Residential Unit is available for Occupancy before the Date of Availability, Resident may take possession on the first available date. The obligation to pay the Monthly Rate shall begin on the Date of Availability or upon Occupancy, whichever is earlier, and the Entrance Fee must be paid in full prior to or at the time of Occupancy. In the event that Resident fails to take possession or pay the Monthly Rate on the Date of Availability, and the Residential Unit is available for Occupancy, then Company, in its sole and absolute discretion may elect to terminate this Resident Contract.

The Date of Availability may be extended by Company for a reasonable period (i.e. the "Extended Date of Availability"). Company shall provide written notice of any extension of the Date of Availability addressed to Resident in accordance with Section 18. If, however, the Residential Unit is not ready for Occupancy by the Date of Availability or Extended Date of Availability, and such delay is due to labor strikes, fire, an act of God or any other cause beyond the control of Company, then, Company, in its sole discretion, may further extend the Date of Availability for a reasonable period of time. In the event that Resident fails to take possession on the Extended Date of Availability, then Company, in its sole and absolute discretion, may elect to terminate this Resident Contract in accordance with the termination and refund provisions.

**4.8 Limitations on Occupancy**

No person other than Resident may take Occupancy of the Living Accommodation except with the express written approval of Company. In the event that a spouse or other person who is not a party to this Resident Contract is accepted for Occupancy in the Living Accommodation at a time subsequent to the date hereof, the terms as set forth in Subsection 10.2 will prevail.

**4.9 Company's Rights Regarding Retirement Community and Living Accommodation**

Company has the right to use the Retirement Community for any corporate purpose. Resident acknowledges and accepts the responsibility of Company to enter Resident's Living Accommodation in order to carry out the purpose and intent of this Resident Contract. Such entry includes, but is not limited to, (i) responses to medical emergencies; (ii) responses to fire protection systems; (iii) responses to concern that Resident is missing or otherwise not responding to calls; (iv) performance of scheduled housekeeping duties; (v) maintenance procedures; and (vi) enforcement of Company's policies and procedures. Company will take all normal precautions to protect Resident's privacy.

**SECTION 5. Services Provided by Company to Resident and Resident's Responsibilities**

**5.1 Utilities and Taxes**

As part of the services included in the Monthly Rate, Company will furnish water, light, heat, electricity, air-conditioning, and standard cable television service (excluding premium channels). Payments of real estate taxes are also included in the Monthly Rate. Payment of the Monthly Rate does not give the Resident any interest in the land, improvements, or real estate of Company and the Retirement Community. Resident shall participate in and assign all rights to any real estate, property tax or utility credit program.

**5.2 Telephone**

Resident is required to have a telephone, or an alternative communication device which is approved by Company, in the Residential Unit, at Resident's expense. Telephone service charges (excluding international calls) and connection charges are included in the Monthly Rate. Company shall provide a directory of telephone numbers for access to Retirement Community personnel. Resident may have an option, at Resident's expense, to add international calling plans.

**5.3 Television and Internet**

Company shall provide each Residential Unit with connection(s) for television signal and internet access through either an external antenna or cable system. Company shall provide standard cable television service (excluding premium channels) and internet service. Costs for cable premium channels are not included in the Monthly Rate and shall be paid by Resident. Resident may have an option, at Resident's expense, to upgrade the internet service provided by Company.

#### **5.4 Housekeeping**

Resident shall maintain the Residential Unit in a clean, sanitary and orderly condition, and is responsible for all usual light housekeeping tasks. Annually, Company will provide such heavier cleaning services as it deems necessary. Company reserves the right to inspect the Residential Unit periodically for cleanliness and safety. If Resident fails to maintain the Residential Unit in a clean, sanitary and orderly condition as determined by Company, then Company reserves the right to clean the Residential Unit and Resident shall pay the charges assessed by Company for cleaning the Residential Unit. Additional housekeeping services are available to Resident for an additional fee.

#### **5.5 Maintenance and Repairs**

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

#### **5.6 Structural Changes**

All structural or physical changes of any kind within or about the Residential Unit (i.e. shelves, framework, awnings, etc.) will be made only upon first being approved by Company in writing and thereafter being subject to the supervision of Company. The cost of any such change requested by Resident shall be borne by Resident and paid for before work begins, unless otherwise agreed to in writing by both parties, and all such changes shall immediately become and remain the permanent property of Company.

#### **5.7 Laundry**

Automatic washers and dryers for personal laundry are located within Retirement Community and are available to all Residents. Company will provide laundry service for flat linens, provided by Resident, on a weekly basis as part of the Monthly Rate.

#### **5.8 Storage**

For each apartment style Residential Unit, Company will make available additional storage in a designated area upon request of Resident. Use of storage facilities shall be subject to direction and supervision of Company. Resident is responsible for the risk of loss for all items stored in the storage units.

## **5.9 Grounds**

Company will provide basic grounds keeping care including lawn service. Resident, at his/her own expense may plant and maintain the area adjacent to his/her Residential Unit, subject to the approval of Company. All plants, trees and shrubs so planted shall immediately become and remain the permanent property of Company.

## **5.10 Transportation**

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

## **5.11 Food and Meals**

### **(a) Dining Room Service**

Company will, as part of the services included in the Monthly Rate, provide to Resident, one meal for each day of the month (e.g. 30 meals in the month of November, 31 meals in the month of December), which may be utilized at Resident's discretion, up to a maximum of three (3) meals per day, until the monthly meal allocation is exhausted for the applicable calendar month. Unused meals in one month may not be carried over to another month. Meals may be taken in excess of the monthly allocation and will be an additional charge. Meals shall be taken in a designated dining area at any time during the calendar month, at Resident's discretion, although reasonable advance notice of attendance may be requested. Special dietary needs may be provided on request and subject to availability and Company's policies and procedures. In addition, Company will make available, in accordance with its scheduling policies, a private dining room for family gatherings or other special occasions of Resident. For these occasions, in accordance with Company's policies and procedures, Resident may supply food from outside sources or use catering services provided by Retirement Community on a fee-for-service basis.

### **(b) Tray Service**

Company will, as part of the services included in the Monthly Rate, provide to Resident tray service if ordered by Company's medical director or persons authorized by Company. Tray service shall be on a temporary basis, not to exceed three (3) days or fourteen (14) days following a three (3) day stay in the hospital or the Skilled Care Center. Any Resident requesting further tray service shall be evaluated by Company's medical director and/or Resident's physician to determine whether Routine Nursing Care Services are required. In the event that tray service extends beyond the above

limits, Company may charge Resident for tray service meals in an amount determined by Company, except if ordered by Company's medical director.

(c) **Meal Allowance**

If Resident is away from Retirement Community for a period of fourteen (14) consecutive days or more, he/she may qualify for a limited meal allowance in accordance with Company's prevailing policy which is subject to change. If the Resident qualifies, the meal allowance will be applied as a credit on the monthly statement. Arrangements for this allowance must be made in advance and in writing, and is applicable only when Resident is away from his/her Residential Unit, excluding stays in an Assisted Living Residence or a Skilled Care Center.

(d) **Guest Use of Dining Room**

Company will serve meals to Resident's guests in the dining room at an extra charge. Charges for guest meals will be included on Resident's monthly statement. Resident is requested to provide Company with advance notice of any anticipated guests.

(e) **Guest Meal Charges**

Amounts charged to Resident's monthly statement for guest meals will be made according to the currently established rates as set and periodically adjusted by Company.

(f) **Dining Room Dress Code**

In the designated dining area, Resident shall comply with Retirement Community's prevailing dress code policy which is subject to change from time to time.

5.12 **Response System**

Resident may contact Retirement Community personnel (i.e. security personnel or administrative staff) who will be available to respond twenty-four (24) hours a day. Retirement Community personnel will contact emergency response personnel provided by county or city governments, or by various health care providers unaffiliated with Company. Company does not provide Emergency Medical Services ("EMS") or Emergency Medical Technicians ("EMT"). While the response system may be used to inform Retirement Community personnel of a medical emergency or a security concern, Company disclaims any and all responsibility or liability for responding to medical emergencies or security concerns. Any costs associated with external emergency response personnel shall be payable by Resident directly to the emergency response organization.

### **5.13 Security**

Company will, as part of the services included in the Monthly Rate, provide certain security services at Retirement Community in accordance with Company's prevailing policy which is subject to change from time to time.

### **5.14 Parking**

If Resident owns and operates a registered motor vehicle, Company shall provide a minimum of one uncovered parking space for each Residential Unit, which is included in the Monthly Rate. Any assignment of parking spaces will be made in accordance with prevailing policy which is subject to change from time to time. Guest parking is available in designated areas.

### **5.15 Property Insurance**

Company shall maintain insurance for Company's property only, which is included in the Monthly Rate. Resident is required to purchase and maintain personal property and liability insurance in an amount acceptable to Company as may be determined from time to time by Company.

### **5.16 Administration**

Company shall provide administrative support services to implement the provisions of this Resident Contract, which services are included in the Monthly Rate.

### **5.17 Additional Miscellaneous Services**

Other miscellaneous services, as may become available, will be at an additional charge and are not included in the Monthly Rate.

### **5.18 Changes in the Scope of Services and Ancillary Fee Schedule**

The scope of services and related fees as reflected in Ancillary Fee Schedule for services not included in the Monthly Rate are subject to change and may be modified by Company from time to time with sixty (60) days advance written notice of any changes, except for changes required by State or Federal assistance programs.

## **SECTION 6. General Medical, Nursing and Assisted Living Services**

### **6.1. 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 Rate. Other services may be provided at a fee published in the nurse's office. Company reserves the right to limit the outpatient nursing services which are included in the Monthly Rate.

## **6.2 Assisted Living and Routine Nursing Care Services**

As part of the Monthly Rate, Company shall provide, or make available, in accordance with Resident's needs, Assisted Living Services in private accommodations and Routine Nursing Care Services in shared accommodations. In the event that those services are provided on the campus of Retirement Community, Resident shall sign an admission contract upon transfer to either the Assisted Living Residence or Skilled Care Center, which contract(s) will supplement the terms of this Resident Contract. In the event that any payment provision of the admission contracts in the Assisted Living Residence or Skilled Care Center are in conflict or inconsistent with any terms or provisions of this Resident Contract, then this Resident Contract shall control and govern the relationship between Resident and Company. As part of the Monthly Rate, Company shall provide to Resident three (3) meals per day when Resident is in Assisted Living Residence or Skilled Care Center.

## **6.3 Home Care Services**

As part of the Monthly Rate, Resident may be eligible for qualified Home Care Services, as determined by Company and in accordance with prevailing policy. Additional Home Care Services may be available on a fee-for-service basis.

## **6.4 Costs in a Skilled Care Center or an Assisted Living Residence Prior to Occupancy**

If Resident is admitted to either an Assisted Living Residence or a Skilled Care Center prior to Occupancy of the Residential Unit, the Entrance Fee immediately shall become due, and Resident shall pay the Monthly Rate for the Residential Unit designated in this Resident Contract. In situations of Shared Occupancy, the Monthly Rate for Single Occupancy shall be paid upon admission of one Co-Resident until the Date of Availability or upon Occupancy by the other Co-Resident of any Living Accommodation, whichever is earlier, at which time the Monthly Rate for Shared Occupancy shall become effective.

All miscellaneous charges and fees for ancillary services not covered or included in the Monthly Rate are an additional charge and shall be paid by Resident. Company reserves the right to determine, at any time, if admission to the Skilled Care Center or Assisted Living Residence is permanent.



**6.5 Costs in a Skilled Care Center or an Assisted Living Residence After Occupancy**

**(a) Routine Nursing Care Services**

Upon transfer to a Skilled Care Center or other facility providing Routine Nursing Care Services under this Resident Contract, Resident shall continue to pay the applicable Monthly Rate for the Residential Unit, which is subject to periodic increases. All miscellaneous charges and fees for ancillary services not covered or included in the Monthly Rate are reflected on Company's Ancillary Fee Schedule and are an additional charge which shall be paid by Resident.

**(b) Assisted Living Services**

Upon transfer to the Assisted Living Residence or other facility providing Assisted Living Services under this Resident Contract, Resident shall continue to pay the applicable Monthly Rate for the Residential Unit, which is subject to periodic increases. All miscellaneous charges and fees for ancillary services and supplies not covered or included in the Monthly Rate are reflected on Company's Ancillary Fee Schedule and are an additional charge which shall be paid by Resident.

**(c) Intra-Community Transfer and the Monthly Rate**

In the event that Resident has moved from the Residential Unit to a Residential Unit with a lower Monthly Rate within one year prior to permanent transfer of Resident (or remaining Co-Resident) to a Skilled Care Center or Assisted Living Residence, Resident shall pay the higher Monthly Rate for the vacated Residential Unit while remaining in the Skilled Care Center or Assisted Living Residence.

**6.6 Exclusions (Items and Services Not Covered by the Monthly Rate)**

Medical, health and ancillary services not included in or covered by the Monthly Rate include, but are 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, including temporary nursing or assistive services in the Residential Unit, 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. Company, in its discretion, may provide any or all of the services not covered by the Monthly Rate at an additional charge, or refer the Resident to another provider capable of providing higher acuity care services. Ancillary and miscellaneous charges in an Assisted Living Residence or Skilled Care Center are not included in the Monthly Rate.

**6.7 Hospital, Medical and Nursing Insurance**

**(a) Required Insurance**

Should Resident fail to maintain required medical insurance coverage, as described in Subsection 2.5, Resident will be responsible for all charges that otherwise would have been reimbursed through these required insurance programs and shall demonstrate adequate financial resources for such coverage to Company upon request.

Medicare Part A co-insurance for skilled days 21 through 100, and Medicare Part B annual deductible and co-insurance are the responsibility of Resident.

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**(b) Assignment of Required Insurance and Third Party Payments**

Resident assigns and transfers over to Company all rights of Resident to required public and private insurance and benefits to the extent necessary to pay Company for services provided to Resident under this Resident Contract. If Resident becomes eligible to receive payment from any third party for services provided under this Resident Contract by Company, Resident shall at all times cooperate fully with Company and each third party payor so that Company may make claim for and receive any applicable third party payments. Resident authorizes Company to make any and all claims for such insurance and benefits and agrees to execute all documents necessary to enable Company to collect or enforce such claims. If for any reason Company cannot apply directly for such benefits, Resident shall from time to time apply for the payments for services provided by Company to which Resident is entitled under applicable insurance benefit programs, and pay to Company the benefits received within ten (10) days of payment by the third party payor.

(c) **Enrollment in a Health Maintenance Organization (“HMO”) or Other Managed Care Plan**

Resident may only enroll in a health maintenance organization (“HMO”) or other managed care plan for which Company is a network or participating provider, unless Company provides prior written consent. Prior to enrolling in any HMO or managed care plan, Resident shall sign an addendum identifying the plan and reflecting Company’s approval or disapproval. In the event that Resident subscribes to an HMO or other managed care plan, including a managed care plan that provides Medicare benefits, and Company is not a participating provider in Resident’s managed care plan, Company may elect, at its option, to attempt to negotiate a contract with and obtain payment from Resident’s managed care plan for covered services to be provided by Company. If Company is or becomes a network provider in Resident’s managed care plan, Company reserves the right to withdraw from participation as a network provider. If Resident’s managed care plan and Company do not reach an agreement on the terms under which services would be provided, or if the Resident’s managed care plan does not agree to provide payment for covered services provided by Company or if Company withdraws from participation in Resident’s managed care plan, Resident shall either transfer to and receive services from a participating provider in Resident’s managed care plan or shall pay Company, in addition to the Monthly Rate, the daily rate for Routine Nursing Care Services which would have been covered by Medicare indemnity coverage, but only for the limited period of time during which Medicare or other required insurance coverage would have been available. In the event that Resident is transferred to a provider participating in Resident’s managed care plan, Resident shall continue to pay the Monthly Rate and additionally all costs and charges related to the transfer to and occupancy of the participating provider. There will be no reduction in the Monthly Rate as a result of Resident’s participation in any health insurance program or managed care plans which provide for payment for services rendered or made available by Company. Any co-insurance required by the HMO or managed care plan shall be paid by Resident.

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(d) **Long Term Care Insurance**

Company does not require Resident to maintain a long term care insurance policy. However, if Resident maintains such a policy, Company will assist Resident in making claims for such insurance benefits in accordance with Company’s prevailing policy and procedures. If insurance benefits are received directly by Company, Company will apply proceeds to Resident’s future Monthly Rate and

ancillary charges. After all such charges have been paid to Company, the balance of any insurance benefits will be refunded to Resident or Resident's estate.

**6.8 Transfer to Hospital or Other Specialized Service Facility**

Company does not provide ambulance services, hospital care, acute care, Transitional Care or Subacute Care or other services provided by a Special Service Facility. Company shall have the right to transfer Resident to a hospital or other facility in accordance with the provisions of Subsection 11.3.

**6.9 Illness or Accident Away from Retirement Community**

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

**6.10 Accident or Illness Caused by Others**

In the event Resident is physically injured by an individual or entity not a party to this Resident Contract, Resident grants to Company a right of subrogation, and authorizes Company to bring such demands, claims or legal proceedings in the name of or on behalf of Resident for purposes of recovering from any third party or third party's insurer responsible for Resident's injury, the dollar value of all care provided by Company to Resident as a result of any such injury. Resident shall cooperate and sign any documents necessary to facilitate Company's ability to exercise its subrogation right. After all costs and expenses incurred by Company (including legal fees and cost of care furnished to Resident by Company because of such injury) have been reimbursed to Company through subrogation, the balance of any recovery, will be refunded to Resident.

**6.11 Limitations on Care**

Company is not designed to care for persons who abuse alcohol or drugs or who require specialized psychiatric care or service not authorized or permitted under the skilled care or assisted living licensing regulations. If Company determines that Resident's continued presence in Retirement Community is either dangerous or detrimental to the health, safety or peace of Resident or other residents, then Company may temporarily transfer Resident to an appropriate institution of Company's choosing and Resident shall continue to pay the Monthly Rate directly to Company. Company will then be responsible to pay to the institution an amount that shall not exceed the Company's prevailing daily rate for shared accommodations in the Skilled Care Center. Any additional charges

beyond the amount paid by Company are the obligation of and shall be paid by Resident. If Resident prefers an institution other than that chosen by Company, Company will then be responsible to pay the lesser of the Company's daily rate for shared accommodations in the Skilled Care Center or the daily rate of the institution chosen by Company.

**6.12 Responsibility of Company for Services Included in Monthly Rate**

Resident shall not be liable to any health care provider for the cost of any services which are covered by Company under this Resident Contract and which are paid for by Resident through payment of the Monthly Rate. In the event that Company authorizes any health care provider to provide services, which Company is required to provide under this Resident Contract, Company shall assume responsibility for the payment of those health care services.

**6.13 Privately Employed Private Duty Contractors**

Subject to the approval of Company, Resident may utilize the services of privately employed private duty contractors, or other licensed agencies unrelated to Company, who provide personal or health care services in the Residential Unit. Such services are subject to Company's prevailing policy and requirements, which are subject to change, and must be approved in advance and in writing by Company. Resident is responsible to pay for all such services. In exchange for Company's approval of Resident's utilization of a private duty contractor or other licensed agencies unrelated to Company, Resident releases Company from any liability for the acts or omissions of any individual or agency providing services to Resident in the Residential Unit. Live-in companions, whether paid or unpaid by Resident are not permitted, except with Company's advance written consent.

**6.14 Change in Ancillary Fee Schedule**

The Ancillary Fee Schedule associated with services not included in the Monthly Rate may be modified by Company from time to time with sixty (60) days advance written notice of any changes, except for changes required by State or Federal assistance programs.

**SECTION 7. Application Fee and Priority List Deposit**

**7.1 Application Fee**

Resident has paid to Company a non-refundable Application Fee at the time of submitting an application and executing the priority list contract.

## **7.2 Priority List Deposit**

Resident has paid to Company a Priority List Deposit at the time of submitting an application and executing the priority list contract. Payment of the Priority List Deposit, along with the submission of the priority list contract places the Resident on the priority list. The Priority List Deposit will be applied as a credit toward the Reservation Fee.

## **SECTION 8. Entrance Fee**

### **8.1 Purpose and Use**

Company may use the Entrance Fee in any manner it deems appropriate and may apply it to any corporate purpose. Company is not holding any part of the Entrance Fee in trust for Resident and has not assumed and is not assuming any fiduciary obligation to Resident concerning the Entrance Fee or any other amounts paid for admission to or continued Occupancy in the Retirement Community.

### **8.2 Payment Schedule**

#### **(a) Reservation Fee**

Upon execution of this Resident Contract, Resident shall pay a Reservation Fee. The Reservation Fee is equal to ten percent (10%) of the Entrance Fee, less the Priority List Deposit.

#### **(b) Final Payment**

Upon the Date of Availability or Occupancy, whichever is earlier, Resident shall pay the remaining balance of the Entrance Fee.

### **8.3 Right to Establish Entrance Fee**

Company reserves the right to establish Entrance Fee rates and Monthly Rates (as described in Section 9) of a different amount for persons being admitted for Occupancy 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 Resident Contract. The Entrance Fee amount, as defined in this Resident Contract, shall not be increased or changed during the duration of the agreed upon care, except for changes required by State or Federal assistance programs or regulations, or if Resident changes from the Residential Unit to another residential unit (as described in Subsection 11.1).

#### **8.4 Administrative Fee and Amortization of Entrance Fee**

##### **(a) Administrative Fee**

An Administrative Fee in an amount equal to five percent (5%) of the Entrance Fee is non-refundable after the Transition Period and will be retained by Company.

##### **(b) Amortization of Entrance Fee**

After deducting an Administrative Fee, which is five percent (5%) of the Entrance Fee, the remaining Entrance Fee shall be amortized by Company in the amount of two percent (2%) per month for a period of fifty (50) months from the date of Occupancy or Date of Availability, whichever is earlier. After the fifty (50) month period, there will be no refund of the Entrance Fee.

### **SECTION 9. Monthly Rate**

#### **9.1 Standard Monthly Rate**

In addition to the other amounts paid by Resident to Company under this Resident Contract, Resident will pay to Company the standard Monthly Rate established for the unit selected.

#### **9.2 Adjustments in the Monthly Rate**

The Monthly Rate may be adjusted from time to time. Company shall provide at least sixty (60) days written notice of such change unless such change is required by State or Federal assistance programs or regulations.

#### **9.3 Payment and Due Date**

The Monthly Rate is billed in advance and shall be due and payable within five (5) days of the date of Resident's monthly statement. The obligation to pay the Monthly Rate shall commence on the earlier to occur (i) the date the Resident takes Occupancy of the Residential Unit or (ii) the Date of Availability, whether or not Resident moves in at the time. The Resident shall be billed on a monthly basis for all other charges, including but not limited to miscellaneous and ancillary charges or other services. Payment for all other charges shall be due with the Monthly Rate.

#### **9.4 Service Charge for Late Payment**

A service charge of one and one-half percent (1.5%) per month will be added to amounts past due in accordance with Company's prevailing policy. Resident is obligated to pay all reasonable attorneys fees and costs incurred relative to the collection of any amount past due.

**SECTION 10. Co-Resident**

**10.1 Co-Resident's Fee Responsibility**

In situations of Shared Occupancy, each Co-Resident shall be jointly and severally liable for all payments due under this Resident Contract. Upon the death of one or more Co-Residents, or should one or more Co-Residents leave the Retirement Community, any remaining Co-Resident(s) shall be responsible for payment of the applicable Monthly Rate and any other past or future charges.

**10.2 Marriages/Additional Occupant**

If Resident decides to marry/reside with a non-resident while occupying the Residential Unit and desires that the new spouse/additional occupant share the Residential Unit, the spouse/additional occupant must comply with the entrance procedure outlined in this Resident Contract and shall execute a then current version of the Resident Contract. The spouse/additional occupant shall pay an Entrance Fee equal to the then current Entrance Fee for the smallest residential unit in the Retirement Community at the time the spouse/additional occupant takes Occupancy. The prevailing Monthly Rate for Shared Occupancy will commence on the day the spouse/additional occupant moves into the Residential Unit. In the event the spouse/additional occupant is not accepted as a new resident, Resident may terminate the Resident Contract pursuant to Section 13 and receive any refund as set forth in Section 14.

**SECTION 11. Relocation to a Different Living Accommodation or Outside Facility**

**11.1 Relocation From Residential Unit to Another as Requested by Resident**

Upon Resident's written request and written approval of Company, the Resident may exercise a limited option to move from the Residential Unit to another in accordance with Company's prevailing policy. Resident must notify Company in writing of the type of residential unit desired. Company reserves the right in its sole discretion to approve or deny requests to move. In the event Resident receives approval from Company to move to another residential unit, Resident shall sign an addendum to this Resident Contract reflecting all costs and charges related to exercising the option to move, including the Entrance Fee and Monthly Rate for the selected residential unit. Resident may be required to pay a refurbishment fee as determined by Company in accordance with Company's prevailing policy.

**(a) Relocation to Larger Sized Residential Unit**

On the Date of Availability of the larger sized residential unit, an additional Entrance Fee will be paid. The additional Entrance Fee is equal to the difference between the Entrance Fee of the larger



residential unit as of the time Resident first took Occupancy and the Entrance Fee paid for the smaller Residential Unit designated in Section 3.

**(b) Relocation to Smaller Sized Residential Unit**

Any refund of the Entrance Fee as a result of relocation to a smaller sized residential unit is calculated as the difference between:

**(i) Present Residential Unit**

The current Entrance Fee, less a sum equal to two percent (2%) per month, or fraction thereof, of the amount of such Entrance Fee for each month this Resident Contract has been in force, commencing from the Date of Availability, and

**(ii) Proposed Residential Unit**

The current Entrance Fee, less a sum equal to two percent (2%) per month, or fraction thereof, of the amount of such Entrance Fee for each month this Resident Contract has been in force, commencing from the Date of Availability.

**11.2 Relocation From Residential Unit to Another as Required by Company**

Company reserves the right to make all necessary arrangements and adjustments regarding residence not otherwise specifically provided in this Resident Contract. Company may relocate Resident to a different residential unit in the Retirement Community, substantially similar to that selected by Resident, if it determines that such a move should be made for the benefit of Resident or for the proper operation of Retirement Community, as determined by Company. In the event Resident is directed to relocate, Company shall be responsible for all reasonable moving and relocation expenses. Resident shall execute an addendum which shall reflect all changes in the Monthly Rate.

**11.3 Transfer to Assisted Living Residence, Skilled Care Center or Outside Facility**

**(a) Conditions of Continued Occupancy**

Resident shall have the right to occupy the Residential Unit for so long as Resident satisfies the health and other Conditions of Continued Occupancy.

(b) **Decision to Transfer**

(i) **Authority to Transfer**

Company may transfer Resident from and between the Residential Unit and Skilled Care Center or Assisted Living Residence, or any other appropriate care facility, if it determines that such a move should be made because of the health and/or welfare of the Resident, for the proper operation of the Retirement Community, to comply with regulations of the North Carolina Division of Facility Services, the North Carolina Department of Health, local regulations of the Fire Department, or any other duly constituted authority or agency, or to otherwise meet the requirements of law.

(ii) **Role of Company's Utilization Review Committee**

The decision as to whether a transfer shall be deemed temporary or permanent shall be made by Company's Utilization Review Committee. The Utilization Review Committee shall consider the opinion of Resident and the advice of a family representative, if available, and, if requested and at the Resident's expense, a private physician. The opinion of Resident and the advice of family and Resident's physician is advisory only and shall not be binding on Company. The Utilization Review Committee's decision regarding the temporary or permanent nature of any transfer may be made at any time. Upon a determination by Company's Utilization Review Committee that Resident is no longer capable of meeting the health or other requirements for Occupancy of the Residential Unit, Resident or Resident's next of kin, Legal Representative or agent acting on Resident's behalf, will be notified by Company that arrangements will be made for Resident's immediate transfer to an Assisted Living Residence, a Skilled Care Center or other appropriate care facility.

(c) **Transfer to Assisted Living Residence**

When Resident is in need of Assisted Living Services as determined by Company's medical director and/or the Utilization Review Committee and does not need Routine Nursing Care Services, Resident may be transferred permanently to Company's Assisted Living Residence, if available, or other facility providing Assisted Living Services. If there is no Co-Resident in the Residential Unit, Resident will, within thirty (30) days, Surrender the Residential Unit. The Residential Unit then occupied by such Resident shall be declared vacant and Company may reassign the Residential Unit to another person.

(d) **Transfer to Skilled Care Center**

When Resident is in need of Routine Nursing Care Services as determined by Company's medical director and/or the Utilization Review Committee, Resident will be moved to a shared accommodation in the Skilled Care Center or other facility providing Routine Nursing Care Services under this Resident Contract. Upon request, Resident may have access to a private room, if available, in Company's Skilled Care Center for which an additional fee may apply. If, after continued evaluation, it is determined by Company that Resident cannot return to his/her Residential Unit, and if there is no Co-Resident in said accommodation, Company may declare the Residential Unit vacant, and may reassign the Residential Unit to another person. Resident will, within a thirty (30) day period after such decision has been made, Surrender the Residential Unit.

(e) **Transfer to Outside Facility**

If it is determined by Company's medical director and/or Company's Utilization Review Committee that Resident cannot be cared for within the scope of the services Company provides in the Retirement Community, or Resident cannot otherwise meet the Conditions of Continued Occupancy, and if there is no Co-Resident in the Residential Unit, Company may declare the transfer permanent and the Residential Unit vacant and reassign the Residential Unit to another person. Resident will, within a thirty (30) day period from the date the decision is made, Surrender the Residential Unit and have all personal possessions removed from it.

(i) **Temporary Transfer**

During any temporary transfer to a hospital or outside facility, Resident shall continue to pay the Monthly Rate and shall be responsible for all costs and charges related to the transfer to and occupancy of the outside facility or hospital except as provided in Subsection 6.12.

(ii) **Permanent Transfer**

Upon permanent transfer to an outside facility, and after Surrender of the Living Accommodation, the obligation to pay the Monthly Rate shall end and this Resident Contract shall terminate. Any refund due shall be paid in accordance with the refund provisions of this Resident Contract. In the event of Shared Occupancy, this Resident Contract shall not terminate and Co-Resident shall pay the Monthly Rate until the permanent transfer or discharge of all Co-Residents from the Retirement Community and Surrender of the Living Accommodation. Resident is obligated to pay all costs and

charges related to the transfer to and occupancy of any outside facility or hospital except when Resident is transferred to an outside assisted living or skilled care provider because of the unavailability of a bed or room in Retirement Community.

(f) **Release of or Return to Residential Unit After Transfer**

(i) **Temporary Transfer**

If Resident is admitted temporarily to Company's Skilled Care Center, Assisted Living Residence, or a hospital or other outside facility, with a medical prognosis of recovery and return to health consistent with the Conditions of Continued Occupancy, then Resident shall retain Occupancy of the Residential Unit for the purpose of resuming residency. During any period of temporary transfer, Resident shall continue to pay the applicable Monthly Rate for the Residential Unit. Resident may return to the Residential Unit which has been retained in accordance with the terms of this provision at such time as Company determines that Resident can satisfy the Conditions of Continued Occupancy.

(ii) **Permanent Transfer**

If Resident is permanently transferred to Company's Skilled Care Center, Assisted Living Residence, or a hospital or other appropriate outside facility, Resident shall Surrender the Residential Unit within thirty (30) days of written notice of Company's decision to permanently transfer Resident. If Company, with the advice of Company's medical director, determines that Resident subsequently has recovered sufficiently to satisfy the Conditions of Continued Occupancy of a residential unit, Resident, upon request, shall be eligible for consideration to receive the next available residential unit with a floor plan comparable to the one relinquished, provided Resident repays Company any amounts refunded to Resident under the Resident Contract and pays the applicable Monthly Rate.

**SECTION 12. Company's Policy Concerning Financial Difficulty**

It is the policy of Company that Resident shall not be dismissed nor his/her Resident Contract terminated solely because of Resident's financial inability to continue to pay all or part of the Monthly Rate. However, Resident's acceptance into Company has been based on the accuracy of facts recorded on Resident's financial statement, by which facts Company determined that Resident was able to meet all the financial obligations specified within this Resident Contract. If, in

the opinion of Company, Resident either has misrepresented information on the financial statement or in any way weakens, through omission or commission, his/her ability or the ability of his/her personal estate to satisfy his/her financial obligations under this Resident Contract, because Resident has made gifts of real or personal property or any imprudent financial transactions after submitting the financial statement and/or after acceptance into Retirement Community, Company reserves the right to terminate this Resident Contract.

#### **12.1 Failure to Make Payments**

If Resident fails to make any of the Monthly Rate payments at the required time, or to pay any other amounts shown on the monthly statement within thirty (30) days after the first day of the month, then Company may give written notice to Resident to pay all such amounts and furnish most recent financial records. If Resident fails to comply with such notice, Company may terminate this Resident Contract, and shall provide Resident with the refund, if any, set forth in Section 14, less any outstanding balances or financial obligations.

#### **12.2 Subsidy by Company**

Should Company subsidize Resident's Monthly Rate, Resident agrees that any property which was his/hers at, or subsequent to the date of this Resident Contract, and remaining in his/her possession at death, is to be transferred to Company for the purpose of repaying (at least to the extent of the value of such property) an amount equal to the aggregate amount of subsidy furnished Resident by Company during the period of residency. If the value of Resident's possessions/property exceeds the aggregate amount of subsidy furnished by Company, all excess proceeds will be returned to Resident's estate. This Resident Contract shall operate as a grant, assignment, transfer and conveyance to Company of such property, and Resident hereby grants to Company a security interest in such property, all of which may be enforced as a claim against Resident's estate, and to effect such assignment and to enable Company to enforce such claim, Resident shall execute such further documents, instruments or contracts, such as stock powers, Uniform Commercial Code financing statements, deeds, bills of sale and the like, as Company shall deem necessary or appropriate to protect or perfect its rights, interest and claims granted in this subsection. Company may, from time to time, request financial statements from any Resident whose Monthly Rate is subsidized by Company. This subsection shall apply whether or not Resident is in residence at Retirement Community at time of death and shall survive termination of the Resident Contract.

#### **12.3 Special Consideration**

Without in any way qualifying the right of Company to terminate this Resident Contract, if the sole reason for non-payment is insufficient funds, beyond the control of Resident, the matter will be reviewed by Company

with Resident. If Resident presents facts which justify special financial consideration, Company may solely at its discretion, partly subsidize Resident's Monthly Rate provided that such subsidy can be granted without impairing the ability of Company to meet and continue its objectives while operating on a sound financial basis. All determinations made by Company shall be regarded as a confidential transaction between Company and Resident except for reports required by regulatory or other government bodies.

#### **12.4 Reduction of Income**

Resident believes that his/her sources of income are adequate to meet his/her financial responsibility to Company and to meet and pay any additional costs to Resident, and to pay personal and incidental expenses during the period of residency. If Resident's sources of income do not meet these requirements, Resident may be required to relocate to a smaller unit in Retirement Community at discretion of Company, and 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, Aid to the Blind, Veterans' Pension, etc. Resident agrees that he/she will apply for and diligently seek such benefits.

### **SECTION 13. Termination of Resident Contract**

#### **13.1 Termination by Resident Prior to Occupancy**

If Resident or Resident's Legal Representative notifies Company in writing of his/her election to withdraw or terminate this Resident Contract before Resident takes Occupancy, this Resident Contract with said Resident shall automatically be terminated. If Resident dies before the Date of Availability, or if, through illness, injury, or incapacity, Resident is precluded from taking Occupancy and becoming a Resident under the terms of this Resident Contract, the Resident Contract shall be automatically rescinded. The Resident or his/her designated beneficiary shall receive a refund, in accordance with Subsection 14.1 of this Resident Contract.

#### **13.2 Termination by Resident During Transition Period**

Resident or Resident's Legal Representative may terminate this Resident Contract within thirty (30) days of the later of the execution of this Resident Contract or the receipt date of the disclosure statement by signing the attached Notice of Right to Rescind and delivering it to Company. Resident is not required to move into the Retirement Community before the expiration of this thirty (30) day rescission period. After the lapse of the thirty (30) day rescission period and before the lapse of the Transition Period commencing on the earlier to occur of (i) the date Resident takes

Occupancy or (ii) the Date of Availability of Residential Unit, Resident or Resident's Legal Representative, may terminate this Resident Contract by giving written and personally signed notice of termination to Company. Resident shall Surrender within a period of thirty (30) days from the date on which such notice is received by Company. The Resident Contract shall terminate on the date of Surrender. Resident shall be entitled to a refund, as provided in Subsection 14.1 of this Resident Contract.

### **13.3 Termination by Resident After Transition Period**

Resident or Resident's Legal Representative has the right, at any time, to terminate this Resident Contract by delivery to Company of written notice of his/her intent to do so. The written notice need not cite a specific reason for the termination but it shall state a date, of not less than thirty (30) days or more than one hundred and twenty (120) days, when the termination is to become effective, and on or prior to such date Resident shall Surrender the Living Accommodation. On the effective date of such termination, and contingent upon Surrender of the Living Accommodation, Resident's obligation to continue Monthly Rate payments shall cease and Resident shall be entitled to a refund, if any, as provided in Subsection 14.2 of this Resident Contract.

### **13.4 Termination by Death of Resident**

Unless sooner terminated by its own provisions, this Resident Contract shall terminate at death of Resident, whereupon all obligations of Company under this Resident Contract, other than those relating to the removal of Resident's personal property, shall cease. At the death of Resident, Resident shall have no further rights in the Living Accommodation, and the Company shall have immediate access to the Living Accommodation. The removal of any personal effects of Resident in the Living Accommodation or from storage shall be the responsibility of Resident's executor, administrator, or Legal Representative, or of other persons entitled by law to receive them. Company will hold such personal effects for a period not to exceed thirty (30) days, but Company is not responsible for loss or damage to personal property in its possession. At the death of Resident, all Entrance Fee refunds, excess Monthly Rate payments (prorated daily to the date of Surrender), and any other funds deposited with Company under this Resident Contract shall be refunded in accordance with Section 14 of this Resident Contract.

In the event removal of Resident's personal possessions is not accomplished within thirty (30) days, Company has the right to continue charging the Monthly Rate or charge for storage of Resident's personal possessions until such possessions have been removed from the Living Accommodation.

### **13.5 Limitations on Termination in Situations of Shared Occupancy**

If any Co-Resident is precluded from taking Occupancy of the Residential Unit because of death, illness, injury or incapacity, this Resident Contract shall remain in full force and effect as to the other Co-Resident(s), at the option of Co-Resident(s). The remaining Co-Resident(s) shall sign an addendum which changes the terms of this Resident Contract from Shared Occupancy to Single Occupancy, if applicable, and which reflects changes in the Entrance Fee and/or the Monthly Rate. As long as a Co-Resident continues to occupy any Living Accommodation within Retirement Community, the Resident Contract shall not terminate until the death, permanent transfer, discharge or voluntary departure of all Co-Residents from Retirement Community.

### **13.6 Termination by Company**

Company may terminate this Resident Contract prior to Occupancy in accordance with Subsection 2.2 or after Occupancy for “just cause” (as described in Subsection 13.6(a) based on the judgment of Company by providing Resident with at least thirty (30) days written notice. If such action is taken by Company, Resident will have a maximum of sixty (60) days from the date of Company’s notice to Surrender the Residential Unit. On or before the termination date, Resident shall Surrender. On the date of Surrender, Resident’s obligation to continue Monthly Rate payments shall cease and this Resident Contract shall terminate. Resident or Resident’s designated beneficiary shall be entitled to receive a refund, if any, as provided in Section 14 of this Resident Contract.

#### **(a) Just Cause**

Just cause shall include, but not be limited to, (i) a default in payment (a default in payment occurs when monthly payments are not received in accordance with Section 9, (ii) the submission or omission of any material false information in the application documents and process, (iii) the failure of Resident to abide by Company’s rules, regulations, policies and procedures, (iv) the breach of any of the other terms of this Resident Contract, or (v) a good faith determination in writing by Company that continued Occupancy by Resident creates a serious threat or danger to the life, health, safety or peaceful enjoyment of Resident or other residents or persons in Retirement Community.

In situations where continued Occupancy threatens the life, health, safety or peaceful enjoyment of Resident or other residents, only such notice as is reasonably practicable under the circumstances will be provided to Resident or Resident’s Legal Representative, and termination may be effective immediately.



### **13.7 Surrender**

The obligation to pay the Monthly Rate shall continue until Surrender of the Living Accommodation by Resident or by the estate or family or Legal Representative of Resident in the case of death. The Monthly Rate shall be prorated for the month of Surrender.

## **SECTION 14. Refunds of Entrance Fee**

The refunds, if any, payable to Resident, if this Resident Contract is terminated in accordance with its terms are as follows:

### **14.1 Notice of Termination Prior to or During Transition Period**

Entrance Fee payments will be refunded in full if this Resident Contract is terminated prior to Occupancy or within the thirty (30) day rescission period, or if written notice of termination of this Resident Contract is received during the Transition Period and Resident Surrenders within thirty (30) days. The Entrance Fee refund will be reduced by any costs specifically incurred by Company at the request of Resident to the extent those charges were not paid by Resident.

### **14.2 Notice of Termination After Transition Period**

In the event written notice of termination of this Resident Contract is received after the Transition Period and prior to death, Resident is entitled to a refund of the Entrance Fee paid less the Administrative Fee and less a sum equal to two percent (2%) per month, or fraction thereof, of the amount of the Entrance Fee paid less the Administrative Fee for each month this Resident Contract has been in force, starting on the first day of the month after the earlier of the date of Occupancy or Date of Availability and ending on the date of Surrender. The Entrance Fee refund will be reduced by any costs specifically incurred by Company at the request of Resident to the extent those charges were not paid by Resident.

### **14.3 Termination by Death of Resident**

#### **(a) Prior to Occupancy or During Transition Period**

In the event of the death of Resident before Occupancy or during the Transition Period, the Entrance Fee less those costs specifically incurred by Company at the request of Resident (to the extent those charges were not paid by Resident), will be refunded to Resident's estate or to Resident's designated beneficiary.

(i) **Shared Occupancy**

In situations of Shared Occupancy, in the event of the death of a Co-Resident before Occupancy or during the Transition Period, Resident's estate or his/her designated beneficiary shall receive a refund of the difference between the Entrance Fee for Shared Occupancy and the Entrance Fee for Single Occupancy for the Residential Unit at the time of signing this Resident Contract.

(b) **After Transition Period**

If death should occur after the Transition Period, Resident is entitled to a refund of the Entrance Fee paid less the Administrative Fee and less a sum equal to two percent (2%) per month, or fraction thereof, of the amount of the Entrance Fee less the Administrative Fee for each month this Resident Contract has been in force, starting on the first day of the month after the earlier of the date of Occupancy or Date of Availability, and ending on the date of Surrender. If death occurs after the fifty (50) month amortization period, the Entrance Fee is not refundable and shall automatically become the exclusive property of Company upon the death of the Resident.

(i) **Shared Occupancy**

In situations of Shared Occupancy, the amount of the Entrance Fee less the Administrative Fee shall be assigned to the surviving Co-Resident in the event of the death of a Co-Resident.

**14.4 Termination by Company**

In the event that Company terminates this Resident Contract in accordance with Subsection 13.6, Resident shall be entitled to receive a refund, if any, for some or all of the Entrance Fee as provided in Subsection 14.1 if termination is prior to Occupancy or during the Transition Period or Subsection 14.2 if termination occurs after the Transition Period.

**14.5 Designation of Beneficiary**

Resident may designate a beneficiary for receipt of any refund of the Entrance Fee if: i) the designation is in writing, ii) the designation is witnessed by two or more competent witnesses, iii) the designation is noncontingent and iv) the designation is specified in percentages and accounts for 100% of any refund due.

#### **14.6 Timing of Refund Payments**

Prior to Occupancy, any refunds of the Entrance Fee shall be made within sixty (60) days of the Company's receipt of Resident's written notice of intent to cancel the Resident Contract. After Occupancy, any refund of the Entrance Fee shall be made within one hundred twenty (120) days of the effective date of termination of this Resident Contract, or death.

#### **14.7 Deductions from Entrance Fee Refund**

##### **(a) Deductions for Subsidy**

In the event that Company approves subsidy for Resident in accordance with Section 12 of this Resident Contract, Company, in its sole discretion, may deduct from any refund of the Entrance Fee amounts equivalent to the amount of any subsidy provided to the Resident.

##### **(b) Deductions for Amounts Due on Monthly Statement**

Any amounts due and unpaid as reflected on Resident's monthly statement will be deducted from any Entrance Fee refund.

#### **14.8 Release of Obligation**

Upon termination of this Resident Contract, Company 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 Company, including the repayment of any financial assistance, the payment of the Monthly Rate until Surrender and the recovery of all personal property.

### **SECTION 15. Rights and Obligations of Resident as to Property**

The rights and obligations of Resident as to property are as follows:

#### **15.1 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 Company, except the right granted to Resident to take Occupancy of the Residential Unit in accordance with the terms of this Resident Contract. Resident shall have no interest in the real property of the Company. Resident's rights are primarily for services, and this Resident 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 Company itself. Any rights, privileges or benefits

arising under or related to this Resident Contract shall be subordinate and inferior to all mortgages or deeds of trust on any of the premises or real properties of Company, previously or subsequently given, to secure any loans or advances made to Company 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 Company, 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.

#### **15.2 Right to Personal Property of Company**

As in the case of real property, Resident has no right, title or interest, legal, equitable, beneficial or otherwise in or to any part of the personal property owned by Company, and this includes carpets, window blinds, appliances, kitchen cabinets, and fixtures in the Living Accommodation, even if upgraded at Resident's cost.

#### **15.3 Responsibility for Damages**

Any loss or damage to real or personal property of Company, caused by the negligence of Resident, Resident's guests or Resident's pet, 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, Company assumes no responsibility and Resident hereby releases and discharges Company from any injury to Resident or damage to Resident's personal property caused by the fault or negligence of other residents of Company or of their guests or pets.

#### **15.4 Responsibility for Protection of Resident's Property**

Company shall not be responsible for the loss of any personal property belonging to Resident due to theft, fire, or any cause, unless said property is specifically entrusted in writing to the care and control of Company, and then only for lack of ordinary care to safeguard, and account for, such property. Company is not responsible for personal injury to other residents or guests within Resident's Residential Unit. Resident shall have the responsibility, at his/her own expense, of providing and maintaining a standard property and liability insurance policy as deemed necessary by Company, and to file a copy of said policy detailing the coverages with Company's administrative office.

#### **15.5 Removal of Resident's Personal Property**

If the Residential Unit is vacated under the terms of this Resident Contract, the contents of the Residential Unit must be removed within thirty (30) days. After the thirty (30) day period, Company shall have the right, at Resident's expense, to remove all personal property of Resident from his/her Residential Unit, and store the same, at Resident's expense and

risk. If the property is stored in a commercial storage warehouse or commercial storage facility, Company shall have no responsibility for such property during transfer or after it has been placed in storage, and Resident, or Resident's estate, shall be liable for all moving and storage fees incurred.

## **16. Arrangement for Guardianship, Resident's Estate and Burial**

### **16.1 Advance Directives and Power of Attorney Requirements**

Resident, no later than the Date of Availability shall inform Company of his/her decision regarding advance directives stating Resident's wishes concerning the type and extent of medical care he/she receives if he/she is unable to make wishes known. Resident who has executed advance directives shall provide to Company a copy of such document no later than Date of Availability.

Likewise, Resident, no later than the Date of Availability, shall appoint a power of attorney to act on Resident's behalf in the event Resident is unable to represent him/herself. A copy of the power of attorney will be provided to Company no later than the Date of Availability.

### **16.2 Legal Guardian**

If Resident becomes incapacitated or unable to properly care for self or property, and no representative has been lawfully designated to act on behalf of Resident or no lawfully designated representative is available or willing and able to act on behalf of Resident, then Company may institute legal proceedings to adjudge Resident incapacitated and have a guardian appointed for Resident's estate and person or both. Resident authorizes Company to nominate a legal guardian to serve subject to court approval, and Resident releases Company from any liability related to the nomination. All costs of such legal proceedings, including counsel fees, shall be paid by Resident or the legally appointed guardian of Resident's estate.

### **16.3 Burial Plans**

Company does not provide any burial or funeral benefits or services. Resident agrees to arrange for and take care of all such plans and costs.

## **SECTION 17. Non-Transferable**

The rights and privileges of Resident under this Resident Contract to a Living Accommodation, facilities, services and medical care are personal to Resident and cannot be transferred or assigned by act of Resident, or by any proceeding at law, or otherwise. If any person, other than the person(s) who have/has signed

**this Resident Contract, commence(s) to live in Resident's Living Accommodation without following the proper procedure established by Company, then, Company may immediately terminate this Resident Contract.**

**SECTION 18. Notice**

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

**To Company:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**To Resident (before taking Occupancy):**  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**SECTION 19. Average Annual Cost of Providing Services**

**The average annual cost to Company of providing to Resident the care specified in the Resident Contract is reflected in the disclosure statement which will be made available to Resident.**

**SECTION 20. Right of Self-Organization**

**All residents living in the Retirement Community shall have the right of self-organization and may meet privately at the Retirement Community to conduct business. 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 Company and the Retirement Community and proposed changes in policies and services. Company shall provide residents with at least seven (7) days notice of each quarterly meeting.**

**SECTION 21. Waiver**

**No act, agreement, or statement of any Resident, or other individual purchasing care for a Resident under this Resident 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.**

## **SECTION 22. Arbitration**

### **22.1 Procedural Rules**

**Any controversy, dispute or disagreement arising out of or relating to this Resident Contract, or concerning any rights arising under this Resident Contract or a breach of this Resident Contract, shall be settled by voluntary arbitration. This arbitration shall be conducted on Company's property in accordance with the American Health Lawyers Association ("AHLA") Alternative Dispute Resolution Service Rules of Procedure for Arbitration. The decision shall be final, binding and non-appealable, and any court having proper jurisdiction may enter judgment on the award rendered by the arbitrator.**

### **22.2 Time Limit for Arbitration**

**Any request for arbitration of a dispute must be requested and submitted to AHLA or an alternate neutral arbitration service selected by Company if AHLA is unable or unwilling to serve, prior to the lapse of two (2) years from the date on which the event giving rise to the dispute occurred. In the event AHLA is unable or unwilling to serve, then the request for arbitration must be submitted to Company within thirty (30) days of receipt of notice of AHLA's unwillingness or inability to serve as a neutral arbitrator. Company shall select an alternative neutral arbitration service within thirty (30) days thereafter and the selected arbitration agency's procedural rules shall apply to the arbitration proceeding. The failure to submit a request for arbitration to AHLA or an alternate neutral arbitration service selected by Company within the designated time (i.e., two (2) years) shall operate as a bar to any subsequent request for arbitration, or for any claim for relief or a remedy, or to any action or legal proceeding of any kind or nature, and the parties will be forever barred from arbitrating or litigating a resolution to any such dispute.**

## **SECTION 23. Uncontrollable Interruption of Services**

**In the event that Company is unable to fulfill any of its obligations under the Resident Contract resulting from an interruption of, or failure to provide, contracted services due to an act of God or other cause beyond the reasonable control of Company, specifically including labor strikes or other forms of labor disturbances, and/or embargoes, fire, flood, earthquakes, inclement weather or acts of Resident, then Company shall not be liable or responsible for any personal injury to Resident or damage to Resident's property arising from any such event. Company will make every effort to provide the usual services in such event and Resident shall continue to pay the Monthly Rate.**

**SECTION 24. Miscellaneous**

**24.1 Entire Resident Contract**

This Resident Contract, together with the application form, financial statement and medical records, including applicable signed amendments, constitute the entire Resident Contract between Company and Resident. Resident warrants that all representations are true and correct. Company is not liable and shall not be bound by any statements, representations or promises made by any person representing or purporting to represent Company, unless such statements, representations or promises are set forth in this Resident Contract.

**24.2 Policies, Procedures, Rules and Regulations**

Resident will observe all policies, procedures, rules and regulations which Company 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.

**(a) Policy Regarding Alcoholic Beverages**

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

**(b) Smoke-Free Policy**

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

**24.3 No Waiver**

Any failure by Company to exercise any right or remedy under this Resident 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.

**24.4 Invalidity, Unenforceability**

If any portion of this Resident Contract shall, for any reason, be held to be 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 Resident Contract, and it shall be construed as if such invalid or unenforceable provision were omitted.



**24.5 Amendments**

This Resident Contract may be amended only in writing executed by both Resident and Company's corporate officers.

**24.6 Section Headings**

Section headings are for reference purposes only.

**24.7 Binding Effect**

This Resident Contract shall be binding upon, and inure to, the benefit of Company and Resident, and their respective successors, permitted assigns and Legal Representatives.

**24.8 Counterparts**

This Resident 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 Resident Contract.

**24.9 North Carolina Law**

All matters affecting the interpretation of this Resident 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.

**24.10 Receipt of Copy of Resident Contract and Disclosure Statement**

Resident acknowledges that prior to the payment of any funds to Company he/she has received and read a copy of this Resident Contract and the continuing care disclosure statement and understands the contents of both documents.

**IN WITNESS WHEREOF, Company, by its duly authorized representatives and Resident have executed this Resident Contract the day and year first above written.**

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

**By:** \_\_\_\_\_  
**ACTS Retirement-Life Communities, Inc.**  
**Authorized Representative**

\_\_\_\_\_  
**Resident**

\_\_\_\_\_  
**Social Security #**

\_\_\_\_\_  
**Resident**

\_\_\_\_\_  
**Social Security #**

\_\_\_\_\_  
**Resident**

\_\_\_\_\_  
**Social Security #**

\_\_\_\_\_  
**Witness**

**EXHIBIT "A"**

**NOTICE OF RIGHT TO RESCIND**

Date rescission period begins \_\_\_\_\_ . You may rescind and terminate your Resident Contract without penalty or forfeiture within thirty (30) days of the later of the above date or the receipt date of the disclosure statement. You are not required to move into the continuing care community before the expiration of this thirty (30) day period. No other contract or statement you sign shall constitute a waiver of your right to rescind your Resident Contract within this thirty (30) day period.

To rescind your Resident Contract, mail or deliver a signed and dated copy of this notice, or any other dated written notice stating your desire to rescind to the following address:

**ACTS Retirement-Life Communities, Inc.**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Not later than midnight of \_\_\_\_\_ (last day for rescission).

Pursuant to this notice, I hereby cancel my Resident Contract.

Date: \_\_\_\_\_

**PROSPECTIVE RESIDENT'S SIGNATURE**

\_\_\_\_\_  
\_\_\_\_\_

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**EXHIBIT "B"**

**OPTIONAL FURNISHINGS, ADDITIONAL APPLIANCES OR MODIFICATIONS OF RESIDENTIAL UNIT REQUESTED BY RESIDENT**

This Addendum to the Resident Contract made this \_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_, is between ACTS RETIREMENT-LIFE COMMUNITIES, INC., (hereinafter called "Company"), AND \_\_\_\_\_ (hereinafter referred to as "Resident," and where this Addendum is executed by one or more individuals, they are called collectively "Resident"). Resident has requested that Company make the following modifications to the Residential Unit designated in the Resident Contract.

**Description of Modifications**

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**Total Modification Fee: \$\_\_\_\_\_**

The Modification Fee is the responsibility of Resident and shall be paid at the time of execution of this Addendum. The Modification Fee is non-refundable. Company, in its sole discretion, may require that all modifications to the Residential Unit be removed upon vacating the Residential Unit and Company reserves the right to charge Resident a fee for restoring the Residential Unit back to its original configuration. Title to all modifications shall vest immediately in Company.

\_\_\_\_\_  
**Resident**

\_\_\_\_\_  
**Resident**

\_\_\_\_\_  
**Resident**

\_\_\_\_\_  
**Representative for  
ACTS Retirement-Life Communities, Inc.**



**ATTACHMENT NO. 5**

50% REFUNDABLE PLAN ADDENDUM  
(ADDENDUM TO RESIDENT CONTRACT)  
ACTS RETIREMENT-LIFE COMMUNITIES, INC.





## ADDENDUM

### 50% REFUNDABLE PLAN

THIS ADDENDUM, made this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, amends the Resident Contract (the "Contract") dated \_\_\_\_\_, 20\_\_\_\_, and any preceding addenda or amendments to the Resident Contract by and between

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called "Resident" (and where two individuals sign the Contract for Shared Occupancy, they are called collectively "Resident" where the context permits, and individually Co-Resident") and ACTS Retirement-Life Communities, Inc. (called "Company").

### BACKGROUND

Contemporaneously with the execution of this Addendum, Resident entered into the Contract with Company; and

The Contract provides for an Entrance Fee which is amortized by Company over a certain period of time; and

Company desires to offer and Resident desires to accept a refundable Entrance Fee option called the "50% Refundable Plan," which allows for a refund of fifty percent (50%) of the Entrance Fee; and

Resident and Company desire to enter into this Addendum to modify the refund and other applicable provisions of the Contract.

NOW THEREFORE, in consideration of the mutual promises contained in this Addendum and intending to be legally bound, Company and Resident agree as follows:

1. Limited Option Period

Resident must elect the 50% Refundable Plan on or before the execution of the Contract. After execution of the Contract, the 50% Refundable Plan shall not be available to Resident.

2. Payment of Entrance Fee

The Resident shall pay to Company an Entrance Fee in the amount of \_\_\_\_\_ dollars (\$\_\_\_\_\_).

The Entrance Fee shall be paid in accordance with Section 3 of the Contract.

**3. Administrative Fee**

An Administrative Fee in an amount equal to five percent (5%) of the total Entrance Fee paid will be retained by Company.

**4. Designation of 50% Refundable Plan**

There shall be a Refundable Component of the Entrance Fee, in an amount equivalent to fifty percent (50%) of the net Entrance Fee (after deducting the Administrative Fee), and an Amortizable Portion of the Entrance Fee in an amount equivalent to fifty percent (50%) of the net Entrance Fee (after deducting the Administrative Fee).

**5. Limited Amortization of Entrance Fee**

The net Entrance Fee shall be amortized by Company in the amount of two percent (2%) of the net Entrance Fee per month for a period of twenty five (25) months from the date of Occupancy or Date of Availability, whichever is earlier. After the twenty five (25) month period, an amount equivalent to fifty percent (50%) of the net Entrance Fee, shall be retained in full by Company and amortization of the net Entrance Fee shall cease. The Refundable Component of the net Entrance Fee, in the amount of \$ \_\_\_\_\_, shall not be amortized.

**6. Modification of Refund Provisions**

**(a) Termination of Contract Prior to or During the Transition Period**

The Entrance Fee will be refunded in full if the Contract is terminated prior to or during the Transition Period. Resident will receive a refund of the entire Entrance Fee paid, less those costs specifically incurred by Company at the specific written request of Resident, to the extent those charges were not paid by Resident. The refund shall be made within one hundred twenty (120) days of the effective date of termination of the Contract.

**(b) Termination of Contract After Transition Period**

In the event of termination of the Contract after the Transition Period, Company will refund to the Resident, Resident's estate, or designated beneficiary the Refundable Component of the Entrance Fee, which constitutes fifty percent (50%) of the net Entrance Fee, plus any remaining balance of the Amortizable Portion of the net Entrance Fee, less any amounts deducted to cover financial assistance pursuant to paragraph 7 below, to cover costs incurred to refurbish, restore or repair

the Residential Unit in the event of unreasonable wear and tear, or to cover costs incurred at the specific written request of Resident, or to satisfy unpaid or subsidized charges.

(c) **Termination by Death of Resident**

In the event of the death of Resident before Occupancy or during the Transition Period, the entire Entrance Fee paid, less those costs specifically incurred by Company at the specific written 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 designated beneficiary. If death should occur after the Transition Period, the Refundable Component of the net Entrance Fee shall be refunded to the Resident's estate or Resident's designated beneficiary. Any unamortized balance of the Amortizable Portion of the net Entrance Fee shall be refunded with the Refundable Component. After the twenty five (25) month amortization period, the Amortizable Portion of the net Entrance Fee shall not be refunded and automatically shall be retained by Company upon the death of the Resident. In situations of Shared Occupancy, the amount of the Amortizable Portion of the net Entrance Fee shall be assigned to the surviving Co-Resident in the event of the death of a Co-Resident.

(d) **Timing of Refund Payments**

- (i) **Termination Prior to or During the Transition Period.** In the event of termination of the Contract prior to or during the Transition Period, the amounts due as a refund will be paid within one hundred twenty (120) days of the effective date of the termination of the Contract.
- (ii) **Termination After the Transition Period.** In the event of termination of the Contract after the Transition Period, amounts due as a refund will be paid within thirty (30) days of the admission of a new resident to the Residential Unit vacated by Resident.

7. **Deductions for Financial Assistance**

In the event that Company approves financial assistance to Resident in accordance with the financial assistance policy in Section 12 of the Contract, Company, in its sole discretion, may deduct from the Refundable Component of the net Entrance Fee and any unamortized balance of the net Entrance Fee, amounts equivalent to the amount of any financial assistance approved for the Resident. Such deductions shall be made at the time any refund becomes due and payable to the Resident under the Contract. If any portion of the

Refundable Component is exhausted by deductions made to reimburse Company for financial assistance approved by Company, there shall be no refund, partial or otherwise, of the net Entrance Fee.

**8. Federal Income Tax Disclosure Statement**

The Internal Revenue Service ("I.R.S.") may characterize the amount to be refunded to Resident, Resident's estate, or Resident's designated beneficiary as an interest-free loan from Resident to Company, and may attribute to Resident annual receipt of interest income on the amount characterized as a loan, even though Resident did not receive interest payments. Resident should consult with Resident's accountant or attorney to determine whether and to what extent this provision affects Resident.

**9. Other Terms and Conditions**

All of the other terms and conditions of the Contract, to the extent not inconsistent with this Addendum, shall remain in full force and effect, and shall govern the terms and conditions of the relationship between Resident and Company.

IN WITNESS WHEREOF, ACTS Retirement-Life Communities, Inc. and Resident have duly executed this Addendum as of the date first mentioned above.

Attest:

ACTS Retirement-Life Communities, Inc.

\_\_\_\_\_

By: \_\_\_\_\_

Witness:

\_\_\_\_\_

\_\_\_\_\_  
Resident (SEAL)

Witness:

\_\_\_\_\_

\_\_\_\_\_  
Resident (SEAL)

**ATTACHMENT NO. 6**

ADDENDUM FOR MODIFIED HEALTH CARE PLAN

(ADDENDUM TO RESIDENT CONTRACT)

ACTS RETIREMENT-LIFE COMMUNITIES, INC.



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

**ADDENDUM FOR MODIFIED HEALTH CARE PLAN**

**THIS ADDENDUM, made this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, amends the Resident Contract (called “Resident Contract”) entered into on the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, and any preceding addenda or amendments to the Resident Contract by and between ACTS Retirement-Life Communities, Inc., a nonprofit corporation, (hereinafter called “Company”), and \_\_\_\_\_ (called “Resident,” and when two or more individuals sign this Addendum for Shared Occupancy, they are called collectively “Resident” where the context permits, and individually “Co-Resident”).**

**BACKGROUND**

**Resident entered into the Resident Contract with Company for occupancy of Residential Unit # \_\_\_\_\_ in the Retirement Community; and**

**Under the terms of the Resident Contract, Company offers to Resident a “life care” arrangement which contemplates the provision of Routine Nursing Care and Assisted Living Services in a Skilled Care Center and/or Assisted Living Residence at no additional charge (except for charges for ancillary services) above the Monthly Rate as defined more fully in the Resident Contract; and**

**In addition to the “life care” arrangement, Company intends to offer a Modified Health Care Plan, under which the cost and charges for Routine Nursing Care and Assisted Living Services are not included in the Monthly Rate, and Resident shall be obligated to pay the then current per diem rate for such services as set forth in Paragraph 4 herein; and**

**It is the intent of Company to limit participation in the Modified Health Care Plan to Resident if, and only if, Resident obtains and maintains long-term care insurance with certain terms and conditions as set forth in Paragraph 1 herein; and**

**Resident desires to participate in Company’s Modified Health Care Plan;**

**and**

**Company and Resident desire to enter into this Addendum to establish the terms and conditions related to participation in the Modified Health Care Plan, and to modify and amend the charges applicable to transfer to a Skilled Care Center and/or Assisted Living Residence as described in the Resident Contract.**

NOW THEREFORE, in consideration of the mutual promises contained in this Addendum and intending to be legally bound, Company and Resident agree as follows:

1. Long-Term Care Insurance Requirement.

In order to be eligible to participate in the Modified Health Care Plan, the Resident shall obtain and maintain an acceptable long-term care insurance policy (the "LTCI Policy") as determined by Company which shall provide coverage for charges for accommodations and services for Resident's stays in either the Assisted Living Residence or Skilled Care Center. The LTCI Policy benefit must provide adequate coverage and benefits, as determined by Company in its sole discretion, for residency in the Assisted Living Residence or Skilled Care Center. Resident shall provide Company with a copy of the LTCI Policy prior to acceptance into the Modified Health Care Plan. If permitted by the insurance carrier, the LTCI Policy shall name Company as a co-payee. If the Resident fails to maintain the LTCI Policy, then Company, at its option, may terminate this Addendum. In the event Company terminates this Addendum due to Resident's failure to maintain the LTCI Policy, then the Resident Contract shall be terminated, except as provided for in Section 5.2.

2. Payment of the Entrance Fee and Monthly Rate.

Resident shall pay to Company an Entrance Fee in the amount of \_\_\_\_\_ dollars (\$\_\_\_\_\_), and Resident's Monthly Rate shall be \_\_\_\_\_ dollars (\$\_\_\_\_\_). The Entrance Fee shall be paid in accordance with Section 3 of the Resident Contract.

3. Costs in the Skilled Care Center and Assisted Living Residence.

3.1 Temporary Transfer.

If Resident is temporarily transferred to a Skilled Care Center or Assisted Living Residence, then Resident shall pay the then current per diem rate for Routine Nursing Care or Assisted Living Services and any other additional charges for ancillary or miscellaneous services, and shall pay the Monthly Rate to retain possession of the Residential Unit. In situations of Shared Occupancy where one Co-Resident is temporarily transferred to a Skilled Care Center or Assisted Living Residence, the Monthly Rate shall be reduced to the Monthly Rate for Single Occupancy, and the transferred Co-Resident



shall be charged, and both Co-Residents shall collectively be responsible to pay, the then current per diem rate for routine nursing care or assisted living services, and any other additional charges for ancillary or miscellaneous services. In the event both Co-Residents are temporarily transferred to the Skilled Care Center or Assisted Living Residence, each Co-Resident shall be charged and shall pay the then current per diem rate for Routine Nursing Care or Assisted Living Services, and any additional charges for ancillary or miscellaneous services. In addition, the Monthly Rate shall be reduced to the Monthly Rate for Single Occupancy during any period of temporary transfer and will be paid by the Resident or Co-Resident in order to retain possession of the Residential Unit.

### **3.2 Permanent Transfer.**

If Resident is permanently transferred to a Skilled Care Center or Assisted Living Residence, then the obligation to pay the Monthly Rate shall cease, and Resident shall be responsible for the payment of the then current per diem rate for Routine Nursing Care or Assisted Living Services, and any other additional charges for ancillary or miscellaneous services. In situations of Shared Occupancy where one Co-Resident is permanently transferred to a Skilled Care Center or Assisted Living Residence, the Monthly Rate shall be reduced to the Monthly Rate for Single Occupancy, and the transferred Co-Resident shall be charged, and both Co-Residents shall collectively be responsible to pay, the then current per diem rate for Routine Nursing Care or Assisted Living Services, and any other additional charges for ancillary or miscellaneous services, as well as the reduced Monthly Rate. In the event both Co-Residents are permanently transferred to a Skilled Care Center or Assisted Living Residence, each Co-Resident shall be charged and shall pay the then current per diem rate for Routine Nursing Care or Assisted Living Services, and any additional charges for ancillary or miscellaneous services and the obligation to pay the Monthly Rate shall cease and the Residential Unit shall revert to Company.

### **4. Occupancy in the Skilled Care Center or Assisted Living Residence.**

After transfer to and occupancy in a Skilled Care Center or Assisted Living Residence for a cumulative period of three (3) years (calculated using the total number of days in which the routine per diem rate was paid for temporary or permanent use of an Assisted Living Residence or Skilled Care Center), the Resident's obligation to pay the then current per diem rate for Routine Nursing Care or Assisted Living Services in accordance with the terms and conditions of the Modified Health Care Plan shall be converted to an obligation to pay the then current Monthly Rate for Routine

**Nursing Care or Assisted Living Services under the “life care” arrangement provided for in the Resident Contract. Resident remains responsible for any other additional charges for ancillary or miscellaneous services. In situations of Shared Occupancy, the cumulative three (3) year period shall apply to each Co-Resident individually; meaning each Co-Resident pays the then current per diem rate during his/her first three (3) years of occupancy in a Skilled Care Center or Assisted Living Residence before his/her payment obligation is converted to the then current Monthly Rate.**

**5. Termination of Addendum.**

**5.1 This Addendum shall terminate: (1) at Company’s option, due to Resident’s failure to maintain the LTCI Policy in accordance with the terms and conditions of Paragraph 1; or (2) if Resident dies or leaves the Retirement Community, except in situations of Shared Occupancy, then this Addendum shall not terminate until both Co-Residents die or leave the Retirement Community. Termination of this Addendum shall automatically and contemporaneously terminate the Resident Contract.**

**5.2 In the event this Addendum is terminated due to Resident’s failure to maintain the LTCI Policy in accordance with the terms and conditions of Subparagraph 1, Company, at its option, may provide Resident an option to pay Company a lifecare conversion fee in accordance with Company’s prevailing policy.**

**6. Acknowledgements of Resident.**

**Resident acknowledges that participation in the Modified Health Care Plan is conditioned on Resident obtaining and maintaining the LTCI Policy as specified in Paragraph 1. Resident recognizes that failure to maintain the LTCI Policy in accordance with the terms and conditions of Paragraph 1 may result in termination of this Addendum and the Resident Contract.**

**7. Severability.**

**The various provisions of this Addendum shall be severable one from another. If any provision of this Addendum is found by a court or administrative body of proper jurisdiction and authority to be invalid, the other provisions shall remain in full force and effect as if the invalid portion had not been part of this Addendum.**

**8. Governing Law.**

**This Addendum shall be governed by and construed in accordance with the laws of the state named in the Resident Contract.**

9. **Non-Transferable.**

The rights and privileges of Resident under this Addendum are personal to Resident and cannot be transferred or assigned by act of Resident, or by any proceeding at law, or otherwise.

10. **Other Terms and Conditions.**

All of the other terms and conditions of the Resident Contract, to the extent not inconsistent with this Addendum, shall remain in full force and effect, and shall govern the terms and conditions of the relationship between Company and Resident.

IN WITNESS WHEREOF, Company and Resident have duly executed this Addendum as of the day and year first mentioned above.

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

By: \_\_\_\_\_  
**ACTS Retirement-Life Communities, Inc.**  
**Authorized Representative**

\_\_\_\_\_  
**Resident**

\_\_\_\_\_  
**Resident**

\_\_\_\_\_  
**Witness**



**ATTACHMENT NO. 7**

**BALANCE SHEET**

**2019 ACTUAL VS. FORECAST**

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



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

(In Thousands)

	2019 Actual	2019 Forecast	Variance
<b>Assets</b>			
Cash and cash equivalents	\$ 24,531	\$ 25,423	\$ (892)
North Carolina operating reserve funds	7,660	7,813	(153)
Investments	351,417	322,598	28,819 (1)
Accounts receivable and entrance fees receivable, net	22,469	20,985	1,484
Prepaid expenses, inventory, and deposits	7,181	8,105	(924)
Property and equipment, net	1,276,119	1,265,423	10,696 (2)
Deferred costs, net	3,966	3,347	619
Due from affiliated organizations	14,047	3,173	10,874 (3)
	<u>\$ 1,707,390</u>	<u>\$ 1,656,867</u>	<u>\$ 50,523</u>
<b>Liabilities and Net Assets</b>			
Accounts payable and accrued expenses	\$ 86,728	\$ 83,859	\$ 2,869 (4)
Short-term indebtedness	89,320	60,618	28,702 (5)
Non-recourse indebtedness	11,740	15,000	(3,260) (6)
Long-term indebtedness	653,129	653,409	(280)
Entrance fee deposits	11,775	9,382	2,393 (7)
Refundable portion of entrance fees	7,874	8,293	(419)
Deferred revenue from entrance fees	700,285	696,851	3,434 (8)
Accumulated loss on investment contracts	9,415	7,588	1,827 (9)
	<u>1,570,266</u>	<u>1,535,000</u>	<u>35,266</u>
<b>Net assets</b>			
Without donor restrictions	106,480	95,632	10,848 (10)
With donor restrictions	30,644	26,235	4,409 (11)
	<u>137,124</u>	<u>121,867</u>	<u>15,257</u>
Total net assets	<u>137,124</u>	<u>121,867</u>	<u>15,257</u>
Total liabilities and net assets	<u>\$ 1,707,390</u>	<u>\$ 1,656,867</u>	<u>\$ 50,523</u>





## DISCUSSION OF 2019 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 \$50.5 million (3.1%) in 2019 due to the following factors:

- (1) Investments were above forecasted expectations by \$28.8 million (8.9%) due to the funding of general reserves from entrance fee proceeds, the timing of draws from project funds that were established in connection with a 2018 debt financing, a greater than expected amount of contributions received, and the positive market conditions resulting in unrealized gains on investments in excess of \$13 million.
- (2) Property and equipment, net of accumulated depreciation, was greater than forecasted expectations by \$10.7 million (0.9%) due to the timing of certain large scale capital projects.
- (3) The amount due from affiliated organizations at the end of 2019 was greater than forecasted by \$10.9 million (342.7%) 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 \$50.5 million (3.1%) in 2019 due to the following factors:

- (4) Accounts payable and accrued expenses were greater than forecasted by \$2.9 million (3.4%) due to the timing of payments.
- (5) Short-term indebtedness was above forecasted expectations by \$28.7 million (47.4%) due to an increase in line of credit usage to temporarily fund certain independent living expansion projects which will be repaid with entrance fees.
- (6) Non-recourse indebtedness was less than forecasted by \$3.3 million (21.7%) due to a lower than projected purchase price to acquire a corporate services center office building located in Pennsylvania.
- (7) Entrance fee deposits were above the 2019 forecasted amount by \$2.4 million (25.5%) due to a greater than expected number of independent living units reserved at the end of the year.

- (8) Deferred revenue from entrance fees was higher than forecasted expectations by \$3.4 million (0.5%) due to a greater than projected average entrance fee per resale (\$223 thousand actual versus \$195 thousand forecasted).
- (9) The accumulated loss on investment contracts was \$1.8 million (24.1%) greater than forecasted due to an increase resulting from changes in the fair market valuation related to certain interest rate swap agreements.
- (10) Net assets without donor restrictions were above forecasted expectations by \$10.8 million (11.3%) primarily due to a net unrealized gain on investments and investment contracts of \$13.2 million offset by 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 \$4.4 million (16.8%) due to positive funds advancement efforts.

**ATTACHMENT NO. 8**

STATEMENT OF OPERATIONS

2019 ACTUAL VS. FORECAST

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



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

(In Thousands)

	2019 Actual	2019 Forecast	Variance	
<b>Operating Revenue</b>				
Resident services revenue, excluding amortization of entrance fees	\$ 316,258	\$ 317,831	\$ (1,573)	(1)
Patient revenue from third-party payors	33,575	37,481	(3,906)	(2)
Investment income	8,207	7,849	358	
Net assets released from restriction to provide resident services	2,477	1,929	548	(3)
Contributions	11	100	(89)	
Other revenue	15,017	14,509	508	(4)
Total operating revenue before amortization of entrance fees	375,545	379,699	(4,154)	
Amortization of entrance fees	94,052	92,227	1,825	(5)
Total operating revenue	469,597	471,926	(2,329)	
<b>Operating Expenses</b>				
Administrative and general	98,052	102,364	(4,312)	(6)
Health care	81,315	81,017	298	
Property management	64,205	62,990	1,215	(7)
Culinary services	65,260	64,528	732	(8)
Resident care	37,258	35,902	1,356	(9)
Environmental services	12,391	12,944	(553)	(10)
Total operating expenses before depreciation, amortization, and interest	358,481	359,745	(1,264)	
Depreciation and amortization	75,167	74,099	1,068	(11)
Interest, net	23,791	24,478	(687)	(12)
Total operating expenses	457,439	458,322	(883)	
<b>Operating Income</b>	\$ 12,158	\$ 13,604	\$ (1,446)	



## DISCUSSION OF 2019 ACTUAL RESULTS COMPARED TO FORECAST

### STATEMENT OF OPERATIONS

A threshold of \$500 thousand between actual and forecasted results is considered material.

#### Total Operating Revenue:

Operating revenue fell short of forecasted expectations by \$2.3 million (0.5%) in 2019 due to the following factors:

- (1) Resident services revenue was lower than forecasted expectations by \$1.6 million (0.5%) due to lower than forecasted levels of permanent and self pay resident census in the 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 \$3.9 million (10.4%) due to lower than expected Medicare Part A and Medicaid census in the skilled care centers.
- (3) The amount of net assets released from restriction to provide resident services was over the forecasted amount by \$0.5 million (28.4%) due to the release of more funds than anticipated as donor restrictions were met.
- (4) Other revenue was above forecasted levels by \$0.5 million (3.5%), due to a higher than expected amount of apartment modification income.
- (5) Amortization of entrance fees was greater than the forecasted level by \$1.8 million (2.0%) due to a higher than expected amount of termination income from canceled resident contracts.

#### Total Operating Expenses:

Operating expenses were favorable to forecasted expectations by \$0.9 million (0.2%) in 2019 due to the following factors:

- (6) Administrative and general expenses were lower than forecasted by \$4.3 million (4.2%) due to the ability to capitalize a greater amount of salaries and wages and marketing expenses than expected..
- (7) Property management expenses were higher than forecasted by \$1.2 million (1.9%) due to higher than expected costs related to maintenance services.
- (8) Culinary services expenses were greater than the forecasted amount by \$0.7 million (1.1%) in 2019 due to higher than expected costs related to raw food and paper products.

- (9) Independent and assisted living resident care costs were greater than forecasted expectations by \$1.4 million (3.8%) due to higher than expected costs related to temporary services, prescription drugs, and therapy consultants.
- (10) Environmental services expenses were lower than forecasted by \$0.6 million (4.3%) due to reduced expenses related to uniforms, linen supplies, and chemicals and cleaning supplies.
- (11) Depreciation and amortization expenses were greater than forecasted by \$1.1 million (1.4%) due to the timing of capital projects being placed into service.
- (12) Interest expense was lower than forecasted expectations by \$0.7 million (2.8%) due to lower than expected interest rates on variable rate debt coupled with a greater than expected amount of interest that could be capitalized.



**ATTACHMENT NO. 9**

STATEMENT OF CASH FLOWS

2019 ACTUAL VS. FORECAST

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



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

(In Thousands)

	2019 Actual	2019 Forecast	Variance
<b>Cash Flows from Operating Activities</b>			
Increase in net assets	\$ 33,089	\$ 17,832	\$ 15,257
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization	75,167	74,099	1,068
Amortization of entrance fees	(94,052)	(92,227)	(1,825) (1)
Amortization of bond discount and premium, net	(3,496)	(3,220)	(276)
Amortization of deferred financing costs	641	632	9
Entrance fees and deposits from non-refundable resale contracts	153,436	144,675	8,761 (2)
Refunds of entrance fees and deposits from non-refundable resale contracts	(10,078)	(12,394)	2,316 (3)
Administrative fee included in gross entrance fees	(8,210)	(7,147)	(1,063)
Increase in deferred costs	(1,982)	(1,174)	(808)
Net realized and unrealized gain on investments	(14,815)	-	(14,815) (4)
Change in fair value of investment contracts	1,827	-	1,827 (4)
Contribution of property and equipment	(835)	-	(835)
Change in beneficial interest in investments of ACTS Legacy Foundation, Inc.	(5,547)	(1,138)	(4,409) (5)
Net change in due to/from affiliated organizations	(10,309)	565	(10,874) (6)
Changes in assets and liabilities:			
Increase in accounts receivable	(2,095)	(746)	(1,349)
Decrease (increase) in prepaid expenses, inventory, and deposits	613	(311)	924
(Decrease) Increase in accounts payable and accrued expenses	(826)	2,204	(3,030) (7)
Net cash provided by operating activities	<u>112,528</u>	<u>121,650</u>	<u>(9,122)</u>
<b>Cash Flows from Investing Activities</b>			
Decrease in note receivable from affiliate	17,750	17,750	-
Purchase of property and equipment	(161,579)	(154,382)	(7,197) (8)
(Increase) decrease in investments	(15,747)	36,108	(51,855) (9)
Net cash used in investing activities	<u>(159,576)</u>	<u>(100,524)</u>	<u>(59,052)</u>
<b>Cash Flows from Financing Activities</b>			
Entrance fees and deposits from initial sale contracts	17,683	19,833	(2,150) (10)
Refunds of deposits from initial sale contracts	(726)	-	(726)
Refunds of refundable entrance fees	(2,910)	(2,915)	5
Payments of accounts payable, construction	(23,970)	(26,281)	2,311 (11)
Proceeds from short-term indebtedness	82,535	28,156	54,379 (12)
Proceeds from non-recourse indebtedness	11,740	15,000	(3,260) (13)
Increase in deferred financing costs	(13)	-	(13)
Payments on short-term indebtedness	(63,259)	(37,582)	(25,677) (12)
Principal payments on long-term indebtedness	(16,804)	(16,804)	-
Net cash provided by (used in) financing activities	<u>4,276</u>	<u>(20,593)</u>	<u>24,869</u>
Net (decrease) increase in cash, cash equivalents and restricted cash and cash equivalents	(42,772)	533	(43,305)
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning</b>	<u>112,143</u>	<u>24,890</u>	<u>87,253</u>
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 69,371</u>	<u>\$ 25,423</u>	<u>\$ 43,948</u>



## DISCUSSION OF 2019 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 \$9.1 million (7.5%) in 2019 due to the following factors:

- (1) Amortization of entrance fees was greater than the forecasted level by \$1.8 million (2.0%) due to a higher than expected amount of termination income from canceled resident contracts.
- (2) Entrance fees from non-refundable resale contracts were higher than the forecasted amount by \$8.8 million (6.1%) due to a greater than projected average entrance fee per resale (\$223 thousand actual versus \$195 thousand forecasted).
- (3) Refunds of non-refundable entrance fees and deposits from resale contracts were lower than the forecasted amount by \$2.3 million (18.7%) as fewer resident contracts were voluntarily canceled, reflected in the number of independent living turnover being lower than projected.
- (4) In 2019, the net realized and unrealized gain on investments was \$14.8 million and the change in the fair value of investment contracts was \$1.8 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.
- (5) The change in beneficial interest in the investments of ACTS Legacy Foundation, Inc. was greater than forecasted by \$4.4 million (387.4%) due to positive funds advancement efforts on behalf of Acts.
- (6) The net change in the amount due from affiliated organizations in 2019 was an increase of \$10.3 million versus a forecasted decrease of \$0.6 million. The increase was due to the timing of repayment of certain corporate advances and transfers.
- (7) There was a decrease in accounts payable and accrued expenses of \$0.8 million in 2019 versus a forecasted increase of \$2.2 million. The decrease was due to the timing of payments on certain accounts occurring prior to year-end.

## Cash Flows from Investing Activities:

Net cash flows used in investing activities were greater than forecasted expectations by \$59.1 million (58.7%) in 2019 due to the following factors:

- (8) The purchase of property and equipment was greater than the forecasted amount by \$7.2 million (4.7%) in 2019. When taken with the payments of accounts payable, construction (see note 11 below in the cash flows from financing activities section), cash flows for the purchase of property and equipment was greater than forecasted by \$4.9 million (9.8%) in 2019. The higher than expected amount of cash outflow for purchase of property and equipment is due to the timing of certain capital projects.
- (9) There was an increase in investments of \$15.8 million in 2019 versus a forecasted decrease of \$36.1 million. An update to an accounting standard was adopted in 2019 which required the statement of cash flows to explain the change in cash, cash equivalents and amounts generally described as restricted cash and cash equivalents. This change in accounting principle is the primary reason for the variance between the actual increase in investments compared to the forecasted decrease in investments. Had the update to the accounting principle not have been adopted, there would have been an actual decrease in investments of \$26.7 million in 2019. The updated accounting principle will be reflected in forecasted financial statements going forward.

## Cash Flows from Financing Activities:

Net cash flows provided by financing activities were above forecasted expectations by \$24.9 million (120.8%) in 2019 due to the following factors:

- (10) Entrance fee deposits from initial sale contracts were less than forecasted by \$2.2 million (10.8%) in 2019 due to the timing of collection of final entrance fee payments.
- (11) Payments of accounts payable, construction, were lower than forecasted expectations by \$2.3 million (8.8%) in 2019. The payments were made in connection with ordinary capital improvements, major renovation projects, and expansion projects.
- (12) Proceeds from short-term indebtedness and payments on short-term indebtedness were greater than forecasted expectations by \$54.4 million (193.1%) and \$25.7 million (68.3%), respectively. Available bank lines of credit are utilized to fund certain independent living expansion projects and payments are made to repay amounts drawn as entrance fees are received.
- (13) Proceeds from non-recourse indebtedness were less than forecasted by \$3.3 million (21.7%) due to a lower than projected purchase price to acquire a corporate services center office building located in Pennsylvania.