



NC DEPARTMENT
of INSURANCE
MIKE CAUSEY, COMMISSIONER

NorCCRA Annual Meeting

Well-Spring Retirement Community
Winston-Salem, NC
October 8, 2024

NC CCRCs

64 CCRCs in 22 counties

Approx. 24,000 residents, 76% in independent living

4 new CCRCs currently planned or under development:

1. Providence Place - High Point, NC
2. TBD Name - New Bern, NC
3. Legacy at Mills River - Mills River, NC
4. Hayes Barton Place - Raleigh, NC

12 Expansions

CCRC occupancy:

- Independent living – 96%
- Assisted living – 83%
- Nursing – 77%



NCDOI Role

- Monitor financial condition of providers
 - *Ratio and trend analysis*
 - *Ask questions*
- License new providers and approve independent living expansions
- Take regulatory action when necessary to protect residents and the public
- Communicate with residents and providers
- Stay informed on industry trends and news
- Propose legislative changes that are responsive to changes and needs in the industry
 - *Avoid unnecessary or burdensome regulation*
- Educate residents, potential residents, and public (provide information)
- Continuously look for better ways to regulate

Aldersgate United Methodist Retirement Community, Inc.

Charlotte, NC



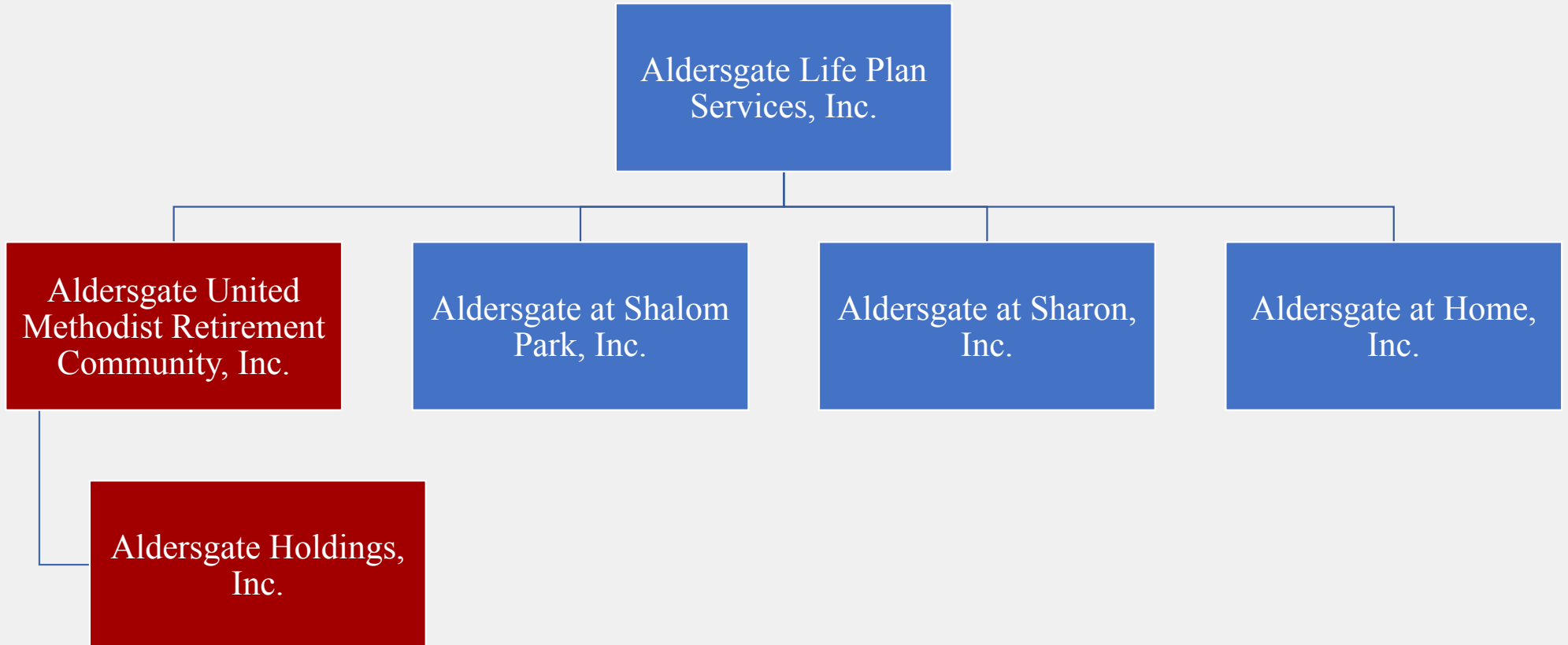
NORTH CAROLINA DEPARTMENT OF INSURANCE | MIKE CAUSEY, COMMISSIONER

Aldersgate - 2015

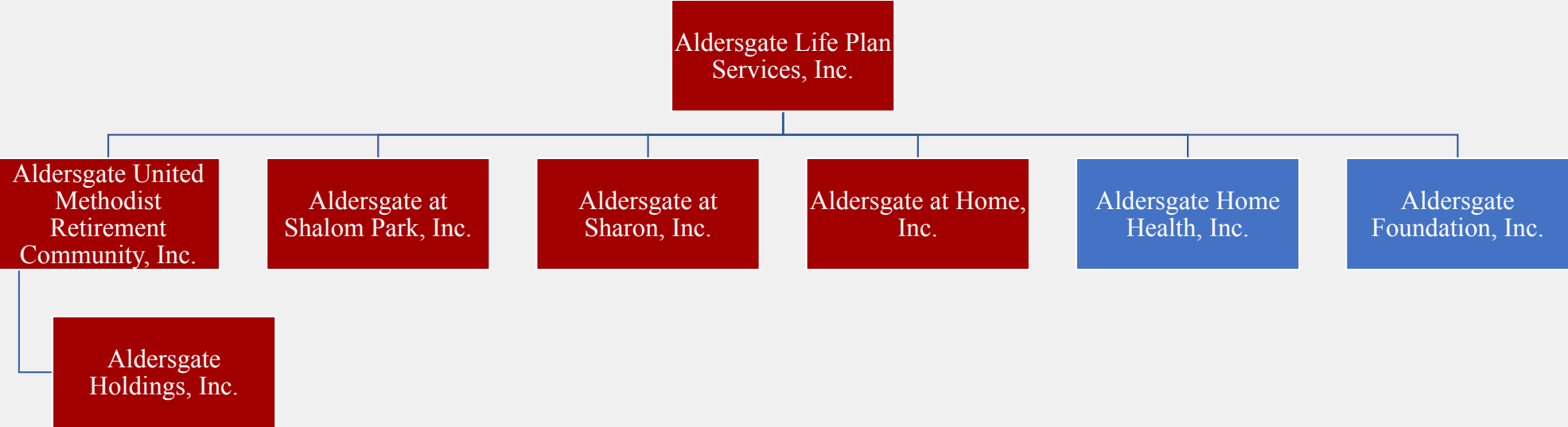
Aldersgate United
Methodist Retirement
Community, Inc.

Aldersgate Holdings,
Inc.

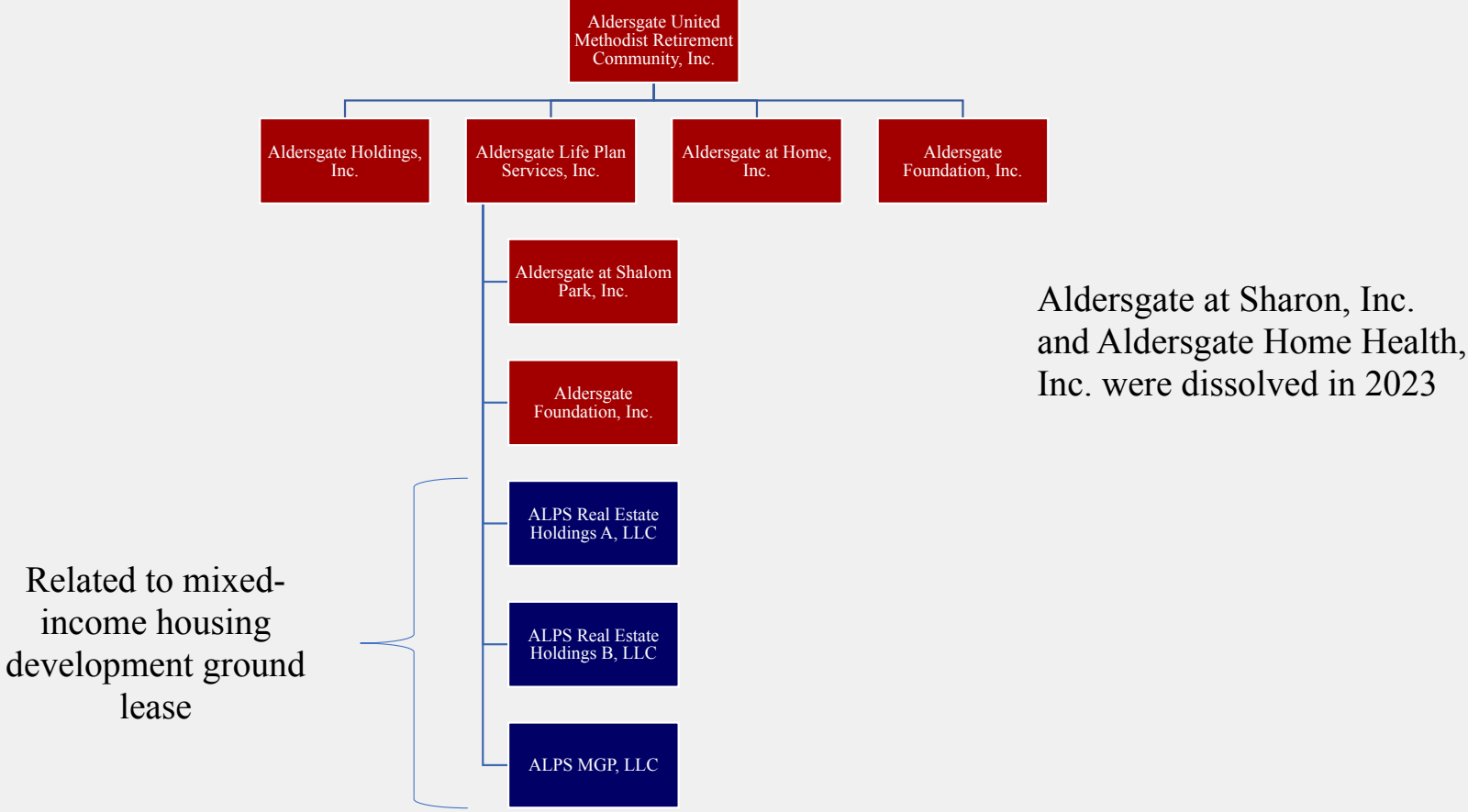
Aldersgate - 2016



Aldersgate - 2021



Aldersgate - 2024



Aldersgate – Related Party Transactions

NOTE 13 RELATED PARTY TRANSACTIONS

Effective January 1, 2019, Aldersgate entered into a management service agreement with ALPS to manage, operate and maintain Aldersgate at Shamrock. During the year ended December 31, 2020, Aldersgate incurred approximately \$1,890,000 in management fees, which are included in the consolidated statements of operations. Due to the environment created by the on-going COVID-19 pandemic, ALPS waived the management fee requirement for the year ended December 31, 2021. The net amount due from ALPS for expenses paid by Aldersgate on behalf of ALPS was approximately \$3,690,000 and \$3,280,000 as of December 31, 2021 and 2020, respectively.

Beginning in 2018, Aldersgate has financed certain start up and construction costs on behalf of Generations at Shalom Park. As of December 31, 2021, Generations at Shalom Park is non-operational. Amounts due from Generations at Shalom Park for expenses paid by Aldersgate was approximately \$2,567,000 and \$2,110,000 as of December 31, 2021 and 2020, respectively.

Beginning in 2018, Aldersgate has financed certain start up and construction costs on behalf of Aldersgate at Sharon. As of December 31, 2021, Aldersgate at Sharon is non-operational. Amounts due from Aldersgate at Sharon for expenses paid by Aldersgate was approximately \$250,000 as of December 31, 2021 and 2020.

The net amount due from Aldersgate at Home for expenses paid by Aldersgate on behalf of Aldersgate at Home was approximately \$483,000 and \$400,000 as of December 31, 2021 and 2020, respectively.

Source: 12/31/21 AUMRC audited financial statements

Aldersgate – Related Party Transactions

- The amount of money spent on the failed attempt to obtain a home health agency license for Aldersgate Home Health, Inc. is unknown as all costs were absorbed into AUMRC operations.

Aldersgate – Related Party Receivables/Write-Offs

Related Party Receivables							
	2018	2019	2020	2021	2022	2023	
Not Identified	\$ 527,184	\$ 7,127,249	\$ -	\$ -	\$ -	\$ -	
Aldersgate Life Plan Services, Inc.	-	-	3,280,000	3,690,000	175,000	-	
Aldersgate at Shalom Park, Inc.	-	-	2,110,000	2,567,000	17,000	-	
Aldersgate at Sharon, Inc.	-	-	250,000	250,000	-	-	
Aldersgate at Home, Inc.	-	-	400,000	483,000	836,000	853,000	
	<u>\$ 527,184</u>	<u>\$ 7,127,249</u>	<u>\$ 6,040,000</u>	<u>\$ 6,990,000</u>	<u>\$ 1,028,000</u>	<u>\$ 853,000</u>	
Write-Offs							
	2020	2020	2020	2021	2022	2023	Total
Aldersgate Life Plan Services, Inc.	\$ -	\$ -	\$ -	\$ -	\$ (3,810,000)	\$ (1,033,000)	\$ (4,843,000)
Aldersgate at Shalom Park, Inc.	-	-	-	-	(3,492,000)	-	(3,492,000)
Aldersgate at Sharon, Inc.	-	-	-	-	(250,000)	-	(250,000)
Aldersgate at Home, Inc.	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,552,000)</u>	<u>\$ (1,033,000)</u>	<u>\$ (8,585,000)</u>
Source: Aldersgate United Methodist Retirement Community, Inc. audited financial statements							

Aldersgate at Shalom Park, Inc. (Generations)



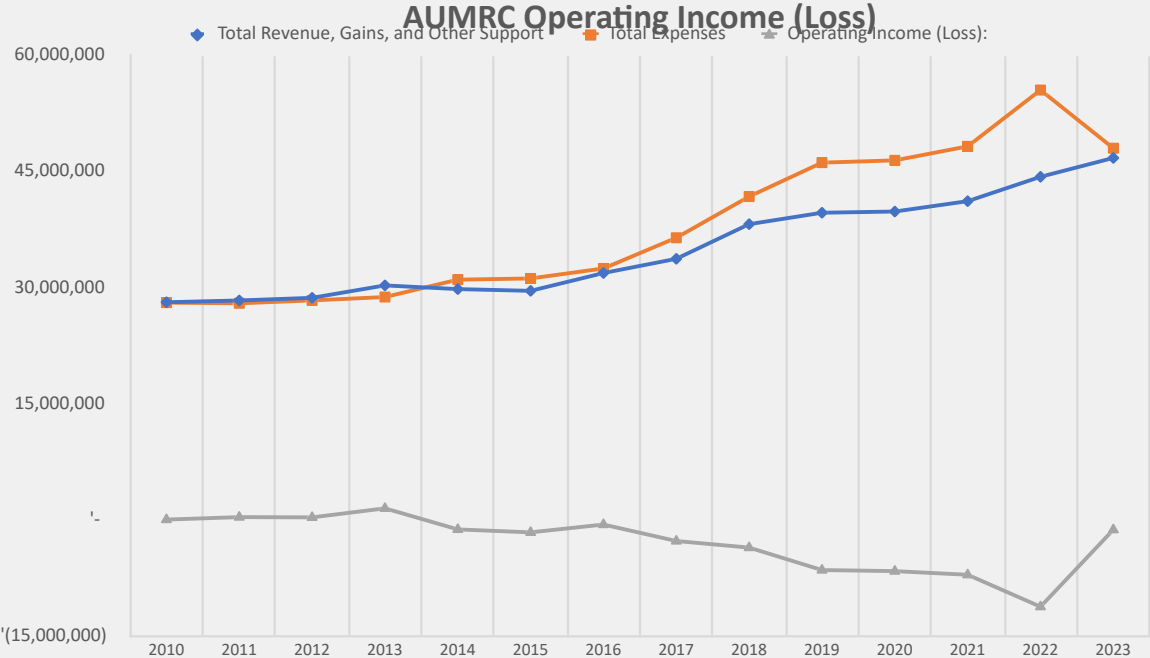
- \$7,326,103 in Revenue Anticipation Bonds (RABs) issued on 11/21/19
- \$375,498 equity contribution (ALPS via Aldersgate)
- \$500,000 liquidity funds (ALPS via Aldersgate)
- \$8,201,601 total
- \$7,401,054 spent
- \$784,098 invested by Aldersgate to purchase RABs
- Project terminated in November 2022
- \$734,924 returned to bond holders in July 2023
- Per 12/31/22 audit, \$3,492,000 of project related costs that were paid by Aldersgate were written off

Aldersgate – Operating Losses

Year	Revenue	Expenses	Oper Income	Cumulative
2010	\$ 28,099,691	\$ 28,049,134	\$ 50,557	\$ 50,557
2011	28,332,575	27,964,156	368,419	418,976
2012	28,671,497	28,335,135	336,362	755,338
2013	30,275,716	28,775,056	1,500,660	2,255,998
2014	29,798,288	31,016,851	(1,218,563)	1,037,435
2015	29,573,683	31,172,359	(1,598,676)	(561,241)
2016	31,871,652	32,461,030	(589,378)	(1,150,619)
2017	33,707,855	36,423,340	(2,715,485)	(3,866,104)
2018	38,180,181	41,745,039	(3,564,858)	(7,430,962)
2019	39,655,043	46,120,150	(6,465,107)	(13,896,069)
2020	39,810,954	46,413,102	(6,602,148)	(20,498,217)
2021	41,147,279	48,219,335	(7,072,056)	(27,570,273)
2022	44,292,667	55,489,035	(11,196,368)	(38,766,641)
2023	46,726,822	47,981,365	(1,254,543)	(40,021,184)

Revenues and Operating Income do not include \$6,927,660 worth of COVID-19 funding:

- Provider Relief Funding: \$1,324,651
- Employee Retention Credit: \$2,099,018
- Paycheck Protection Program: \$3,503,991



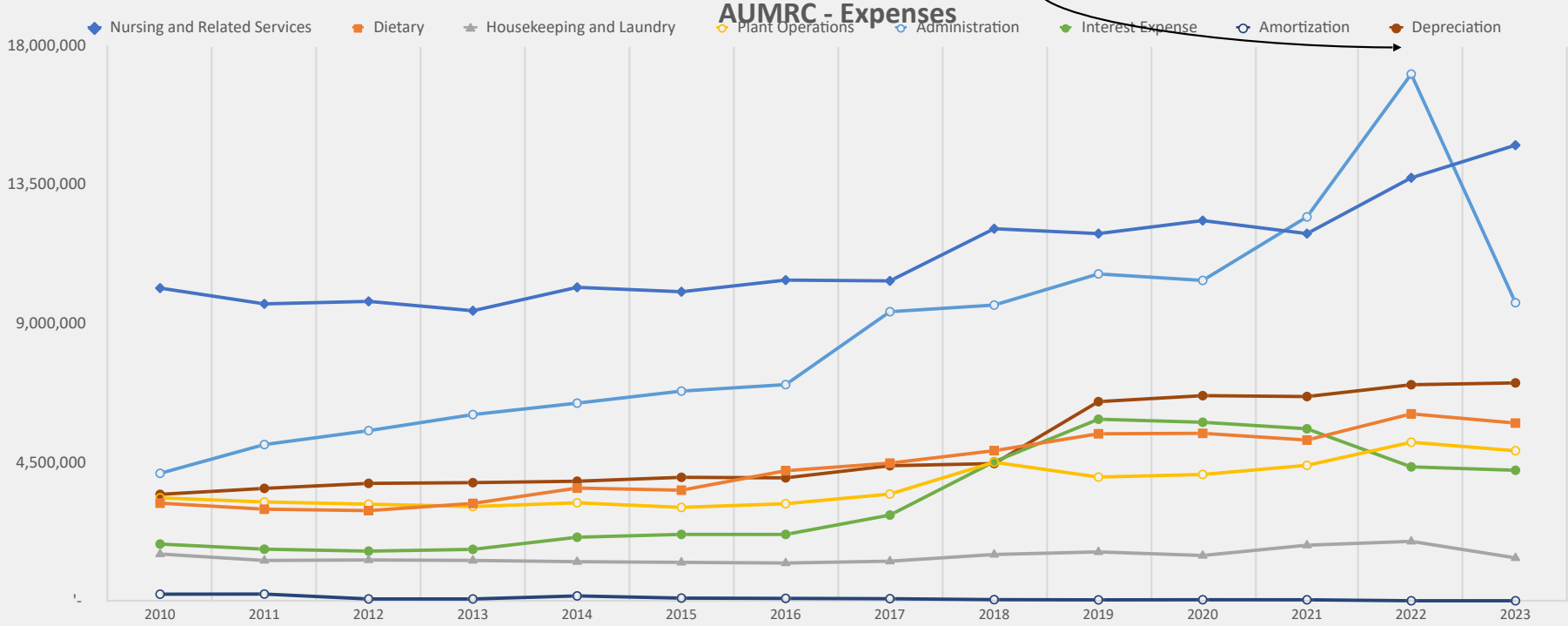
Aldersgate – Nonoperating Gains (Losses)

Nonoperating gains (losses) 2010 – 2023:

Change in Net Unrealized Gains on Investments	\$ 89,863
Other Revenue - Provider Relief Funding	1,324,651
Other Revenue - ERC	2,099,018
Contributions - Paycheck Protection Program	3,503,991
Net Assets Released from Restrictions for the Purchase of PPE	756,450
Impairment Loss on Land and Improvements	(472,070)
Aldersgate Life Plan Services — Write-Off of Related Party Receivable	(4,842,857)
Aldersgate at Shalom Park — Write-Off of Related Party Receivable - Capital	(3,491,914)
Loss on Early Extinguishment of Debt and Term of Swap Agreement	(4,311,367)
Loss on Debt Refinancing	(60,753)
Reclassification of Net Assets	637,383
Gain (Loss) on Disposal of Fixed Assets	929,122
Change in Value of Interest Rate Swap Agreements	2,909,992
Total	\$ (928,491)

Aldersgate – Expenses

\$3,981,920 in bad debt expense in 2022



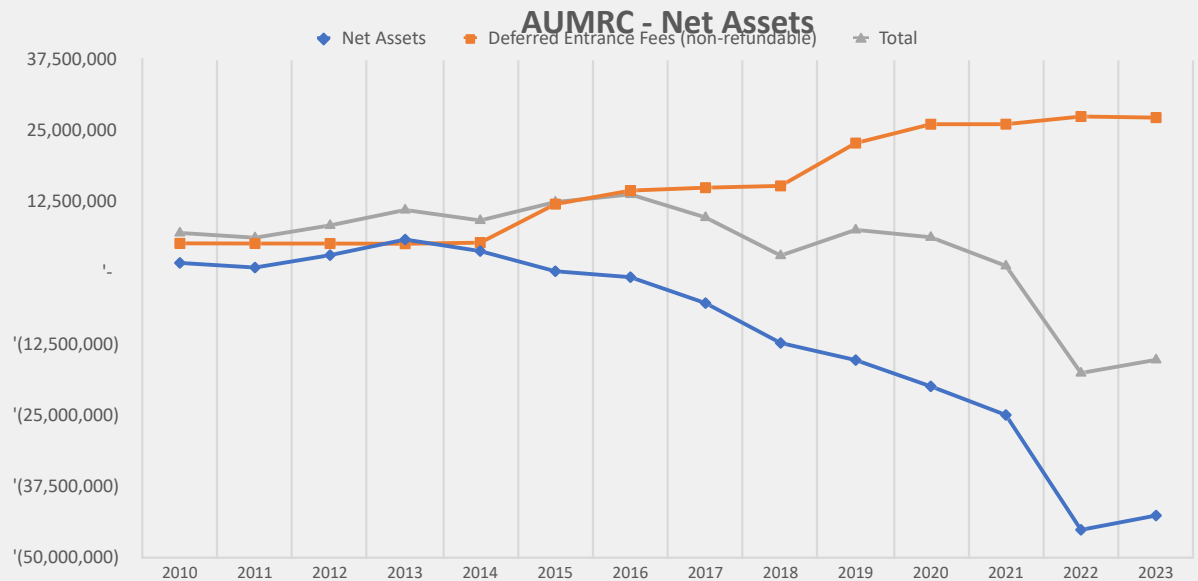
Aldersgate – Expenses

Expenses:	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Nursing and Related Services	10,160,834	9,650,913	9,731,604	9,428,639	10,186,295	10,043,340	10,420,566	10,395,190	12,083,785	11,925,993	12,348,122	11,926,065	13,733,386	14,789,559
Dietary	3,197,434	3,002,184	2,956,287	3,189,310	3,686,346	3,617,371	4,247,965	4,493,793	4,896,884	5,444,440	5,459,196	5,241,399	6,089,777	5,790,353
Housekeeping and Laundry	1,551,300	1,342,475	1,358,308	1,343,353	1,302,542	1,281,227	1,259,634	1,318,891	1,535,729	1,619,576	1,503,221	1,836,986	1,961,261	1,426,246
Plant Operations	3,369,430	3,236,010	3,164,617	3,089,120	3,208,673	3,060,507	3,179,481	3,492,634	4,523,131	4,042,135	4,126,801	4,423,058	5,170,303	4,894,550
Administration	4,163,390	5,094,973	5,545,984	6,065,975	6,436,292	6,826,443	7,036,488	9,397,474	9,611,986	10,620,798	10,409,445	12,467,295	17,091,789	9,688,794
Interest Expense	1,873,695	1,707,306	1,644,550	1,701,262	2,094,559	2,186,109	2,184,993	2,811,631	4,539,619	5,915,519	5,816,884	5,605,878	4,372,777	4,262,420
Amortization	250,051	254,295	95,785	95,397	194,144	123,116	114,306	103,814	73,747	66,429	70,646	68,819	37,446	37,446
Depreciation	3,483,000	3,676,000	3,838,000	3,862,000	3,908,000	4,034,246	4,017,597	4,409,913	4,480,158	6,485,260	6,678,787	6,649,835	7,032,296	7,091,997
Total Expenses	28,049,134	27,964,156	28,335,135	28,775,056	31,016,851	31,172,359	32,461,030	36,423,340	41,745,039	46,120,150	46,413,102	48,219,335	55,489,035	47,981,365

Aldersgate – Net Assets

Year	Net Assets	Deferred Entrance Fees	Combined
2010	\$ 1,826,657	\$ 5,262,575	\$ 7,089,232
2011	1,016,781	5,232,661	6,249,442
2012	3,190,245	5,225,144	8,415,389
2013	5,929,025	5,189,038	11,118,063
2014	3,901,496	5,381,722	9,283,218
2015	365,183	12,143,678	12,508,861
2016	(675,475)	14,518,480	13,843,005
2017	(5,225,269)	15,028,341	9,803,072
2018	(12,220,547)	15,340,198	3,119,651
2019	(15,222,328)	22,851,976	7,629,648
2020	(19,831,551)	26,160,519	6,328,968
2021	(24,854,206)	26,166,870	1,312,664
2022	(45,001,622)	27,512,701	(17,488,921)
2023	(42,492,240)	27,318,869	(15,173,371)

Deferred revenue from the non-refundable portion of entrance fees have been added in recognition that this balance represents cash paid that is often used for capital improvements and/or retained as cash reserves. Thus, it functions as “quasi-equity.”

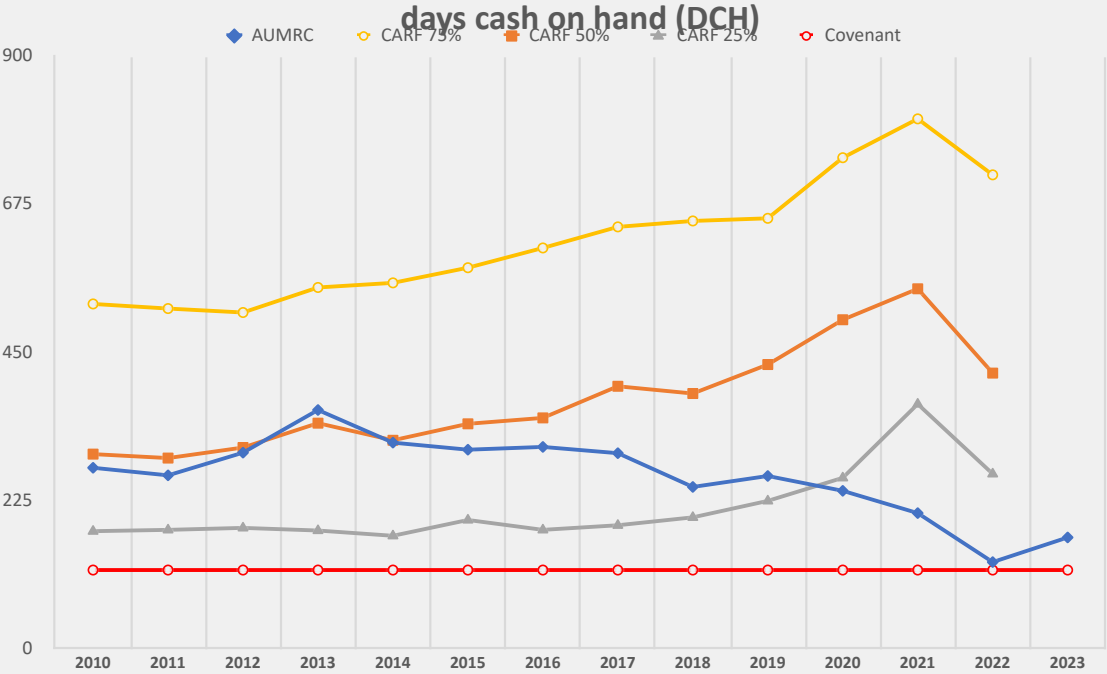


Aldersgate – Days Cash on Hand

- Measures the number of days of cash operating expenses a provider could cover with its unrestricted cash and marketable securities on hand
- Essential that a provider have access to liquidity, either through cash on hand or via third-party

Unrestricted Cash and Investments

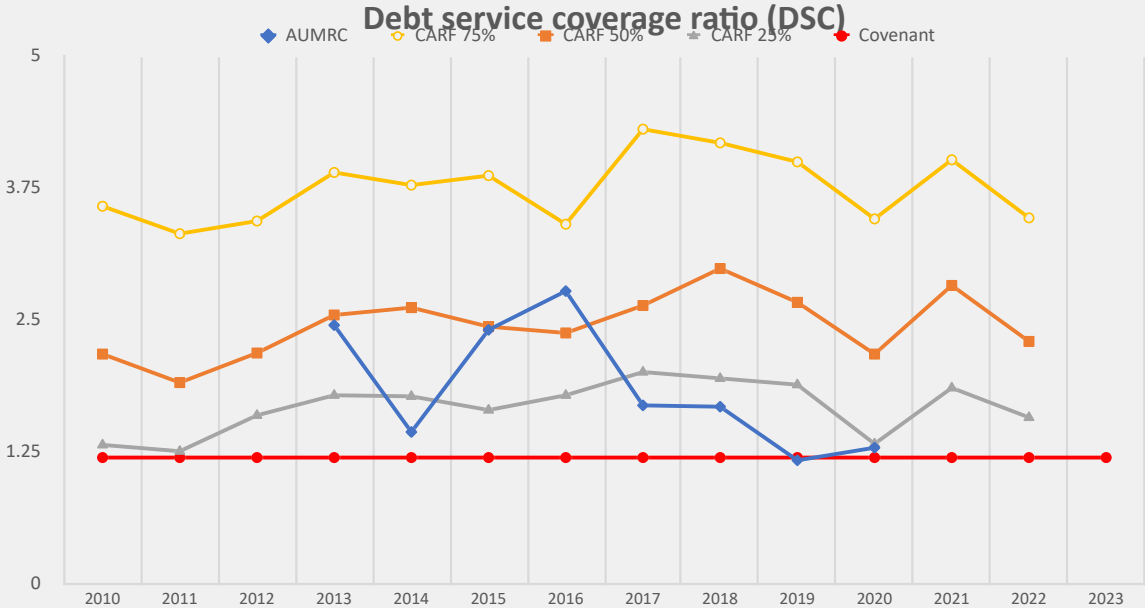
(Operating Expenses – Depreciation – Amortization)/365



Aldersgate – Debt Service Coverage Ratio

Reflects a provider’s ability to fund annual debt service with cash flow from net cash revenues and net entrance fees

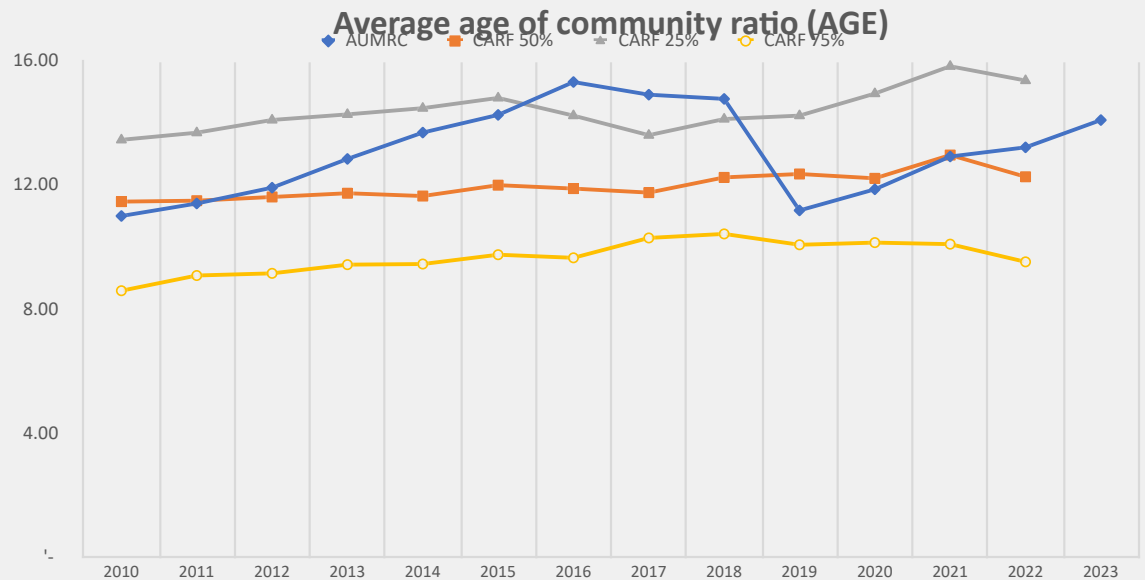
$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} - \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$



Aldersgate – Average Age of Community Ratio

- Marketability is dependent on maintaining physical plant
- A provider must commit to renewal through renovation and/or replacement of buildings and grounds
- A steadily increasing value may be an indication that resources are not being used to renovate a community or an indication that significant expenditures may soon be required to renovate a community

$$\frac{\text{Accumulated Depreciation}}{\text{Annual Depreciation Expense}}$$

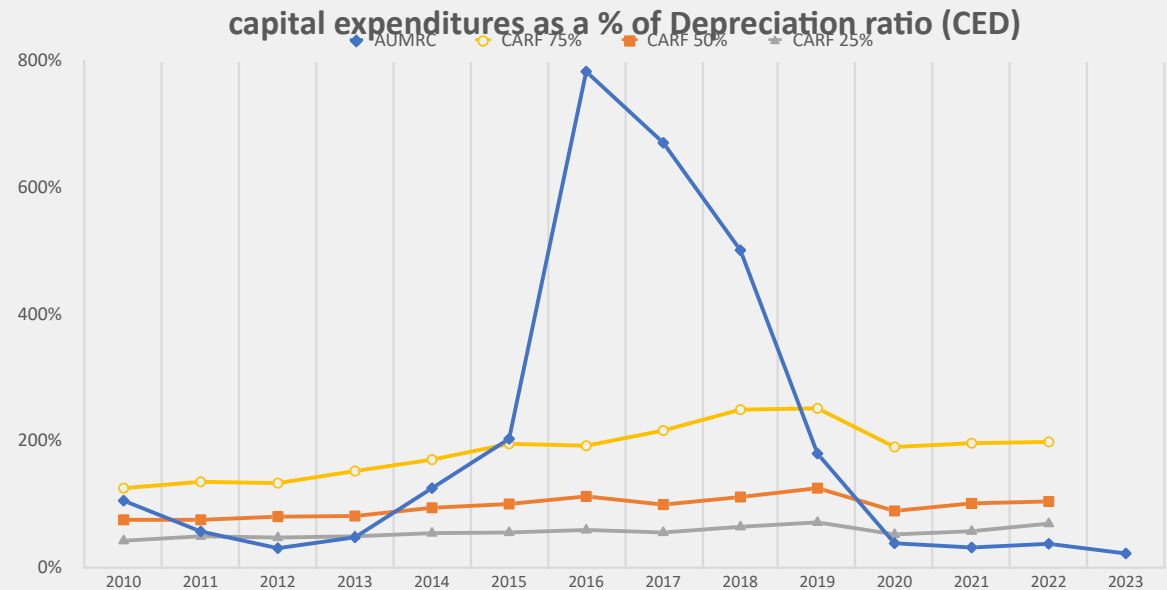


Aldersgate – Capital Expenditures as a % of Depreciation Ratio

- Provides some understanding of sufficiency of a provider's annual reinvestment in their physical plant
- High value in one year may compensate for having postponed necessary capital expenditures from previous years
- High value may signal a major one-time purchase, such as a new building
- Look at in conjunction with Average Age of Community Ratio

Purchase of Property, Plant, and Equipment

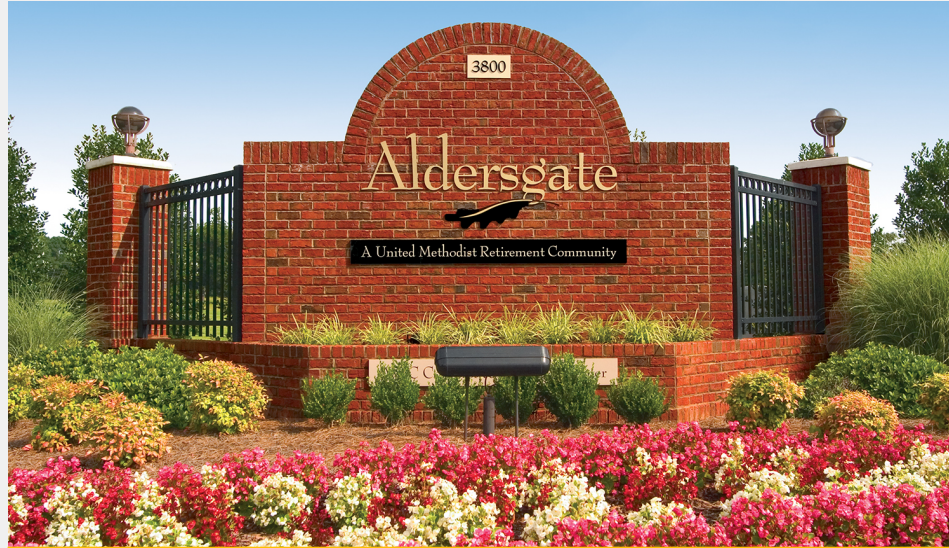
Annual Depreciation Expense



Aldersgate

CAUSE

- Insufficient oversight of financial operations
 - CFO turnover
 - Lack of a consolidated financial audit
 - Improper accounting
 - Weak internal controls
 - Lack of timely financial reporting
- Insufficient oversight by Board
- Failed growth initiatives
 - Related party transactions
 - Hiring of staff in anticipation of growth
- Economic conditions
 - COVID-19
 - Inflation
- Excessive spending/lack of control on spending
- Significant long-term debt



EFFECT

- Operating and nonoperating losses
- Cash flow problems
 - Delays in vendor payments and entrance fee refunds
 - Delays in billing and accounts receivables
- NCDOI involvement
 - Supervision
- Negative media attention
- Declining occupancy
- Lack of resident confidence and trust

Level of Care	Total Units	Residents	Occupancy	
			As of 8/31/24	12 month Rolling Average
Independent	299	346	88.2%	90.4%
Assisted Living	110	87	81.5%	85.5%
Nursing	120	107	87.2%	89.2%
Total	529	540	86.6%	89.1%

Aldersgate – Ongoing Reporting & Monitoring

Monthly Financial
Statements

Monthly
Occupancy Report

Monthly Accounts
Payable Report

Monthly Accounts
Receivable Report

Weekly Cash
Report

Monthly Entrance
Fee Refund
Report

Monthly Credit
Card Statements

Monthly CAP/
OIP Progress
Report

Aldersgate – Ongoing Reporting & Monitoring

Attend Board Meetings

Attend Resident Association Meetings as Requested

Attend Other Meetings as Requested

Communicate with Residents

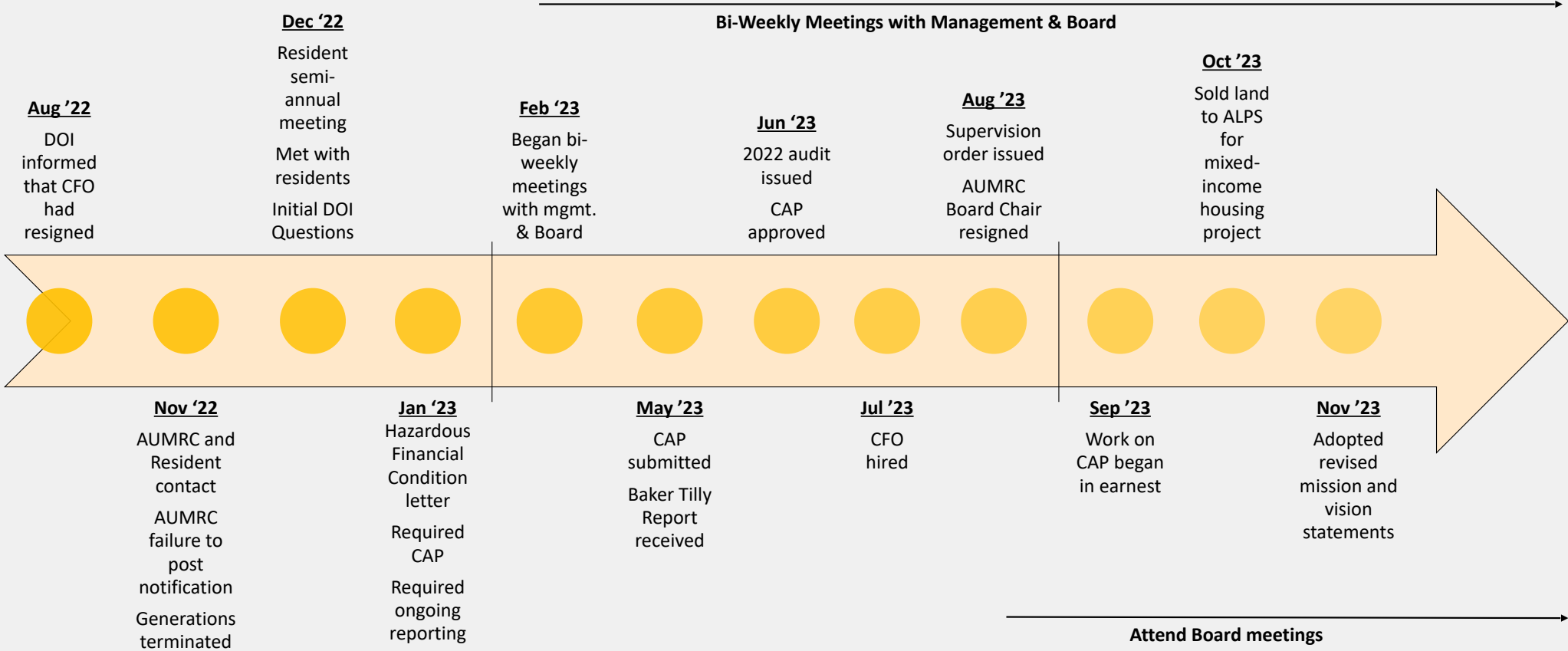
Monitor Days Cash on Hand Ratio

Monitor Debt Service Coverage Ratio

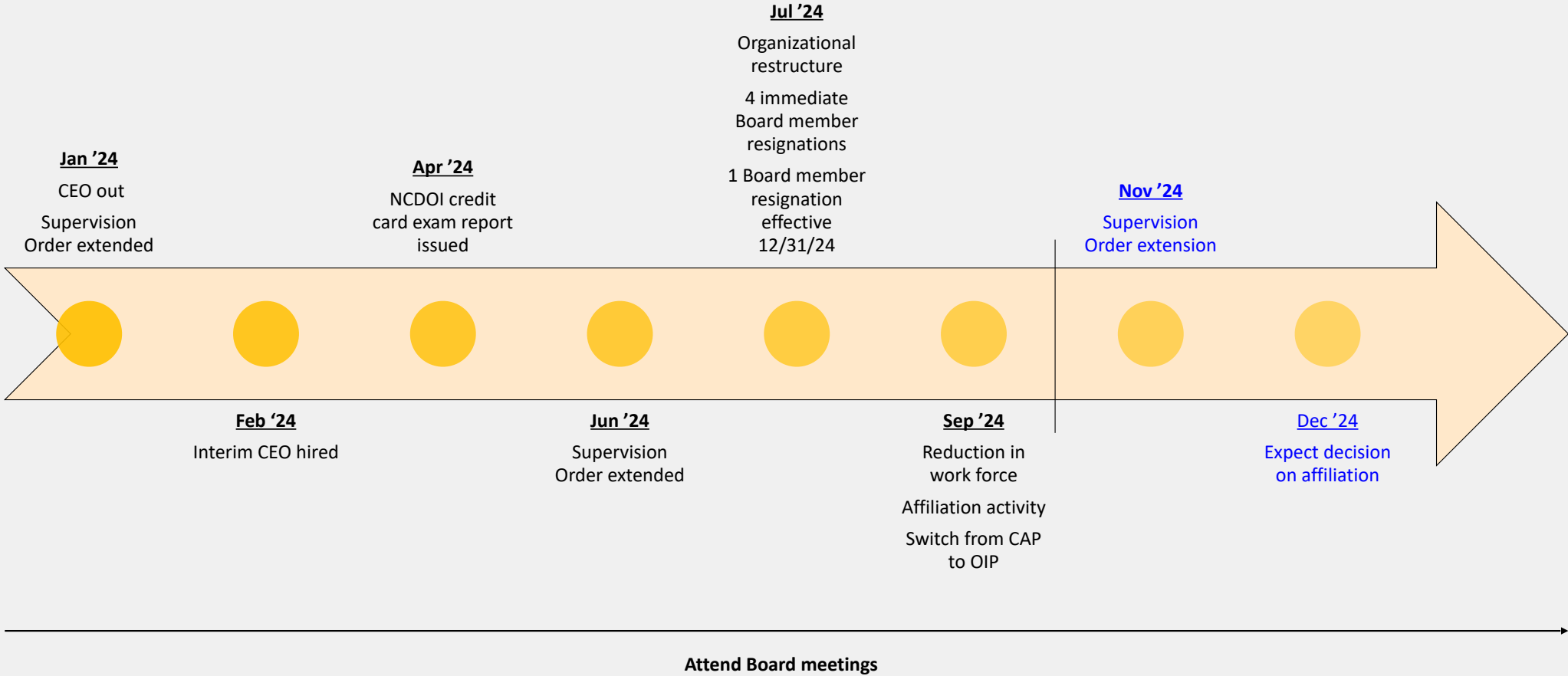
Monitor Other Ratios

Monitor Occupancy

Aldersgate – Timeline



Aldersgate – Timeline



Aldersgate – Current Issues



Liquidity/Cash Flow <ul style="list-style-type: none">• Entrance Fee Refunds• Vendor Payments	Delayed Repairs and Renovations	Independent Living Occupancy
Media Coverage	Supervision	Resident Confidence and Trust
Corrective Action Plan / Operational Improvement Plan	Meeting Debt Covenants	Operating Losses

Potential affiliation

Aldersgate – Lessons Learned



- Scrutinize related party transactions regardless of what is written in the audited financial statements
- Fully understand the organizational structure and who is in control
- Don't take for granted that board is fully engaged
- Need more frequent financial and occupancy reporting
- Need required reporting to the Department and to residents of certain material items
- **Our statutes worked – Department was able to get involved and help change the direction**

Current Legislation

- Passed in Senate in 2023, currently resides in House Rule Committee
- Rewrite and replacement of current Article 64
- Result of year long effort of 20-member Legislative Task Force
- Unknown if action will be taken in November 2024
- If no action, will reintroduce in 2025, with potential modifications

Potential Changes to Existing Legislation

- Enhance disclosure of related parties including ultimate controlling person of provider
- Require Department approval of dividends and distributions paid by a provider
- Regulation of related party transactions:
 - *Required standards and terms*
 - *Prohibition of loans to, or investments in, related parties without Department approval*
- Increased disclosure in disclosure statement:
 - *Multi-entity organizations*
 - *Controlling person*
 - *Governing body*
 - *Obligated group*
 - *Semi-annual meetings*
 - *Entrance fee table - % and dollar increases over past 5 years*
 - *Monthly fee table - % and dollar increases over past 5 years*

Potential Changes to Existing Legislation

- *Refundable entrance fee disclosure*
 - # and aggregate dollar amount due
 - Potential refund liability
 - Average time to resell independent living units
- *Audited financial statements – Clarity on how to report*
- *Disclosure of key financial metrics*
- Require quarterly financial and occupancy reporting with the ability to require monthly

Potential Changes to Existing Legislation

- Requirement to notify Department and residents when certain things occur, such as:
 - *Change in officers or directors*
 - *Change in organizational documents*
 - *Failure to maintain operating reserve*
 - *Occupancy drops below 85%*
 - *Violations of debt covenants*
 - *Cash flow or liquidity problems*
 - *Any other thing that might adversely affect a provider's ability to provide goods and services or the financial condition of a provider.*
- Require entrance fee refunds to be paid no later than one year from the date a continuing care contract is terminated. Exemptions can be considered by Commissioner on a case-by-case basis.



NC DEPARTMENT
of INSURANCE
MIKE CAUSEY, COMMISSIONER

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