



**STATE OF MAINE
BUREAU OF INSURANCE**

It is, hereby, certified that the annexed report of examination for

MAINE LIFE CARE RETIREMENT COMMUNITY, INC.

has been compared with the original on file in this bureau and that it is a correct transcript therefrom and of the whole of said original.

In witness whereof, I have hereunto set my hand and affixed the official seal of this Office at the City of Gardiner this sixteenth day of January, 2014.

A handwritten signature in blue ink, appearing to read 'Eric A. Cioppa', written over a horizontal line.

Eric A. Cioppa
Superintendent

REPORT OF EXAMINATION

MAINE LIFE CARE RETIREMENT COMMUNITY, INC.

AS OF

DECEMBER 31, 2012



Paul R. LePage
GOVERNOR

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

Eric A. Cioppa
SUPERINTENDENT

August 23, 2013

Eric A. Cioppa, Superintendent
Maine Bureau of Insurance
34 State House Station
Augusta, ME 04333-0034

Dear Superintendent:

Pursuant to the provisions of 24-A M.R.S.A. §6222 (1) and in conformity with your instructions, a financial examination has been made of

MAINE LIFE CARE RETIREMENT COMMUNITY, INC.

at its office in Scarborough, Maine. The following report is respectfully submitted.



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ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified report of examination of Maine Life Care Retirement Community, Inc. as of December 31, 2012, dated August 23, 2013, was delivered to the Maine Life Care Retirement Community, Inc. on October 1, 2013, and

WHEREAS no hearing with respect to the report of examination has been requested by Maine Life Care Retirement Community, Inc.

NOW THEREFORE, I accept the report of examination as modified and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S.A. §226 (3).

Dated:

1/16/14

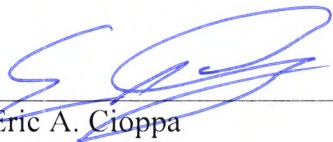

Eric A. Cioppa
Superintendent

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FULL SCOPE FINANCIAL EXAMINATION

The Maine Bureau of Insurance (hereinafter, "MBOI") conducted a full scope financial examination of Maine Life Care Retirement Community, Inc. (hereinafter, "MLC"), a non-profit corporation established in 1995, to own, maintain and operate a continuing care retirement community (hereinafter "CCRC") known as Piper Shores. The financial examination covered the period from January 1, 2010 through December 31, 2012.

The MBOI last performed a limited scope examination of MLC as of March 31, 2002 with a primary focus on accounting controls and procedures.

This examination consisted of a review of corporate documents, administrative operations, and records for compliance with the laws, rules and regulations, and practices prescribed or permitted by the MBOI. The scope of the examination covered the following areas:

- Corporate Governance
- Community Administration
- Invested Assets
- Reserves
- Risk Management
- Compliance Monitoring

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

1. The examiners noted several weaknesses in accounting controls and procedures including but not limited to i) account analysis and bank reconciliations not being prepared in a timely manner; ii) lack of segregation of duties between the individual requisitioning a check and the individual verifying and approving such disbursement; iii) inadequate supporting documentation for funds held in escrow and; iv) capitalized fixed assets being depreciated at rates inconsistent with the indicated useful life and commencing at a point other than the date of acquisition.

Status:

Related observations follow:

- (i) Year-end payroll, accounts payable trade, and accounts payable manual reconciliations included unexplained immaterial variances and did not include reviewer approval.
- (ii) None noted in 2012.
- (iii) None noted in 2012.
- (iv) The review of the 2012 general ledger could not be performed. This was attributable to the Oracle general ledger being the property of management services firm Life Care Services LLC (hereinafter, "LCS") and the December 31, 2012, LCS contract termination. MLC does not have access to the LCS Oracle

general ledger for years 2012, and prior. A copy of the LCS Oracle general ledger was not provided to MLC. Accordingly, the exam team was not able to perform a review of the 2012 general ledger. Subsequent to December 31, 2012, MLC entered into an agreement with LCS that allows for access to the historical LCS Oracle database on an as needed basis.

2. Transactions pertaining to construction in progress (primarily RLS activity) are recorded in the month following the period in which they occur. During the construction period this represents a significant activity for any given month resulting in inaccurate financial reporting of cash and construction related balances in the financial statements provided to the board of directors.

Status:

The 2012 construction in progress report provided to the exam team listed three amounts totaling \$2,555,753. MLC did not maintain a construction in progress sub ledger. As such, there was no formal report providing construction in progress detail. It appeared that construction in progress entries were made only to the general ledger.

3. During the audit, the examiner observed an instance wherein the Executive Director was the sole approver of an amount payable to LCS. The disbursement sample reviewed by the examiner included two disbursements for which there was no evidence of approval or account distribution.

Status:

The executive director was an employee of LCS. With the LCS contract having terminated on December 31, 2012, the executive director was replaced, as such, internal controls related to the LCS contract were not tested.

4. Title 24-A M.R.S.A. § 6203 (1)(B)(8) requires "All principal officers and directors of the provider shall disclose in statements attested under oath any real or potential conflict of interest". The examiner reviewed statements for 1998 and 2001. There were no statements prepared for 1999 or 2000.

Status:

See Current Examination number 3.

CURRENT EXAMINATION

1. Pursuant to 24-A MRSA §6215-A a provider shall establish and maintain the following reserves:

Mortgage debt. A liquid amount equal to the aggregate amount of all principal and interest payments due during the fiscal year on any mortgage loan or other long-term financing of the facility, which reserve may be held by a lender, mortgagee or trustee for bondholders in a debt service reserve fund or similar fund, including, without limitation, any reserve fund of the Maine Health and Higher Educational Facilities Authority established pursuant to Title 22, chapter 413.

MLC has not established such a reserve for the Series 2012 debt.

2. The financial statements of MLC report the following:

Assets limited as to use – Board designated \$9,351,925

This balance included cash, in the amount of \$3,851,726, held in an unrestricted money market account. This amount was not restricted, as such, the funds were available to support the general operations of MLC. Accordingly, this amount has been reclassified in this report from “Assets limited as to use – Board designated” to Cash and cash equivalents.

3. Title 24-A M.R.S.A. §6203 (1)(B)(8) states:

“All principal officers and directors of the provider shall disclose in statements attested under oath any real or potential conflict of interest...”

The exam team noted that MLC did not have conflict of interest statements filed for all the board members in 2012.

4. MLC’s By-laws Article V Section 2 requires MLC’s Executive Committee to keep meeting minutes and distribute meeting minutes to MLC’s Board of Directors. The exam team did not observe any executive committee meeting minutes, as such MLC is not in compliance with its governance documents.

DESCRIPTION OF THE COMMUNITY

HISTORY

MLC was incorporated in January 1995 as a nonprofit corporation under IRS code §501 (c)(3). The purpose of MLC is to establish, own, maintain and operate a CCRC. MLC provides housing, food services, health services and other services to elderly residents for their lifetime in return for an upfront entrance fee, paid prior to assuming residency, as well as ongoing monthly residency fees.

The CCRC is located on ocean front property in Scarborough, Maine and consists of 160 independent living units, 40 independent living cottages, 20 assisted living units, 40 skilled nursing beds and common areas.

Residents are offered certain lifetime care services in MLC. Residents are admitted into MLC by paying an entrance fee, based on the type of unit to be occupied, a fixed life care fee, and by signing a residency agreement. The residency agreement details all of the residential services and healthcare services included, and the participation and rights of residents.

MLC currently offers two types of residency agreements. One agreement offers a ninety percent repayable portion of the entrance fee upon termination whereas the second agreement does not contain a repayable portion and amortizes the entrance fee over a period of fifty months. The entrance fee without a guaranteed refundable portion is approximately sixty-five percent of the entrance fee containing the repayable terms. Residents are charged a monthly fee for general maintenance based on the type of unit occupied and are offered optional services and amenities for additional charges.

All residents are given a disclosure statement which includes, among other items, the following:

- Description of MLC
- MLC Board of Directors' biographical information
- Administrator names
- MLC financial statements

The disclosure statement also summarizes the residency agreements, references the rights of residents' contained therein, and provides fee schedules which include current entrance fees and monthly fees.

MLC is licensed by the MBOI as a CCRC, and is regulated pursuant to 24-A M.R.S.A. Chapter 73. Residency agreements and disclosure statements are submitted to the MBOI for approval.

MLC is also regulated by the State of Maine Department of Health and Human Services (hereinafter "DHHS"). A Quality Indicator Survey conducted by DHHS at MLC on June 13, 2013, was reviewed by the exam team.

MANAGEMENT AND CONTROL

MLC is managed by a voluntary board of directors. Directors serving as of December 31, 2012, follow:

<u>Board Member</u>	<u>Position</u>	<u>Board Member</u>	<u>Position</u>
Patrick O'Reilly	Chairman	Patrick Costin	Director
Stephen Larned, M.D.	Vice Chairman	Susan Doliner	Director
Suzanne Austin	Secretary	Victoria Kuhn	Director
Stephen deCastro	Treasurer	Suzanne McCormick	Director
Thomas J. Amoroso	Director	Karen Milliken	Director
Kathryn Barber	Director	Dennis J. O'Donovan	Director
Mary M. Bertolet	Director	Matthew Charles O'Reilly	Director

MLC's day to day affairs were managed by an outside company, LCS, until December 31, 2012. Under LCS management MLC's executive director was an employee of LCS. MLC became self-managed on January 1, 2013.

BOARD ADMINISTRATION

The MLC Board of Directors has the responsibility of managing the assets of MLC and directing the affairs of MLC for the benefit of residents of MLC pursuant to MLC's Articles of Incorporation and MLC's By-laws. The MLC Board of Directors has appointed certain committees in order to more effectively manage MLC.

The MLC Board of Directors appoints an executive director who has the authority to perform all the necessary functions to administer, manage and operate MLC and its funds consistent with the direction of the MLC Board of Directors.

COMMUNITY OPERATIONS

MLC's operations were reviewed in order for compliance with its articles of incorporation, its by-laws, and applicable laws. Board of directors meeting minutes were reviewed for content, board involvement, and board oversight. Debt instruments and insurance coverage were reviewed.

In the interest of examination efficiency, the examination team requested certain documents from the certified public accountants. Certified public accountants documents related to internal controls over monthly fee billing and collection, cash receipts, general and administrative cash disbursements, general ledger entries, and financial statement preparation were reviewed.

FINANCIAL STATEMENTS

The accompanying financial statements, as reported MLC and adjusted by this examination, fairly present, in all material respects, MLC's financial position as of December 31, 2012, and results of operations for the period then ended.

BALANCE SHEET
DECEMBER 31, 2012
AS ADJUSTED BY EXAMINATION

Assets

Current assets	
Cash and cash equivalents	\$ 3,856,642
Accounts receivable	305,325
Investments	25,847,597
Other current assets	171,773
Current portion of trustee held funds	1,040,145
	<u>31,221,482</u>
Assets limited as to use	
Trustee held funds	1,250,467
Board designated	5,500,199
Donor restricted	799,962
	<u>7,550,628</u>
Property plant and equipment	72,461,283
Accumulated depreciation	(20,855,038)
	<u>51,606,245</u>
Deferred financing and marketing costs	678,674
	<u>678,674</u>
Total Assets	\$ 91,057,029

Liabilities

Current liabilities	
Accounts payable and accrued expenses	\$ 1,361,529
Accrued payroll and related amounts	595,975
Accrued interest payable	535,969
Current portion of long-term debt	1,430,357
	<u>3,923,830</u>
Resident entrance fees - deposits	2,129,937
Resident entrance fees - deferred revenue	58,724,634
	<u>60,854,571</u>
Interest rate swap liability	162,178
Long-term debt	27,543,162
	<u>27,543,162</u>
Total Liabilities	92,483,741

Net assets (deficit)

Unrestricted assets (deficit)	(2,189,415)
Temporarily restricted assets (deficit)	762,703
	<u>762,703</u>
Total net assets (deficit)	(1,426,712)
	<u>(1,426,712)</u>
Total liabilities and net assets (deficit)	\$ 91,057,029

**STATEMENTS OF OPERATIONS
AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2012**

Unrestricted revenues, gains and other support	
Resident services	\$ 15,740,351
Investment income	2,825,707
Other income	<u>140,106</u>
Total revenues, gains and other support	18,706,164
Expenses	
General and administrative	3,366,220
Dining services	2,138,450
Health services	3,525,827
Housekeeping and laundry	737,011
Management fees	639,768
Facility costs and utilities	2,062,797
Depreciation and amortization	2,254,803
Interest expense	1,057,494
Provision for bad debts	<u>10,000</u>
Total expenses	15,792,370
Excess of revenues over expenses	2,913,794
Change in interest rate swap	<u>(162,178)</u>
Increase in unrestricted net assets	2,751,616
Temporarily restricted net assets	
Restricted contribution	125,591
Investment income	213
Net realized gain on sales of investments	31,472
Change in net unrealized gains on investments	<u>3,533</u>
Increase in temporarily restricted net assets	160,809
Increase in net assets	2,912,425
Net assets (deficit) beginning of year	<u>(4,339,137)</u>
Net assets (deficit) end of year	<u><u>\$ (1,426,712)</u></u>

CONCLUSION

Except for the findings, noted herein, MLC appears to be in substantial compliance with 24-A M.R.S.A. Chapter 73, and MLC's Articles of Incorporation and MLC's By-laws.

Acknowledgement of cooperation and assistance extended to the examiners by all MLC personnel is hereby expressed.

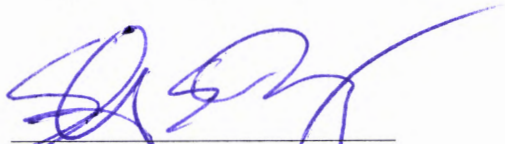
**STATE OF MAINE
COUNTY OF KENNEBEC, SS**

Stuart E. Turney, being duly sworn according to law deposes and says that, in accordance with authority vested in him by Eric A. Cioppa, Superintendent, pursuant to the Insurance Laws of the State of Maine, he has made a full scope financial examination of the condition and affairs of

MAINE LIFE CARE RETIREMENT COMMUNITY, INC.

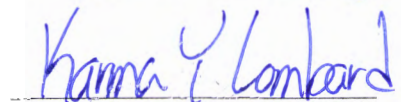
with administrative offices in Scarborough, Maine as of December 31, 2012, and that the foregoing report of examination subscribed to by him is true to the best of his knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Graham S. Payne
Margaret S. Boghosian, CPA, CFE



Stuart E. Turney, CPA, CFE

Subscribed and sworn to before me
this 16 day of January, 2013



Notary Public
My Commission Expires:

KARMA Y. LOMBARD
Notary Public, ~~Maine~~
My Commission Expires June 12, 2016