

**EXAMINATION**  
**OF THE**  
**GLEN ARDEN, INC.**  
**AS OF**  
**DECEMBER 31, 2000**

**DATE OF REPORT**

**DECEMBER 19, 2001**  
**Revised JULY 24, 2002**

**EXAMINER**

**BRUCE BOROFSKY**

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

December 19, 2001

Honorable Gregory Serio  
Superintendent of Insurance  
Albany, NY 12257

Sir:

Pursuant to the provisions of the New York Insurance Law and in compliance with the instructions contained in Appointment Number 21751, dated August 1, 2001 annexed hereto, I have made an examination into the condition and affairs of Glen Arden, Inc., and submit the following report thereon. Glen Arden is a Continuing Care Retirement Community licensed pursuant to the provisions of Article 46 of the Public Health Law.

Wherever the designation "the Community" appears herein, without qualification, it should be understood to indicate Glen Arden, Inc. Wherever the designations "AHSHS" or "the Parent" appear herein, without qualification, they should be understood to mean Arden Hill Senior Health System, the immediate parent of the Community.

The examination was conducted at the offices of the Community at 6 Harriman Dr. Goshen, NY 10924.

As of December 31, 2000, the Community's minimum reserve requirement, as determined using generally accepted actuarial standards and applying statutory requirements, was impaired in the amount of \$7,321,830. A plan to restore the minimum surplus was approved by the Insurance Department on September 28, 2001 and is currently being monitored.

## **1. SCOPE OF THE EXAMINATION**

The Community was formed in June 1996. This examination covered the five-year period from its inception through December 31, 2000. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2000 in accordance with Generally Accepted Accounting Principles (GAAP), as modified by the Department pursuant to Insurance Department Regulation 140 {11NYCRR350}, a review of income and disbursements deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Community's independent certified public accountants. A review was also made of the following items:

- Community Documents
- Growth of the Community
- Financial Documents
- Board of Director meeting minutes

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## **2. DESCRIPTION OF THE COMMUNITY**

Glen Arden is a Continuing Care Retirement Community (CCRC) as defined under Article 46 of the New York State Public Health Law, and received a Certificate of Authority from the New York State Continuing Care Retirement Community Council, effective September 23, 1994. The Community commenced operations on June 1, 1996. Glen Arden is affiliated through common board members with AHSHS.

A CCRC is designed to accommodate residents aged 62 and older in independent living apartments. Each of the 163 Glen Arden apartments has a kitchen and each has emergency call systems and other safety features. The Glen Arden facilities also include such common areas as dining rooms, lounges, a health club, a beauty/barber shop, library, auditorium, and administrative areas. In addition, Glen Arden's facilities include a 40-bed nursing facility for residents who need full-time nursing care.

In exchange for an entrance fee and monthly maintenance charges, the Community provides lifetime residence and unlimited care in the Glen Arden Health Care Center. Two different contract options are available for residents, both offering the lifetime right to live at Glen Arden and for unlimited care in the Glen Arden Health Care Center for the same monthly fee the resident would have paid in the independent living unit. The amount of the entrance fee and monthly maintenance charges in each case is dependent upon the size of the residence being occupied.

#### Declining Entrance Fee Type Contract

If a resident terminates residency after ninety (90) days, the entrance fee paid by the resident shall be refunded less a four percent (4%) administrative fee and two percent (2%) for each month of occupancy for forty-eight (48) months, beginning with the fourth (4<sup>th</sup>) month of occupancy. After the fifty-first (51<sup>st</sup>) month, the resident shall not be entitled to any refund of the entrance fee. If applicable, a refund will be made within 30 days after a new resident pays the then applicable entrance fee, but in no event later than one year after. Residents also pay an additional nonrefundable monthly fee.

#### 90% Refundable Option Type Contract

If a resident terminates residency after ninety (90) days, the entrance fee paid by the resident shall be refunded less a four percent (4%) administrative fee and two percent (2%) for each month of occupancy beginning with the fourth (4<sup>th</sup>) month. At any time after six (6) months of occupancy, if the resident terminates residency at Glen Arden, the resident shall be entitled to a refund equal to ninety percent (90%) of the entrance fee paid. A refund will be made within 30 days

after a new resident pays the then applicable entrance fee, but in no event later than one year after. Residents also pay an additional nonrefundable monthly fee.

Glen Arden is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

A. Management

Pursuant to the Community's charter and by-laws, management of the Community is to be vested in a board of directors consisting of not more than fifteen members. As of the examination date, the board of directors was comprised of twelve members. The board is required to meet once for an annual meeting, and once additionally each quarter, but may hold special meetings as desired. The directors as of December 31, 2000 were as follows:

Board of Directors

<u>Name</u>	<u>Position</u>
Donna G. Case Warwick, NY	President & CEO Arden Hill Senior Health Systems, Inc.
Michael H. Donnelly Goshen, NY	Attorney Dickover, Donnelly, Donovan and Biagi, LTD
John S. Goodreds Goshen, NY	Consultant; former President, Ottaway Newspapers
George W. Kohl Goshen, NY	Former licensed real estate broker
Ciro Attardo, MD Chester, NY	Physician Horizon Family Medical Group
Ursula M. Degenhardt Goshen, NY	Vice-President P&F Hairstylists, Inc.
Clifford E. Kelsey, Jr. Goshen, NY	Board member, Goshen Bank; former President, Goshen Bank
Joseph Matta Goshen, NY	President Masterwork Kitchens, Inc.
Preston Pulliams, EdD Warwick, NY	President Orange County Community College

Robert W. Scherreik  
Bloomingdale, NJ

Vice President and General Manager  
McBride Corporate Real Estate

Donna Schmittler  
Chester, NY

Office Manager  
Whispering Hills Homeowner Association

Hal D. Teitelbaum, MD  
Middletown, NY

Physician and Senior Partner  
Crystal Run Health Care System

It is noted that, between January 1, 2000 and July 19, 2001, there were two instances in which excused absences of directors, were not duly recorded in the minutes of the corresponding meeting.

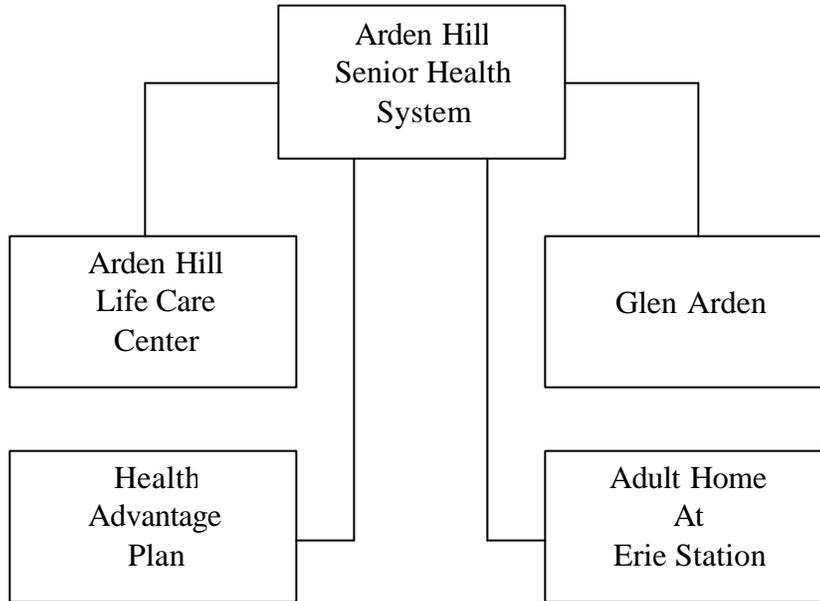
It is recommended that, to assure compliance with the Community's by-laws, all excused absences should be documented within the minutes of the corresponding board of directors' meetings.

The principal officers of the Community as of December 31, 2001 are as follows:

<u>Officers</u>	<u>Title</u>
Donna G. Case	President & CEO
George W. Kohl	Chairman
Michael H. Donnelly, Esq.	Chair-elect
Todd A. Whitney	Executive Vice-President and CFO
Clifford E. Kelsey, Jr.	Secretary
John S. Goodreds	Treasurer

B. Holding Company System

The structure of the Holding Company, as of the examination date, is as follows:



Glen Arden entered into a management contract with AHSHS for management of the day-to-day activities of Glen Arden, subject to the oversight of the board of directors. The term of the contract is for three years commencing six months prior to the opening of Glen Arden, and renewable thereafter. These activities include, but are not limited to, recruitment and training of all personnel, recommending and implementing policies and procedures, preparing budgets and forecasts, recommending adjustments to entrance and monthly fees, supervising the maintenance of accounting records and managing the day-to-day programs and services provided to residents.

C. Occupancy rates

The following reflects the occupancy rates at each year-end since 1998 and at the examination date:

Period	1998	1999	2000	Sept 30, 2001
Occupancy	92.0%	93.3%	93.9%	89.6%

### 3. FINANCIAL STATEMENTS

#### A. Balance sheet

The following shows the assets, liabilities and surplus as determined by this examination. It is the same as the revised actuarial balance sheet submitted by the Community in August 2001, presented on a Statutory Accounting basis, pursuant to Insurance Dept. Regulation 140 {11NYCRR350}(See item 4, herein for further explanation):

#### Assets

##### Current assets

Short term investments	\$ 6,924,000
Long term investments	6,861,956
Accounts receivable	423,147
Prepaid expenses	<u>204,444</u>

Total current assets \$ 14,413,547

##### Fixed assets less long term debt

Land and improvements	\$ 441,304
Buildings and improvements	35,567,034
Less: Long term debt	(27,630,000)
Fixed and movable equipment	1,841,716
Less: Accumulated depreciation	<u>(1,922,278)</u>

Total Fixed Assets \$ 8,297,777

##### Other assets

Deferred marketing/start up costs	\$ 1,602,121
Deferred financing costs	<u>989,881</u>

Total other assets \$ 2,592,002

Total assets \$ 25,303,326

Liabilities

Accounts payable	\$ 101,070
Accrued expenses	134,846
Accrued salaries and benefits	281,536
Due to affiliate	330,458
Due to third party payors	137,978
Resident deposits	<u>41,268</u>
Total current liabilities	\$ 1,027,156
Minimum liquid reserve	\$ 6,924,000
End of year Prospective reserve	31,598,000
End of year retrospective reserve	23,401,000
Reserve liability (greater of Prospective or Retrospective)	<u>31,598,000</u>
Total liabilities	<u>\$ 32,625,156</u>
Net surplus	\$ (7,321,830)
Total liabilities and surplus	<u><u>\$ 25,303,326</u></u>

It should be noted that the asset values herein are reported on a statutory / actuarial basis. As such, the values differ from the certified financial statements prepared by the Community's Certified Public Accountants using Generally Accepted Accounting Principles (GAAP basis).

As of December 31, 2000, the Community's minimum reserve requirement, as determined using generally accepted actuarial standards and applying statutory requirements, was impaired in the amount of \$7,321,830. A plan to restore the minimum surplus was approved by the Insurance Department on September 28, 2001, and is currently being monitored.

B. Statement of revenue, expenses and surplus

The statement of revenue and expenses is presented in a GAAP basis for the period June 1, 1996 through December 31, 2000.

Operating revenue		
Net resident service revenue	\$	30,698,374
Other operating revenue		648,418
Income from investments		<u>3,946,030</u>
Total operating revenue	\$	<u>35,292,822</u>
Operating expenses		
Salaries		10,564,552
Employee benefits		1,573,784
Supplies and other expenses		13,909,331
Depreciation and amortization		6,461,959
Interest		<u>11,138,134</u>
Total operating expenses	\$	<u>43,647,760</u>
Operating loss before effect of accounting change	\$	(8,354,938)
Change in accounting method; net unrealized Gain on investments		99,935
Extraordinary loss on refinancing		(6,560,342)
Excess (deficiency) of revenue over expenses	\$	<u><u>(14,815,345)</u></u>

C. Changes in actuarial surplus

Reserves and surplus decreased \$7,321,830 during the examination period, June 1, 1996 through December 31, 2000, detailed as follows:

Actuarial surplus as of January 1, 1994		\$	0
	<u>Gains in</u>		
	<u>Net Worth</u>		
GAAP basis net income/(loss)		\$	(14,815,345)
Statutory adjustment as per April 2001 actuarial report	\$	4,262,345	
Additional adjustment as per August 2001 revised actuarial report		3,231,170	
Actuarial surplus as of December 31, 2000			<u><u>(7,321,830)</u></u>

#### 4. BALANCE SHEET VALUATION

The Insurance Department reviewed the values of assets and liabilities as presented by the Community's actuary and included in the Community's original reserve certification for year-end 2000, that was submitted in April 2001. Such review incorporated the requirements contained in Insurance Dept. Regulation 140 {11NYCRR350}. Subsequent to this review by the Department's actuary, changes were made to certain asset and liability values and the Community made a revised submission in August 2001. The August 2001 submission incorporates the impact of the filed and approved impairment removal plan as described in Section 5 of this Report. The financial statements presented herein under item 3 reflect the changes incorporated in the August 2001 revised submission.

Also during the examination, Insurance Department appraisers reviewed the value of the real estate and the buildings. The value of those items, as compared to the Community's valuations reported in the August 2001 revised actuarial report, were deemed to be as follows:

	<u>Community</u>	<u>Department</u>
Land and improvements	\$441,304	\$2,374,000
Building	<u>35,567,034</u>	<u>26,007,000</u>
Total	\$36,008,338	\$28,381,000

The Insurance Department valuation is shown above on a market value basis consistent with the provisions of Insurance Dept. Regulation 140, while the community valuation is based upon cost before depreciation. The difference in the building valuation is mainly the result of the assumptions used in regard to expected occupancy and alternate market uses. The Insurance Department valuation was not incorporated into the financial statement shown herein under item 3. If the Insurance Department valuation had been used in the Community's balance sheet, the Community's deficiency would have increased by \$7,627,338 to \$14,949,168.

## 5. CONCLUSION

As of December 31, 2000, the Community's minimum reserve requirement, as determined using generally accepted actuarial standards and applying statutory requirements, was impaired in the amount of \$7,321,830.

The Community has prepared a plan to resolve its actuarial reserve deficiency and restore its minimum surplus, as required by Part 350.8(a) of Insurance Dept. Regulation 140. The restoration plan relies on administrative cost reductions, fee increases, and a 95% occupancy rate. The restoration plan was approved by the Insurance Department on September 28, 2001, and is currently being monitored.

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that, to assure compliance with the Community's by-laws, all excused absences should be documented within the minutes of the corresponding board of directors meetings.	5
B. <u>Conclusion</u>	
i. <i>As of December 31,2000, the Community's minimum reserve requirement, as determined using generally accepted actuarial standards and applying statutory requirements, was impaired in the amount of \$7,321,830.</i>	11

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Respectfully submitted,

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Bruce Borofsky  
Associate Insurance Examiner

STATE OF NEW YORK    )  
  ) SS.  
  )  
COUNTY OF NEW YORK )

Bruce Borofsky, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

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Bruce Borofsky

Subscribed and sworn to before me  
This \_\_\_\_\_ day of \_\_\_\_\_ 2001

Appointment No. 21751

**STATE OF NEW YORK  
INSURANCE DEPARTMENT**

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Bruce Borofsky**

*as a proper person to examine into the affairs of the*

**GLEN ARDEN, INC.**

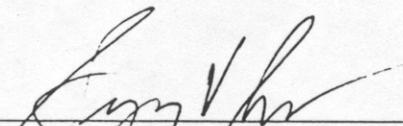
*and to make a report to me in writing of the said*

**Company**

*with such information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal  
of this Department, at the City of New York.*

*this 1st day of August 2001*

  
\_\_\_\_\_  
Gregory V. Serio  
Superintendent of Insurance

