PLANTATION VILLAGE, INC. — A

Joanne W. Rockness, Cameron Professor of Accountancy
University of North Carolina at Wilmington, Wilmington, North Carolina

Charles L. Earney, Partner
Earney and Co. CPA's, Wilmington, North Carolina

William J. Mayew, Staff Accountant
Ernst & Young, Raleigh, North Carolina

". . . The North Carolina Department of Insurance is charged with the responsibility of monitoring and licensing continuing care facilities based on statutory compliance and financial viability. Recently, the PLANTATION VILLAGE filing was reviewed and the facility was found to be in a hazardous financial condition. The December 31, 1992 financial statements indicate an insolvent position, with $3,513,000 (deficit) Equity.

North Carolina General Statute 58-64-10(a)(6) requires revocation of a Continuing Care license for facilities determined to be in a hazardous financial condition. Therefore, it will be necessary to revoke your facility's permanent license. Shortly, we will be sending you a restricted license with the following conditions for continued operations: the facility will be required to submit monthly interim financial reports; and, all entrance fees received by the facility in excess of any required repayments to former residents or their estates must be independently trusteed in an escrow account and not released . . ."

— Excerpt from a letter addressed to Plantation Village from the North Carolina Department of Insurance

George Nadeau, President of Plantation Village, read the determination of the North Carolina Department of Insurance in disgust. The consequences of such a sanction would have adverse effects on the present and potential residents of the facility, not to mention an additional drain on cash. George discussed the stance taken by the DOI with Brett Logan, the Administrator of Plantation Village.

George Nadeau: *Brett, you know what the problem with the Department of Insurance (DOI) is? They make assumptions about our financial position without looking at the whole picture. I've been in real estate for 20 years and I know when a company is insolvent. Plantation Village is in fine shape. We have over $1,000,000 in cash and short term investments and a great operating plan.*

Brett Logan: *I know exactly what you're saying. The worst thing about it is that whatever they say goes. And while we debate our financial position, our residents get uneasy. We run Plantation Village with high regard to providing a secure living environment, and these sanctions make it sound like we could go out of business any minute.*

George Nadeau: *How does the DOI expect us to boost our fund balance when they mark us with sanctions that are going to scare away future residents? We have worked very hard to make Plantation Village one of the nicest continuing care facilities in the Southeast. It is just a shame that an unsubstantiated claim against our financial position could ruin everything.*

Brett Logan: *How are we going to make debt service payments or capital repairs if they restrict all the excess entrance fee income? We've got to get out of this situation, and our only recourse is to prove them wrong. George, our permanent license may be gone, but we still have a restricted license. We've got to somehow prove that Plantation Village is all right before the DOI shuts us down.*

George Nadeau: *To get our permanent license back and get these sanctions lifted, we need help. I talked to a CPA who could add some credibility to our case. We really are solvent and we need the numbers to prove it!*

PLANTATION VILLAGE

Plantation Village, Inc., is a not-for-profit life care retirement community designed to accommodate persons 62 years of age or older in an independent and dignified manner. Located in an affluent area of Wilmington, North Carolina, the Village has 136 living units including apartments and 32 villas with more than 9,865 square feet of common space. Plantation Village is authorized to build up to 210 units. 191 residents currently occupy all existing units with a waiting list for new or vacated units. Plantation Village was founded in 1988 on donated land with 100% construction financing and is professionally managed by Life Care Services Corporation, a non-profit organization.

The primary intent of Plantation Village is to assure residents life care throughout their retirement years. The Village is an all-inclusive facility that provides meals, medical services, and housekeeping. Many other amenities are offered as well, including solarium lounges equipped with small libraries, nature pathways, an auditorium, local mini-bus transportation, a Wellness Center, golf-club membership, planned social events, and beauty salons. Long term nursing care is guaranteed to all residents at the Cornelia Nixon Davis Nursing Home, a separate non-profit organization that is located beside Plantation Village.

Residents are attracted to Plantation Village through advertisements and word-of-mouth referrals. Sales representatives aggressively market the life care concept, financial living security, and the Village amenities. Potential residents are carefully screened. Due to the inherent risk related to long term nursing care, each prospective resident is required to pass a physical examination before being accepted for residency. Residents must also have two times the entrance fees in net assets and two times the monthly service fee in monthly income to qualify for housing at Plantation Village. This currently requires approximately $300,000 net worth and monthly income of at least $3,000. These financial requirements attract a high income resident buying guaranteed life-style and health care security.

When accepted, a resident can choose between two purchase plans. The first is the *Return of Capital Plan,* which requires an advance entrance fee as well as monthly service fees. The entrance fees are based on the type of living unit selected. The *Return of Capital Plan* guarantees that 90% of a resident's entrance fee will be refunded when all conditions of termination are met.

The second purchase plan is the *Traditional Plan,* which requires a lower entrance fee and equivalent monthly service fees. Once again, the entrance fees are based on the type of unit selected. Under the *Traditional Plan,* residents receive a refund of the entrance fee less two percent for each month of residency. No amount is refunded after the fifth year, and amounts can only be refunded when all the conditions for termination are met.

Under both purchase plans the residents are buying the right to life care, not a physical unit. The entrance fees are based on the type of unit initially selected and are actuarially determined annually to ensure coverage of costs. The present value of the net estimated cost of future services is compared to the balance of deferred revenue from advanced fees. If the present value of the net cost of future services and use of facilities, discounted at eight percent, exceeds deferred revenue from advance fees, a liability would have to be recorded with a corresponding charge to income. Since Plantation Village began operations, entrance fees have been set by the Board of Directors to ensure that deferred revenue always exceeded the present value of the net estimated cost of future services and use of facilities.

Monthly fees are also set by the Board of Directors and are adjusted annually due to inflation, rising health care costs, and nursing home costs. The Board bases, in part, the annual fees on an actuarial assumption that a certain percentage of residents per year will be replaced by new residents paying new, higher entrance fees. A substantial fraction of these entrance fees is used to subsidize ongoing costs of the community, including nursing care. Over the past ten years monthly fees have increased from 0% to 10% annually largely depending on construction and sales of new units. Exhibit 1 gives the current entrance fees and monthly fees for each type of unit under both purchase plans.

Nursing home care is guaranteed through a long-term contract with the Cornelia Nixon Davis Nursing Home. Plantation Village pays a negotiated monthly rate that is slightly below Cornelia Nixon Davis's market rate for each Village resident in the nursing home. In addition, PV pays for two empty beds each month. This arrangement ensures immediate nursing home space for Village residents. When a resident is moved into the nursing home, their monthly fees remain at the level they were paying in their apartment or villa. Thus, Plantation Village subsidizes resident nursing home care as an ongoing expense.

CONTINUING CARE RETIREMENT COMMUNITIES AND THE DEPARTMENT OF INSURANCE

Like Plantation Village, most continuing care retirement communities (CCRCs) in North Carolina are not-for-profit entities that provide accommodations for residents between sixty and eighty plus years of age. CCRCs are often operated by religious or charitable organizations, and the intent of such communities is not to accumulate wealth, but to provide a much-needed service to the communities they serve. Most communities offer a wide range of services, charge refundable advanced entrance fees, and operate on monthly service fees.

The rapidly increasing demand for CCRCs by the growing and increasingly affluent over 60 population has resulted in numerous new senior living facilities, and regulation has become increasingly important to protect seniors from losing their life savings in financially unsound living arrangements. Local for-profit organizations as well as giants such as Marriott Corporation, are entering the traditionally non-profit CCRC market with large amounts of investor capital. To meet the increasing regulatory demands, in November 1989, the North Carolina Department of Insurance (DOI) replaced the Department of Human Resources as regulator of N.C. continuing care providers. The DOI regulates CCRCs to assure financial stability and to protect residents from default. The DOI is responsible for monitoring statutory compliance and issuing operating licenses to CCRCs. The DOI mandates that CCRCs keep reserve or escrow accounts to assure the coverage of operational costs and refunds. DOI regulates for-profit and not-for-profit CCRCs in the same manner.

Operating licenses are reviewed and renewed annually by the DOI based on financial status. The DOI relies on interim unaudited financial reports, annual audited financial statements, and 5 year projections to determine the financial status of a CCRC (Exhibits 2–7). The DOI may, based on its judgement of financial condition, impose additional reserve requirements and sanctions on a CCRC. Sanctions often include setting reserve requirements on attrition income, where attrition income equals the current cash value of a unit less the amount refunded to the previous owner.

The DOI placed additional restrictions on Plantation Village in 1993 based on its determination of financial instability. The deficit balance on the Plantation Village balance sheets between 1992 and 1993 forced the DOI to name Plantation Village insolvent, revoke its permanent license, and administer additional reserve requirements. As a result, Plantation Village would have to submit monthly financial statements to the DOI, with a $25 reporting fee, and escrow 100% of attrition income. [1]

[1] Beginning in 1998, DOI regulations will require all CCRCs to have a funded operating reserve account with a percentage of total projected operating costs for the upcoming 12 months. The reserve percentage is based on occupancy level. CCRCs with occupancy below 90% must fund the reserve with 50% of total operating costs. CCRCs with occupancy equal to or greater than 90% must only fund the reserve with 25% of projected total operating costs. Additionally, the DOI mandates that CCRCs with occupancy below 75% place all entrance fees in an escrow account. Any funds escrowed are safely invested in treasury bills or certificates of deposit. The principal amount remains untouchable in the escrow account, while the interest income earned can be used by the CCRC.

SOP 90-8

CCRCs are governed by the AICPA Audit and Accounting Guide entitled *Audits of Providers of Health Care Services*. They refer specifically to Statement of Position (SOP) 90-8, *Financial Accounting and Reporting by Continuing Care Retirement Communities*, for accounting guidelines. The Audit Guide became effective for financial statement periods beginning on or after July 15, 1990, and the SOP became effective for financial statements for periods beginning on or after December 15, 1990.

Before SOP 90-8, little guidance existed relative to the recognition of income for advance fees, and advance fees were often recorded by CCRCs as revenue on the Statement of Revenue and Expenses and Changes in Fund Balance. Implementation of SOP 90-8 required CCRCs to report advance entrance fees as deferred revenue after the liability section of the balance sheet. The nonrefundable portion of entrance fees is recalculated annually and amortized using straight line method to income over the average expected life of each resident. The refundable portion of entrance fees is amortized to income over the estimated life of the related facilities, usually 20-40 years.

SOP 90-8 also requires fees that are to be paid to current residents or designees only upon re-occupancy of the contract holder's unit should be recorded as deferred revenue. In addition, attrition income should be deferred and amortized to income over future periods based on the remaining useful life of the facility.

Finally, future service obligations should be recorded when the present value of future net cash outflows exceeds unamortized deferred revenue plus depreciation of facilities to be charged related to the contracts and unamortized initial direct costs of acquiring the related continuing-care contracts.

THE DOI REPORT ARRIVES

George Nadeau and Brett Logan met with Chuck Earney, the CPA to review the insolvency accusations.

Brett Logan: *Word is spreading quickly among the residents that we have been declared insolvent by the DOI! They are all worried about losing their investment and the older ones are really concerned about losing the guaranteed life and nursing home care. I've sent out a memo trying to appease their concerns, but we need to move quickly on a convincing resolution.*

George Nadeau: *Chuck, you know Plantation Village well. Our reputation is impeccable. Politics in Raleigh and all these new retirement care providers have the DOI in a tizzy and they're taking it out on us. They think we are just like the new Marriott. We are not insolvent . . . we're always able to pay our bills plus providing the residents with an outstanding living facility. We need your help. What exactly is solvency anyway?*

Chuck Earney: *You're right, solvency is usually viewed as a firm's ability to pay its debts as they mature. To measure this ability, as well as the financial health of an entity, a number of areas typically required review. Profitability, liquidity, and solvency all play a part in determining financial stability. Generally, profitability addresses current and projected net operating income. Liquidity looks at relationships between current assets and liabilities, and solvency measures look at operating cash flows, debt, and total liabilities. These measures may give a better depiction of the present and future financial condition of Plantation Village than the DOI. We need a complete analysis to present to the DOI.*

SUGGESTED REFERENCE MATERIAL

AICPA, Statement of Position 90-8, *"Financial Accounting and Reporting by Continuing Care Retirement Communities"*.

Exhibit 1:
Plantation Village Resident Agreement Plans

RETURN OF CAPITAL PLAN
PLANTATION VILLAGE
1993

Apartment Type	Entrance Fee	Refundable Participation at 90%	Monthly Fee	2nd Person
One Bedroom Units				
Traditional	$106,550	$ 95,895	$1,175	$550
Deluxe	120,990	108,891	1,285	550
Two Bedroom Units				
Traditional	$142,100	$127,890	$1,399	$550
Lakeside	152,100	136,890	1,438	550
Deluxe	160,990	144,891	1,512	550
Deluxe Villa	166,540	149,886	1,549	550

TRADITIONAL PLAN
PLANTATION VILLAGE
1993

Apartment Type	Entrance Fee	Refundable Participation After 12 Months	Monthly Fee	2nd Person
One Bedroom Units				
Traditional	$ 84,800	$0	$1,175	$550
Deluxe	93,900	0	1,285	550
Two Bedroom Units				
Traditional	$112,100	$0	$1,399	$550
Lakeside	122,100	0	1,438	550
Deluxe	130,100	0	1,512	550
Deluxe Villa	116,000	0	1,549	550

Conditions of Termination — Both Plans

1. Termination of the agreement through 120 days written notice or death of occupant
2. Re-occupancy of the unit
3. Collection of new entrance fees

Exhibit 2:
Audited Financial Statements

PLANTATION VILLAGE, INC.
STATEMENTS OF REVENUE AND EXPENSES
AND CHANGES IN FUND BALANCE (DEFICIT)
Years Ended December 31, 1993 and 1992

	1993	1992
Revenue:		
Resident Service Fees, including amortization of advance fees (1993 $593,000; 1992 $582,000)	$3,193,358	$ 3,100,170
Other	64,101	58,675
Total Revenue	$ 3,257,459	$ 3,158,845
Expenses:		
Resident care	$ 473,001	$ 467,949
Dietary	734,227	702,772
Housekeeping	172,957	173,988
Plant	531,744	535,199
General and administrative	585,664	567,481
Depreciation and amortization	661,252	702,460
Interest	125,415	149,495
Total Expenses	$ 3,284,260	$ 3,299,344
(Excess) of expenses over revenue	$ (26,801)	$ (140,499)
Non-operating gain (losses):	$ 33,501	$ (88,241)
Fund balance (deficit) beginning	(3,512,947)	(3,284,207)
Fund balance (deficit) ending	$(3,506,247)	$(3,512,947)

Exhibit 3:
Audited Financial Statements

PLANTATION VILLAGE, INC.
BALANCE SHEETS
Years Ended December 31, 1993 and 1992

	1993	1992
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 247,676	$ 223,955
Short-term investments	226,154	48,064
Assets whose use is limited for operating reserves	790,000	405,000
Receivables	5,464	50,288
Prepaid expenses	48,483	45,672
Total Current Assets	$ 1,317,777	$ 772,979
ASSETS WHOSE USE IS LIMITED (restricted by DOI)	$ 181,559	$ 565,265
PROPERTY AND EQUIPMENT	$ 9,107,024	$ 9,470,560
OTHER ASSETS (deferred acquisition costs)	$ 1,717,298	$ 1,956,058
	$12,323,658	$12,764,862
LIABILITIES AND FUND BALANCE (DEFICIT)		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 132,904	$ 181,305
Accounts payable and accrued expenses	176,959	156,359
Deposits on unoccupied units	225,108	47,989
Total Current Liabilities	$ 534,971	$ 385,653
LONG-TERM DEBT, less current maturities	$ 1,911,742	$ 2,284,943
FUND BALANCE (DEFICIT)	$ (3,506,247)	$ (3,512,947)
	$12,323,658	$12,764,862

Exhibit 4:
Audited Financial Statements

PLANTATION VILLAGE, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 1993 and 1992

	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES		
(Excess) of expenses over revenue	$ 6,700	$(228,740)
Adjustments to reconcile excess expenses over revenue to net cash provided by operating activities:		
Net proceeds from advance fees	545,206	478,908
Amortization of advance fees	(592,108)	(582,314)
Depreciation and amortization	422,492	451,531
Amortization	238,760	250,929
Loss on disposal of property and equipment	4,667	4,666
Changes in assets and liabilities:		
Decrease in other current assets	42,013	114,914
Increase (decrease) in accounts payable and accrued expenses	20,600	(38,557)
Net Cash Provided by Operating Activities	$ 688,330	$ 451,337
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in assets whose use is limited and short-term investments	$(253,007)	$(157,588)
Acquisition and construction of property and equipment	10,000	0
Net cash (used in) investing activities	$(243,007)	$(157,588)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(421,602)	(114,490)
Net cash provided by (used in) financing activities	$(421,602)	$(114,490)
Net (increase) in cash and cash equivalents	$ 23,721	$ 179,259
Cash and cash equivalents:		
Beginning	223,955	44,696
Ending	$ 247,676	$ 223,955

Exhibit 5:
Actual and Projected Financials

PLANTATION VILLAGE, INC.
INCOME STATEMENT
Years Ended December 31
Figures in 000's

	ACTUAL		PROJECTED				
	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Revenue:							
Resident service fees	$ 2,518	$ 2,601	$ 2,728	$ 3,612	$ 4,011	$ 4,987	$ 5,220
Amortization of advance fees	582	592	558	650	826	959	1,016
Other	59	64	43	46	6	63	66
Total Revenue	$ 3,159	$ 3,257	$ 3,329	$ 4,308	$ 4,900	$ 6,009	$ 6,302
Expenses:							
Resident care	$ 468	$ 473	$ 662	$ 759	$ 872	$ 1,030	$ 1,150
Dietary	703	734	737	856	928	1,066	1,108
Housekeeping	174	173	194	231	253	296	308
Plant	535	532	564	672	735	861	896
General and administrative	567	586	573	634	676	747	777
Depreciation and amortization	702	661	676	748	853	1,572	1,095
Interest	150	125	112	100	91	83	74
Total Expenses	$ 3,299	$ 3,284	$ 3,518	$ 4,000	$ 4,408	$ 5,655	$ 5,408
Income (loss) from operations	(140)	(27)	(189)	308	492	354	894
Nonoperating gain (loss)	(89)	34	40	58	88	119	185
Excess (deficiency) of Revenues and gains over Expenses	$ (229)	$ 7	$ (149)	$ 366	$ 580	$ 473	$ 1,079
Fund balance (deficit) beginning	(3,284)	(3,513)	(3,506)	(3,655)	(3,289)	(2,709)	(2,236)
Fund balance ending	$(3,513)	$(3,506)	$(3,655)	$(3,289)	$(2,709)	$(2,236)	$(1,157)

Exhibit 6:
Actual and Projected Financials

PLANTATION VILLAGE, INC.
BALANCE SHEETS
Years Ended December 31
Figures in 000's

	ACTUAL 1992	1993	PROJECTED 1994	1995	1996	1997	1998
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$ 224	$ 248	$ 288	$ 832	$ 1,752	$ 2,848	$ 3,152
Assets whose use is limited	48	226	513	617	248	121	125
Operating reserve	405	790	790	790	790	1,087	1,144
Other current assets	96	54	57	89	102	140	148
Total Current Assets	$ 773	$ 1,318	$ 1,648	$ 2,328	$ 2,892	$ 4,196	$ 4,569
ASSETS WHOSE USE IS LIMITED	$ 565	$ 182	$ 249	$ 337	$ 454	$ 585	$ 730
PROPERTY AND EQUIPMENT, NET	$ 9,470	$ 9,107	$12,327	$15,147	$18,173	$18,882	$18,254
OTHER ASSETS							
Organization and deferred costs, less accumulated amortization	$ 1,956	$ 1,717	$ 1,805	$ 1,733	$ 1,616	$ 1,347	$ 1,070
	$12,764	$12,324	$16,029	$19,545	$23,135	$25,010	$24,623
LIABILITIES AND FUND BALANCE (DEFICIT)							
CURRENT LIABILITIES							
Current maturities of long-term debt	$ 181	$ 133	$ 219	$ 243	$ 256	$ 161	$ 174
Accounts payable and accrued expenses	156	177	186	217	239	280	296
Interim Financing	0	0	3,900	1,853	600	0	0
Deposits on unoccupied units	48	225	513	617	247	121	126
Total Current Liabilities	$ 385	$ 535	$ 4,818	$ 2,930	$ 1,342	$ 562	$ 596
LONG-TERM DEBT, less current maturities	$ 2,285	$ 1,912	$ 1,632	$ 1,389	$ 1,115	$ 1,989	$ 736
DEFERRED REVENUE FROM ADVANCE FEES	$13,607	$13,383	$13,234	$18,515	$23,387	$24,695	$24,448
FUND BALANCE (DEFICIT)	$ (3,513)	$ (3,506)	$ (3,655)	$ (3,289)	$ (2,709)	$ (2,236)	$ (1,157)
	$12,764	$12,324	$16,029	$19,545	$23,135	$25,010	$24,623

Exhibit 7:
Actual and Projected Financials

PLANTATION VILLAGE, INC.
PROJECTED STATEMENTS OF CASH FLOWS
Years Ended December 31
Figures in 000's

	ACTUAL		PROJECTED				
	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
CASH FLOWS FROM OPERATING ACTIVITIES							
(Excess) of expenses over revenue	$(229)	$ 7	$ (148)	$ 366	$ 579	$ 474	$ 1,079
Adjustments to reconcile excess expenses over revenue to net cash provided by operating activities:							
Net proceeds from advance fees	479	545	409	5,931	5,698	2,267	770
Amortization of advance fees	(582)	(592)	(558)	(650)	(826)	(959)	(1,016)
Depreciation and amortization	702	661	676	748	853	1,572	1,095
Loss on disposal of property and equipment	5	5	0	0	0	0	0
Write-down of property to net realizable value	128	0	0	0	0	0	0
(Increase) in other current assets	(13)	42	(3)	(33)	(13)	(38)	(8)
Increase (decrease) in accounts payable and accrued expenses	(39)	21	297	135	(346)	(87)	22
Net Cash Provided by Operating Activities	$ 451	$ 689	$ 673	$ 6,497	$ 5,945	$ 3,229	$ 1,942
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from (additions to) assets whose use is limited and operating reserve	$ (81)	$(180)	$ (356)	$ (191)	$251	$ (301)	$ (208)
Acquisition and construction of property and equipment	(77)	(74)	(3,657)	(3,321)	(3,621)	(236)	(190)
Acquisition of deferred costs	0	0	(327)	(175)	(140)	(8)	0
Proceeds from sale of property	0	10	0	0	0	0	0
Net cash (used in) investing activities	$(158)	$(244)	$(4,340)	$(3,687)	$(3,510)	$ (545)	$ (398)
CASH FLOWS FROM FINANCING ACTIVITIES							
Principal payments on note payable	$(114)	$(127)	$ (133)	$ (139)	$ (145)	$ (152)	$ (161)
Principal payments on long-term debt:							
Obligation payable to management company	0	(294)	(60)	(80)	(117)	(836)	(1,079)
Net proceeds from (repayment of) interim financing	0	0	3,900	(2,047)	(1,253)	(600)	0
Net cash provided by (used in) financing activities	$(114)	$(421)	$ 3,707	$(2,266)	$(1,515)	$(1,588)	$(1,240)
Net (decrease) in cash and cash equivalents	$ 179	$ 24	$ 40	$544	$920	$ 1,096	$ 304
Cash and cash equivalents:							
Beginning	45	224	248	288	832	1,752	2,848
Ending	$ 224	$ 248	$ 288	$ 832	$ 1,752	$ 2,848	$ 3,152

PLANTATION VILLAGE, INC. — B

Joanne W. Rockness, Cameron Professor of Accountancy
University of North Carolina at Wilmington, Wilmington, North Carolina

Charles L. Earney, Partner
Earney and Co. CPA's, Wilmington, North Carolina

William J. Mayew, Staff Accountant
Ernst & Young, Raleigh, North Carolina

March, 1993 . . . Two months after the DOI report arrived.

Bill and Janice Kingsley recently retired from his long-term sales position in upstate New York. Their dream was to move to a warmer climate with secure living arrangement. Although Bill had not made a lot of money in his career, he had good pension and coupled with social security they had a comfortable fixed monthly income of $4,200. Property values had appreciated significantly and their lifetime home sold for close to $400,000. Additional savings were minimal, but they were proud of spending their discretionary income on their children's education.

They had friends who lived in North Carolina who encouraged them to come down and look around. The snow was still deep in New York and Wilmington looked like paradise when they arrived. They visited several condominium communities and on the third day decided to look at Plantation Village. Although they had not thought they were ready for a retirement community, the amenities and security of Plantation Village were very appealing. The salesman showed them the enclosed pool, dining facilities, and adjacent golf course and they were convinced this was the place for them. They felt they could afford one of the smaller units and still maintain $100,000 savings . . . plus the idea of a 90% guaranteed refund would ensure they could preserve some inheritance for their children.

Bill was ready to sign immediately, but Janice thought they should talk with their long-time CPA, Jeff Hunter, in New York. Jeff had always done their tax work and had recently been their financial advisor after the sale of the house. The salesman provided a copy of the audited financial statements and Bill sent them to Jeff along with the promotion information about Plantation Village. No mention was made of the DOI sanctions.

Required:

1. Do you think the salesman has an obligation to disclose the pending DOI action to Bill and Janice?
2. Jeff Hunter specializes in tax and financial advisory services clients and is now offering comprehensive eldercare services. He knows the Kingsleys personally as well as knowing their financial situation well. Bill called to tell him that they had found the perfect retirement community, but Janice wanted his endorsement. What should Jeff recommend? What are the ethical issues he should consider in his recommendation?