

EXAMINATION WARRANT # 14-250339430-CP

REPORT OF EXAMINATION

OF THE

**BAPTIST HOMES SOCIETY
PITTSBURGH, PENNSYLVANIA**

AS OF

JUNE 30, 2014

For Informational Purposes Only

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Salutation	1
Scope of Examination	1
History.....	2
Description of Facility	2
Fees and Services	3
Refund Policy.....	4
Management and Control:	
Board of Directors.....	5
Officers	6
Corporate Records	
Articles of Incorporations	6
By-Laws.....	6
Annual Disclosure Statement.....	7
Resident Agreement.....	7
Pending Litigation.....	7
Financial Statements:	
Comparative Balance Sheet	8
Comparative Statement of Operations	9
Comparative Statement of Cash Flows.....	10
Notes to the Financial Statements	
Statutory Minimum Liquid Reserve	11
Subsequent Events	11
Escrow Requirements	11
Recommendations.....	11
Conclusion	12

For Informational Purposes Only

Harrisburg, Pennsylvania
July 27, 2015

Honorable Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In compliance with instructions contained in Examination Warrant 14-250339430-CP dated August 6, 2014, and in accordance with provisions of the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. § 3219, an examination was conducted of the records and affairs of

BAPTIST HOMES SOCIETY

a continuing care retirement community hereafter referred to as the "Provider." This examination was conducted at the administrative office of the Provider located at 489 Castle Shannon Boulevard, Pittsburgh, Pennsylvania 15234.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

This is the second examination of the Provider. This examination covered the period from July 1, 2009 through June 30, 2014, and consisted of a general survey of the Provider's business practices and management, and an evaluation of the Provider's financial condition, based upon the results of its annual audits. Material subsequent events were also reviewed.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Commonwealth of Pennsylvania Insurance Department ("Department").

The format of this report is consistent with the current practices of the Department and is limited to a description of the Provider, a discussion of key financial items that are of specific regulatory concern, and a disclosure of other significant regulatory information.

The objective of this examination was to determine the extent of the Provider's compliance with 40 P.S. §3202 and 31 Pa. Code §151.

For the years ending June 30, 2010 through June 30, 2013, the Certified Public Accounting firm of Parente Beard, LLC, of Pittsburgh, Pennsylvania issued unmodified audit opinions on the Provider's financial statements based on generally accepted accounting principles. For the year ended June 30, 2014, the Certified Public Accounting firm of Baker Tilly Virchow Krause, LLP, Pittsburgh, Pennsylvania issued an unmodified opinion of the Provider's financial statements based on generally accepted accounting principles.

HISTORY

Baptist Homes originally opened in West Newton, PA on March 26, 1910. An association of eleven area Baptist churches established a home for widows and orphans. The present Mount Lebanon campus opened in 1915 and experienced steady growth over the next several decades. A residential wing and an intermediate care unit were added in 1951. The nursing center was completed in 1964, and by the mid-1970s, the organization began phasing out services to orphans and focused its services on the growing needs of seniors.

In 1979, 100 independent living apartments were added to the community and operate under the Federal Housing and Urban Development's (HUD) Section-8 low income housing program. In 1985, the organization built an extension onto its nursing center which resulted in the present configuration of 126 skilled nursing beds. In 1995, the third floor of the nursing center was converted to a secure memory support unit. The personal care residence was renovated in 1987 and consists of 54 private rooms.

Baptist Homes Society received its certificate of authority to operate as a continuing care retirement community on July 16, 2007 as part of its expansion plan. During 2007, three continuing care residents were admitted to the Baptist Home campus. Because the Baptist Home campus had limited expansion capabilities, the organization broke ground on 32 acres in Scott Township and opened Providence Point to continuing care residents in 2008. The first continuing care residents were admitted October 27, 2008.

DESCRIPTION OF FACILITY

The Provider's continuing care retirement community consists of two campuses: The Baptist Homes campus in Mount Lebanon and Providence Point campus in Scott Township, both suburbs of Pittsburgh Pennsylvania.

Baptist Homes Campus: The Baptist Homes campus is located on 11 acres in Mount Lebanon and consists of four buildings, three of which are contiguous. A residential living building is comprised of 99 subsidized apartments and one unsubsidized apartment. Baptist Homes participates in the Federal Housing and Urban Development's (HUD) Section-8 low income housing program. Ten of the 100 apartments are handicap accessible.

The Baptist Homes campus also includes a personal care home that includes 54 apartments and a 126 bed skilled nursing center. A fourth building serves as the administrative offices for the Baptist Homes Society.

Providence Point Campus: The Providence Point campus is located on 32 acres along a ridge overlooking Scott Township. The independent living residences include a variety of floor plans. Providence Point provides residents with a lifestyle designed to meet their needs and provides residents the freedom to pursue their personal interests. Providence Point offers 222 apartments, 35 patio homes, 63 skilled nursing residences, 64 personal care residences, 20 private dedicated memory support residences, as well as common areas and amenities. The common areas include several dining venues, a private dining room, a library, a mail center, a community room, and a number of lounges.

The common areas also include a card and game room, an art studio, a wood shop, a golf simulator, a theatre, a fitness center, an indoor pool and spa, a bank, and guest accommodations. There are outdoor recreational areas including picnic/grilling areas, bocce court, and walking paths. Each apartment has access to one underground parking space with additional surface parking available, and each patio home has a two-car garage.

FEES AND SERVICES

As of June 30, 2014 the Provider offered continuing care agreements at both campuses. There is one entrance fee option at the Baptist Homes campus. There are several entrance fee options available to residents of Providence Point. Upon termination of the agreement, residents are entitled to a refund of the unamortized portion of the entrance fee paid.

Baptist Homes Campus: The entrance fee for admission into the Baptist Homes campus is \$40,000 and the monthly fee is \$1,584 for single occupancy. The entrance fee increases to \$50,000 and the monthly fee increases to \$2,147 for double occupancy. Upon termination, residents are entitled to a refund of the entrance fee, less 2 percent for each month of residency for the next 50 months. The entrance fee is earned in full after 50 months from the date of occupancy and after which a resident will not receive a refund of any portion of the entrance fee paid.

Providence Point Campus: There are three entrance fee plans available to continuing care residents at Providence Point: a 90% refundable plan, a 50% refundable plan, and a Non-Refundable plan. The Provider also offers two types of units: residential apartment units and patio homes. The entrance fee is based on the type of unit selected and the plan selected. Under any of the plans, the entrance fee increases by \$25,000 for a second person.

As of June 30, 2014, the monthly fee ranged from \$2,318 to \$5,374 depending on the unit selected. The monthly fee increased by \$1,145 for a second resident. The monthly fee is not affected by the plan selected.

- **90 % Refundable Plan:** As of June 30, 2014, entrance fees under this plan ranged from \$290,700 to \$913,000 depending on the residential unit. Four percent of the entrance fee is earned by the Provider upon occupancy of the residence and 2% is amortized over the next three months. After three months, residents are entitled to a refund of 90% of the entrance fee paid.

- 50% Refundable Plan: As of June 30, 2014, entrance fees under this plan ranged from \$259,300 to \$875,000. Four percent of the entrance fee is earned by the Provider upon occupancy and 2% is amortized over the next 23 months. After 23 months, residents are entitled to a refund of 50% of the entrance fee paid.
- Non-Refundable Plan: As of June 30, 2014, entrance fees under this plan ranged from \$206,400 to \$699,900. Four percent of the entrance fee is earned by the Provider upon occupancy and 2% is amortized over the next 48 months. After 48 months, residents are not entitled to any portion of the entrance fee paid.

REFUND POLICY

There were 22 terminations during the examination period and the Provider made refunds in all instances. We tested a sample of refunds made to residents and found that the refunds were properly computed in accordance with the Provider's refund policy and the respective resident agreements. The Provider's refund policy that follows complies with the requirements of 40 P.S. §3214.

Refund Prior to Occupancy

The resident agreement may be rescinded by the resident by giving written notice of such rescission to Baptist Homes Society within seven days following the execution of the agreement. In the event of such rescission, the resident will receive a full refund of the entrance fee paid. The resident shall not be required to move into the community before the expiration of the seven-day period.

The resident agreement may also be terminated by resident for any reason prior to occupancy by giving written notice to the Provider. In the event of such termination, the resident will receive a refund of the entrance fee paid, less any amount required to return the residence to its original condition if the resident has requested changes to the residence which the Provider determines have rendered it less marketable.

Refund after Occupancy

The first sixty days of occupancy is considered to be a trial period. During this sixty-day period, the resident will have the right to terminate this agreement by giving the Provider written notice of such termination.

In the event of such termination by the resident, or in the event of the resident's death during the sixty-day period, the resident will receive a full refund of the entrance fee paid, less a nonrefundable fee equal to 4% of the total amount of the entrance fee and any costs of returning the residence to its original condition.

During this period, the Provider retains the right to terminate the agreement if the resident's physical, mental or emotional condition does not permit adaptation to the living environment. In the event of such termination by the Provider, the resident will receive a full refund of the entrance fee paid.

Conditions and Due Date for Refund Payments

When an agreement is terminated prior to occupancy, any refund due is paid within 60 days of notification of termination of the agreement.

When an agreement is terminated after occupancy, entrance fee refunds are paid within 60 days after the Provider has received a replacement entrance fee from a new resident for the vacated residence. Entrance fee refunds are not paid upon transfer to the Healthcare Center.

In cases of double occupancy, the permanent transfer from the community and/or the death of one resident does not terminate the agreement as to the remaining resident. Refunds are not paid until both residents have vacated residence and a replacement entrance fee for the residence has been received.

All refunds are reduced by any costs required to return the residence to its original condition except for normal wear and tear, plus any costs owed by the resident to the Provider.

MANAGEMENT AND CONTROL

Board of Directors

The business and affairs of the Provider is managed by its Board of Directors which consisted of the following members as of June 30, 2014:

Name and Address

Thomas L. Ague
Lawrence, PA

Dr. Joseph Angelelli
Pittsburgh, PA

David E. Berry
Pittsburgh, PA

Laurie Butler
Pittsburgh, PA

Valerie S. Faeth
Upper St. Clair, PA

Brian T. Gongaware
Mars, PA

Principal Occupation

Retired Hospital Administrator

Professor
Robert Morris University

Retired Sales Engineer

Interior Designer
Perkins Eastman

Attorney
Cohen and Grigsby, P.C.

Certified Financial Planner
McKinley Carter Wealth Services Inc.

Board of Directors (continued)

<u>Name and Address</u>	<u>Principal Occupation</u>
Terry Gruneberg Lawrence, PA	Retired Accountant
Larry Jackley. Bridgeville, PA	CPA R.C. Holsinger Associates, P.C.
Mark Pelusi Pittsburgh, PA	Retired Teacher/Realtor
Frank Petrich Mt. Lebanon, PA	Attorney Julian Gray Associates
Dr. William D. Presutti, Jr. Bridgeville, PA	Retired Associate Dean of Graduate Studies Duquesne University
Jan Wenzel Pittsburgh, PA	Attorney Buchanan Ingersoll and Rooney, P.C.

Officers

The following officers were serving as of June 30, 2014:

Name	Title
Jan O. Wenzel	Chair of the Board of Directors
Larry Jackley	Vice-Chair of the Board of Directors
Alvin W. Allison, Jr.	President and CEO
Valerie Faeth	Secretary of the Board of Directors
Larry Jackley	Treasurer of the Board of Directors

CORPORATE RECORDS

Articles of Incorporation

No amendments were made to the Articles of Incorporation during the period of examination.

By-Laws

During the period covered by this examination, there were no amendments made to the Provider's By-Laws which were material in nature relative to the overall operations.

ANNUAL DISCLOSURE STATEMENT

A review was made of the 2014 annual disclosure statement for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act ("Act"), 40 P.S. §3207 and the Pennsylvania Insurance Regulations ("Regulations"), 31 Pa. Code § 151.7 and § 151.9. The 2014 disclosure statement was found to contain all information required by the Act and the Regulations.

RESIDENT AGREEMENT

The 2014 resident agreement was reviewed for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act ("Act"), 40 P.S. § 3214, and the Pennsylvania Insurance Regulations ("Regulations"), 31 Pa. Code § 151.8 and § 151.9. The 2014 resident agreement was found to contain all information required by the Act and the Regulations.

PENDING LITIGATION

There was no known pending legal action or any known potential legal action which could have a materially adverse effect on the Provider's financial condition as of this examination report.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of June 30, 2014, and the results of its operations for the last two years under examination are reflected in the following statements:

Comparative Balance Sheet
Comparative Statement of Operations
Comparative Statement of Cash Flows

The financial information used to compile the following financial statements was presented in the audited financial statements as of June 30, 2014. There were no changes made to the financial statements as a result of this examination.

**Comparative Balance Sheet
as of June 30,**

ASSETS	<u>2014</u>	<u>2013</u>
Current assets		
Cash and cash equivalents	\$ 4,607,615	\$ 2,985,499
Assets whose use is limited	-	2,797,756
Accounts receivable, residents	3,121,537	4,543,018
Current portion of pledge receivable	50,000	-
Prepaid expenses and other current assets	268,908	365,718
Total current assets	<u>8,048,060</u>	<u>10,691,991</u>
Accounts receivable, entrance fees	1,511,065	850,235
Investments	1,934,775	1,784,491
Assets whose use is limited	17,310,739	10,912,795
Act 82 reserves	3,522,143	4,148,846
Pledge receivable	356,831	-
Property and equipment, net	169,775,419	174,771,266
Deferred marketing costs, net	4,250,561	5,313,209
Deferred financing costs, net	5,258,308	5,573,881
Other assets	429,730	406,024
Total assets	<u>\$ 212,397,631</u>	<u>\$ 214,452,738</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current maturities of long-term debt	2,529,034	2,472,969
Accounts payable, trade	2,211,371	2,011,937
Accrued payroll and withholdings	380,760	366,293
Accrued interest	9,258	407,756
Accrued compensated absences	673,302	626,269
Accrued expenses	-	882,368
Total current liabilities	<u>5,803,725</u>	<u>6,767,592</u>
Long-term debt	133,776,716	136,305,661
Entrance fee deposits	673,587	548,418
Deferred revenues from entrance fees	15,384,390	14,799,438
Refundable entrance fees	99,196,965	90,715,026
Future services obligation	19,255,218	21,240,022
Derivative financial instrument	-	1,219,976
Other liabilities	859,960	1,085,524
Total liabilities	<u>274,950,561</u>	<u>272,681,657</u>
Net (deficit) assets		
Unrestricted	(63,204,288)	(58,541,880)
Temporarily restricted	602,168	263,771
Permanently restricted	49,190	49,190
Total net deficit	<u>(62,552,930)</u>	<u>(58,228,919)</u>
Total liabilities and net deficit	<u>\$ 212,397,631</u>	<u>214,452,738</u>

**Comparative Statement of Operations
for the Year Ended June 30,**

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Net resident service revenue	\$ 39,111,116	\$ 38,904,854
Other operating revenue	736,481	739,183
Net assets released from restrictions used for operations	224,676	79,841
Total operating revenues	<u>40,072,273</u>	<u>39,723,878</u>
Operating expenses		
Resident and general services	29,272,056	28,392,358
Administration	6,427,792	3,907,548
Depreciation	5,753,546	5,755,402
Interest	5,292,416	8,857,522
Amortization	1,378,221	1,383,542
Insurance	346,323	309,942
Total operating expenses	<u>48,470,354</u>	<u>48,606,314</u>
Operating loss	(8,398,081)	(8,882,436)
Nonoperating revenues (expenses)		
Decrease in future service obligation	1,984,804	771,207
Unrealized gain on derivative financial instruments	1,219,976	4,316,555
Contributions and special events	469,206	499,443
Investment income	232,090	143,377
Fundraising expenses	(280,403)	(278,082)
Total nonoperating revenues, net	<u>3,625,673</u>	<u>5,452,500</u>
Revenues less than expenses	(4,772,408)	(3,429,936)
Net assets released from restrictions used for purchase of property and equipment	<u>110,000</u>	<u>155,000</u>
Increase in unrestricted net deficit	(4,662,408)	(3,274,936)
Temporarily restricted net assets		
Contributions	649,302	149,773
Interest and dividends	10,711	5,961
Realized and unrealized gain (loss) on investments	13,060	8,319
Net assets released from restrictions used for purchase of property and equipment	(110,000)	(155,000)
Net assets released from restrictions used for operations	(224,676)	(79,841)
(Increase) decrease in temporarily restricted net assets	<u>338,397</u>	<u>(70,788)</u>
Increase in net deficit	(4,324,011)	(3,345,724)
Net deficit, beginning of year	(58,228,919)	(28,023,630)
Prior period adjustment	-	(26,859,565)
Net deficit, beginning of year, as restated	<u>(58,228,919)</u>	<u>(54,883,195)</u>
Net deficit, end of year	<u><u>(62,552,930)</u></u>	<u><u>(58,228,919)</u></u>

**Comparative Statement of Cash Flows
for the Year Ended June 30,**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase in net deficit	\$ (4,324,011)	\$ (3,345,724)
Adjustments to reconcile increase in net deficit to net cash used in operating activities:		
Depreciation and amortization	7,131,767	7,138,944
Unrealized gain on derivative financial instruments	(1,219,976)	(4,316,555)
Net realized and unrealized (gain) loss on investments	(141,705)	(61,167)
Provision for doubtful collections	573,409	14,259
Amortization of entrance fees	(1,838,854)	(1,466,595)
Proceeds from nonrefundable entrance fees, 2nd generation units	1,496,245	2,859,540
Decrease in future service obligation	(1,984,804)	(771,207)
Contributions, pledge receivable	(456,831)	-
Restricted contributions	(150,000)	(56,500)
Change in assets and liabilities:		
Accounts receivable, residents	848,072	(874,249)
Prepaid expenses and other assets	73,104	(72,768)
Accounts payable, trade	199,434	207,150
Accrued payroll and withholdings	14,467	52,038
Accrued interest	(398,498)	(11,994)
Accrued compensated absences	47,033	48,995
Other liabilities	(1,107,932)	(657,448)
Net cash used in operating activities	<u>(1,239,080)</u>	<u>(1,313,281)</u>
Cash flows from investing activities:		
Net (increase) decrease in assets whose use is limited	(2,953,458)	(922,301)
Purchases of property and equipment	(757,699)	(792,788)
Net (purchases) sales of investments	(28,606)	(48,699)
Net cash used in investing activities	<u>(3,739,763)</u>	<u>(1,763,788)</u>
Cash flows from financing activities:		
Proceeds from refundable entrance fees, 2nd generation units	9,634,765	3,841,586
Proceeds from refundable entrance fees, 1st generation units	2,217,241	7,905,650
Proceeds from nonrefundable entrance fees, 1st generation units	993,519	851,170
Proceeds from restricted contributions	150,000	56,500
Proceeds from entrance fees deposits	125,169	73,478
Proceeds from collections, pledge receivable	50,000	-
Repayment of long-term debt	(2,472,880)	(9,938,743)
Refunds of entrance fees	(4,096,855)	(3,149,442)
Proceeds from long-term debt	-	70,500
Payment of deferred financing costs	-	(387,882)
Net cash provided by (used in) financing activities	<u>6,600,959</u>	<u>(677,183)</u>
Net increase (decrease) in cash and cash equivalents	1,622,116	(3,754,252)
Cash and cash equivalents, at beginning of year	2,985,499	6,739,751
Cash and cash equivalents, at end of year	<u>\$ 4,607,615</u>	<u>\$ 2,985,499</u>

NOTES TO THE FINANCIAL STATEMENTS

Statutory Minimum Liquid Reserve

\$3,522,143

The Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. §3209, requires the Provider to establish and maintain a statutory liquid reserve in an amount equal to or exceeding the greater of:

- (1) The total of all principal and interest payments due during the next 12 months on account of any mortgage loan or other long-term financing of the facility; or
- (2) Ten percent of the projected annual operating expenses of the facility exclusive of depreciation.

Of the above two requirements, number (1) is \$3,522,143 and number (2) is \$1,665,284. As of June 30, 2014, the Provider had established and reported a reserve of \$3,522,143 for this purpose.

SUBSEQUENT EVENTS

As of the date of this examination report, the examination team was not aware of any events occurring subsequent to June 30, 2014 that could have an adverse effect on the financial condition of the Provider.

ESCROW REQUIREMENTS

The Provider requires a deposit of 10% of the entrance fee upon execution of the agreement at Providence Point. The Provider has established an escrow account with a bank to hold these deposits. The Provider has obtained the Department's authorization to release funds from the escrow account in accordance with 40 P.S. §3212 (2). No deposits are accepted at the Baptist Homes campus.

RECOMMENDATIONS

Prior Recommendations

The prior exam included a recommendation that the Provider amend its resident agreement to include the requisite information by 40 P.S. § 3214(a) (11) which requires that the agreement include a statement that charges for care paid in one lump sum shall not be increased or changed during the duration of the agreed upon care, except for changes required by State or Federal assistance programs. This has been corrected in subsequent disclosure statements.

Current Recommendations

This is the second examination of the Provider. There are no recommendations made as a result of this examination.

CONCLUSION

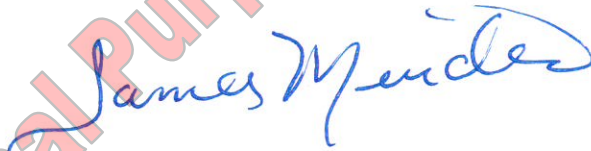
As a result of our examination, we conclude that as of June 30, 2014 Baptist Homes Society is in compliance with applicable Pennsylvania laws and regulations as they pertain to continuing care retirement communities.

This examination was conducted by Joseph P. Monaco.

Respectfully submitted,

 -cdd

Annette B. Szady, CPA
Director
Bureau of Financial Examinations



James Minder, CPA
Examination Manager
Bureau of Financial Examinations

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