

REPORT OF EXAMINATION

OF

BARCLAY FRIENDS
WEST CHESTER, PENNSYLVANIA

AS OF

DECEMBER 31, 2013

For Informational Purposes Only

BARCLAY FRIENDS

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Harrisburg, Pennsylvania
June 20, 2014

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 13-232088476-CP dated May 12, 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

BARCLAY FRIENDS

a continuing care retirement community hereafter referred to as the "Provider." This examination was conducted at the administrative office of the Provider located at 700 North Franklin Street, West Chester, Pennsylvania 19380.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Provider was last examined as of December 31, 2008. This examination covered the period from January 1, 2009 through December 31, 2013, 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 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 December 31, 2009 through December 31, 2013 the certified public accounting ("CPA") firm of Meyers Hoffman McCann, P.C., issued unqualified audit opinions on the Provider's financial statements based on generally accepted accounting principles.

HISTORY

The Provider was incorporated on December 1, 1978, when The Barclay and Friends Hall merged. The corporate name was changed to Barclay Friends in 1996. On December 1, 1997 the residents from the two facilities took up residence at the Provider's recently constructed facility at its current location on North Franklin Street, West Chester, PA. The first continuing care resident moved into the Provider's campus in July of 2007.

The Provider was issued a Certificate of Authority from the Department to operate as a continuing care retirement community on March 25, 2005.

The Provider is affiliated with the Kendal Corporation through the Provider's by-laws as well as an agreement between the Provider and the Kendal Corporation. The Kendal Corporation is associated with the Religious Society of Friends (Quakers). The agreement requires the payment of a "System Fee," and also requires that the Kendal Corporation be represented on the Provider's Board of Directors. The Provider is a tax exempt non-profit corporation under Section 501 (c) (3) of the Internal Revenue Code.

DESCRIPTION OF FACILITY

The Provider's facility is situated in a suburban setting in West Chester, Pennsylvania on ten plus acres of land. The residential and assisted living units are located in the Woolman Building. There are 47 units in the Woolman building: 27 small studio units: sixteen large studio units: and four suites. This section of the building includes purpose built and multi-use rooms. The rehabilitation and long-term care portion of the complex is referred to as the "Cotter Building" and consists of three sections with 33 beds each. The complex is surrounded by outdoor gardens and walking paths.

FEEES AND SERVICES

The Provider offers three size apartments for continuing care residents. The Provider also offers two levels of service; personal care and residential care. Personal care service includes all the services under residential care plus assistance with activities of daily living. The fee schedule below is for the personal care level of service. The monthly fees below are reduced by \$500 per month, per person for those under residential care.

	Personal Care Level Service			
	As of December 31, 2013			
	Entrance Fee		Monthly Fee	
	Single	Double	Single	Double
Studio	\$56,880	---	\$4,266	---
Large Studio	69,240	90,360	5,193	6,780
Suite	83,460	104,520	6,260	7,840

The entrance fee is 90% refundable. The entrance fees and monthly fees increased on January 1, 2014.

Services include use of the living accommodations, open parking spaces, and the use of community facilities. It also includes three meals per day, housekeeping and laundry services, maintenance of the community property, and utilities.

REFUND POLICY

Refund during Probationary Period

The agreement may be terminated by the delivery of a written notice stating the date on which the agreement will terminate. The termination date shall not exceed 30 days after the date of the notice and not more than 90 days after the occupancy date. The “probationary period” ends ninety (90) days after the occupancy date. All entrance fees will be refunded in full for any agreement terminated during the probationary period.

Refund after Probationary Period

After the probationary period, the Provider or resident (or his/her representative) may terminate agreement by delivery of thirty (30) days written notice. After the probationary period the entrance fee is 90% refundable to the resident or to his or her estate.

Termination by Death

The agreement shall terminate at death of resident and surrender of unit.

Time of Refunds

Refunds will be paid within 30 days after the effective date of termination, provided that all outstanding charges have been paid and the living accommodation has been vacated.

MANAGEMENT AND CONTROL

Board of Directors:

The Provider's Board of Directors has authority to manage the business of the corporation. Under the Provider's by-laws, the Board of Directors must be represented at least 50% by members of the Religious Society of Friends. As of December 31, 2013 the Provider's Board of Directors included the following members:

Name and Address	Principal Occupation
Brad Barry Phoenixville, PA	President, Chief Executive Officer Child Guidance Resources
Jo Bewley Exton, PA	Retired
Rachel Bull Garnet Valley, PA	Retired
Lewis W. Charnock West Chester, PA	Human Resources Consultant
Elizabeth C. Guman West Chester, PA	Retired
Benjamin James Birchrunville, PA	Retired
Tim Jefferis Downingtown, PA	Bank Vice-President
Beth Kaniefski West Chester, PA	Teacher
Greg Radford West Chester, PA	Architect
Dick Schramm West Chester, PA	Retired
John Spangler, J.D. West Chester, PA	Attorney
Winnie H. Stroup West Chester, PA	Retired

BARCLAY FRIENDS

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Elizabeth Sterrett-Laube Chadds Ford, PA	Retired
Betsy Swan Glen Mills, PA	Librarian
L. Diane Toalton Downingtown, PA	Supervisor Chester County Department of Children Youth and Families

Officers

The following officers were serving at December 31, 2013:

Name	Title
Dick Schramm	Chairman
Benjamin James	Vice-Chairman
Jo Bewley	Secretary
Brad Barry	Treasurer
Carol Hanson	Executive Director

CORPORATE RECORDS

Articles of Incorporation

The Provider was incorporated on December 1, 1978. There were no changes to the Provider's Articles of Incorporation during the period of time under examination.

By-Laws

There were no changes to the Provider's By-Laws during the exam period.

ANNUAL DISCLOSURE STATEMENT

The Provider's 2013 annual disclosure statement was reviewed for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act ("Act"), 40 P.S. §3207 and Pennsylvania Insurance Regulations ("Regulations"), 31 Pa. Code §151.7 and §151.9.

The 2013 annual disclosure statement did not include a separate page notifying residents of their right to rescind the continuing care agreement within seven days as required by 31 Pa. Code § 151.9(f). This condition was also found in the 2014 annual disclosure statement. The Provider corrected this condition by submitting a revised 2014 annual disclosure statement which did include a separate page which is in compliance with 31 Pa. Code §151.9(f). Therefore, no recommendation will be made.

RESIDENT AGREEMENT

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

PENDING LITIGATION

The examiner was not made aware of any pending legal action or any known potential legal action which could have a materially adverse affect on the Provider's financial condition as of the date of this examination report.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of December 31, 2013, and the results of its operations for the last two years under examination are reflected in the following statements:

Comparative Balance Sheets
Comparative Statements of Operations and Net Assets
Comparative Statements of Cash Flow.

There were no changes made to the financial statements as a result of this examination.

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**Comparative Balance Sheets
as of December 31,**

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 1,613,286	\$ 1,488,984
Cash – restricted – statutory liquid reserve	113,922	71,395
Accounts receivable, net:	978,626	853,456
Assets whose use is limited	337,719	332,527
Current portion of pledges receivable	148,743	0
Prepaid expenses and other current assets	85,679	131,279
Total Current Assets	3,277,975	2,877,641
Noncurrent Assets		
Property and equipment, net	11,551,071	9,871,162
Investments, at fair value		
Investments and assets whose use is limited	9,220,943	8,044,113
Beneficial interest in perpetual trusts	918,985	822,409
Long-term pledges receivable, net less current amount	69,118	0
Deferred financing fees, net	127,770	142,807
Total Noncurrent Assets	21,887,887	18,880,491
Total Assets	\$ 25,165,862	\$ 21,758,132
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Current portion of long-term debt	\$556,000	\$536,000
Accounts payable	399,488	319,535
Accrued payroll and payroll taxes	219,657	207,895
Deferred revenue, advance payments of room and	220,637	94,568
Accrued expenses and other current liabilities	161,258	97,014
Total Current Liabilities	1,557,040	1,255,012
Long-Term Liabilities		
Refundable entrance fees	566,775	426,563
Deferred revenue from entrance fees	45,584	25,924
Long-term debt, net of current maturities	8,361,189	7,037,022
Derivative financial instruments	649,874	919,736
Total Long-Term Liabilities	9,623,422	8,409,245
Total liabilities	11,180,462	9,664,257
<u>Net Assets</u>		
Unrestricted Net Assets	11,608,153	10,692,198
Temporarily Restricted Net Assets	1,056,672	245,023
Permanently Restricted Net Assets	1,320,575	1,156,654
Total Net Assets	13,985,400	12,093,875
Total liabilities and Net Assets	\$ 25,165,862	\$ 21,758,132

**Statements of Operations and Changes in Net Assets
for the Years Ended December 31,**

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Net resident service revenue	\$ 12,826,344	\$ 12,902,453
Assistance to residents	(61,140)	(80,745)
Amortization of entrance fees	17,438	11,301
Nursing facility assessment	(4,582)	(14,276)
Contributions – assistance	37,157	750
Net assets released from restrictions for assistance		100
Net assets released from restrictions for operations	27,382	31,126
Total Operating Revenues	<u>12,842,599</u>	<u>12,850,709</u>
Operating expenses		
Resident care services	5,306,086	5,237,223
Other resident services	195,924	191,000
Ancillary services	560,024	501,052
Food services	1,230,053	1,169,184
General services	1,365,597	1,371,147
Administrative services	2,848,021	2,829,507
Bad debt expense	28,270	10,000
System fee charges	391,820	390,144
Depreciation and amortization	705,982	669,706
Interest expense	447,844	446,412
Total operating expenses	<u>13,079,621</u>	<u>12,815,375</u>
Income (loss) from Operations	<u>(237,022)</u>	<u>35,334</u>
Non-operating revenues (expenses)		
Contributions	119,799	75,706
Investment Income	423,589	270,986
Fund-raising/development costs	(215,796)	(120,509)
Loss on disposal of property and equipment	(5,573)	
Write-off of deferred financing fees		(222,724)
Total Non-operating Revenues (Expenses)	<u>322,019</u>	<u>3,459</u>
Excess of Revenues over Expenses	<u>\$ 84,997</u>	<u>\$ 38,793</u>

Continued on page 9

Statements of Operations and Changes in Net Assets (Continued)
for the Years Ended December 31,

Excess of Revenues over Expenses (from page 8)	\$ 84,997	\$ 38,793
Changes in Unrestricted Net Assets		
Net assets released from restrictions: Purchase of Assets		2,754
Net Unrealized Gains on Investments	561,096	522,589
Gain on Derivative Financial Instrument	269,862	156,777
Increase in Unrestricted Net Assets	<u>915,955</u>	<u>720,913</u>
Changes in Temporarily Restricted Net Assets		
Contributions	817,678	21,709
Investment Income	21,353	20,776
Net assets released from restrictions	<u>(27,382)</u>	<u>(33,980)</u>
Increase in Temporarily Restricted Net Assets	811,649	8,505
Changes in Permanently Restricted Net Assets		
Change in beneficial interest in perpetual trust	96,576	51,423
Net unrealized gains on investments	67,345	28,482
Increase in Permanently Restricted Net Assets	163,921	79,905
Increase in Net Assets	1,891,525	809,323
Net Assets, Beginning of Year	<u>12,093,875</u>	<u>11,284,552</u>
Net Assets, End of Year	<u>\$ 13,985,400</u>	<u>\$ 12,093,875</u>

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**Statements of Cash Flows
for the Years Ended December 31**

<u>Cash flows from operating and non-operating activities</u>	<u>2013</u>	<u>2012</u>
Increase in net assets	\$ 1,891,525	\$ 809,323
Adjustments to reconcile increase in net assets to net cash		
Depreciation	705,982	669,706
Amortization of deferred financing fees	15,037	16,303
Write off of deferred financing fees		222,724
Change in allowance for doubtful accounts:	19,870	(29,969)
Amortization of entrance fees	(17,438)	(11,301)
Entrance fees received	37,098	8,100
Net unrealized gains on investments	(628,441)	(551,071)
Net realized gains on sale of investments	(231,475)	(52,642)
Change in beneficial interest in perpetual trust	(96,576)	(51,423)
Gain on derivative financial instrument	(269,862)	(156,777)
Loss on disposal of property and equipment	5,573	
Decrease (increase) in operating assets:		
Cash – restricted – statutory liquid reserve	(42,527)	10,844
Accounts receivable	(145,040)	(63,233)
Pledges receivable	(217,861)	
Prepaid expenses and other current assets	45,600	20,148
Increase (decrease) in operating assets:		
Accounts payable	79,953	38,677
Accrued payroll and payroll taxes	11,762	(83,578)
Deferred revenue, advance payments of room and board	126,069	15,174
Accrued expenses and other current liabilities	64,244	(46,122)
Net cash flows from operating and non-operating activities	1,353,493	764,883
<u>Cash flows from investing activities</u>		
Purchases of property and equipment	(2,391,464)	(506,268)
Purchases of investments	(3,738,425)	(2,923,718)
Proceeds from the sale of investments	3,421,511	2,724,280
Net decrease (increase) of assets whose use is limited	(5,192)	231,471
Net cash flows from investing activities	(2,713,570)	(474,235)
<u>Cash flows from financing activities</u>		
Net proceeds from long-term debt	1,880,167	
Acquisition of deferred financing fees		(150,373)
Repayment of long-term debt	(536,000)	(596,978)
Increase in refundable entrance fees, net of refunds	140,212	20,996
Net cash flows from financing activities	1,484,379	(726,355)
Net (decrease) increase in Cash and cash equivalents	124,302	(435,707)
Cash, beginning of year	1,488,984	1,924,691
Cash, end of year	\$ 1,613,286	\$ 1,488,984

NOTES TO THE FINANCIAL STATEMENTS

Statutory Minimum Liquid Reserve

\$113,922

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 \$98,900 and number (2) is \$113,922 as of December 31, 2013. The Provider had established a reserve of \$113,922 to satisfy the minimum statutory requirement as of December 31, 2013.

Subsequent Events

The examiner was not made aware of any events, subsequent to the date of this examination report which could have a significant adverse affect on the Provider's financial position.

RECOMMENDATIONS

Prior Examination

No recommendations were made as a result of the prior examination.

Current Examination

No recommendations were made as a result of this examination.

CONCLUSION

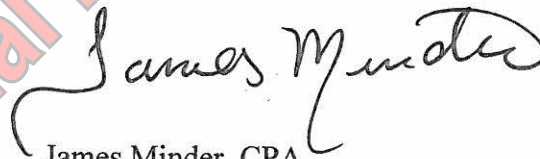
As a result of our examination, we conclude that Barclay Friends is in compliance with all applicable Pennsylvania laws and regulations as they pertain to continuing care retirement communities as of December 31, 2013.

This examination was conducted by Robert A. Young.

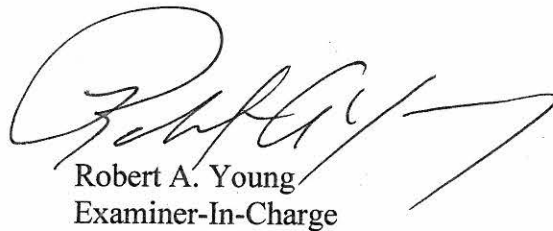
Respectfully submitted,



Annette B. Szady, CPA
Director
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James Minder, CPA
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Bureau of Financial Examinations



Robert A. Young
Examiner-In-Charge

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