

Examination Warrant Number 09-CP-101

Report of Examination of

The Brethren Home Community
d/b/a Cross Keys Village - The Brethren Home Community
New Oxford, Pennsylvania

As of June 30, 2009

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Harrisburg, Pennsylvania
July 7, 2010

Honorable Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In compliance with instructions contained in Examination Warrant Number 09-CP-101 dated September 22, 2009, and in accordance with provisions of the Pennsylvania Continuing Care Provider and Registration and Disclosure Act, 40P.S. § 3219, an examination was conducted of the records and affairs of

The Brethren Home Community d/b/a Cross Keys Village – The Brethren Home Community

a Continuing Care Retirement Community (“CCRC”) hereafter referred to as “Provider.” This examination was conducted at the administrative office of the Provider, located at 2990 Carlisle Pike, New Oxford, Pennsylvania 17350.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Provider was last examined as of June 30, 2004. This examination covered the five-year period from July 1, 2004 through June 30, 2009, 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 their annual audits, as of the latter date. 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 each year during the period under examination, the Certified Public Accounting (“CPA”) firm of Beard Miller Company, LLP of Lancaster, Pennsylvania provided an unqualified opinion based on generally accepted accounting principles (“GAAP”)

HISTORY

The Provider was founded in 1908 at Huntsdale, Pennsylvania, when The Southern Pennsylvania District Church of the Brethren purchased nearly seventy acres of land. The Provider, a ministry of the Southern Pennsylvania District, Church of the Brethren, was founded to provide retirement facilities, with nursing care services and spiritual influences, for aging persons.

The Provider has continued to expand its operations, leading to a corporate reorganization plan which includes The Brethren Home Foundation, The Brethren Home Title Holding Company and The Brethren Home Management Services Corporation. These Corporations were created to better manage the extensive operations of the facility.

On June 11, 1997, the Department processed the name change of The Brethren Home to The Brethren Home Community.

The Provider is accredited by the Council on Accreditation of Facility Rehabilitation Continuing Care Accreditation Commission (“CARF-CCAC”) which is based in Washington D.C. In 1998 the Provider was initially one of the first 30 continuing care retirement communities in the country to be accredited. The Home was reaccredited in 2003. The current accreditation is valid through March 2013.

The Provider is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code.

DESCRIPTION OF FACILITY

The Facility encompasses over 250 acres of wooded and open land in rural Oxford Township, Adams County, Pennsylvania. The Facility includes Residential Housing (Independent Living), Health Care, Assisted Living Services (Personal Care), and Day Services.

There are currently two types of Residential Housing units located in Cross Keys Village: cottages and apartments. There are 321 cottages representing twenty-one (21) different models. The Facility opened the Harmony Ridge Apartments in July 2000. Harmony Ridge is a three-story multi-winged building, which contains sixty-three (63) apartments of five (5) different styles, from approximately 700 to 1,165 square feet.

In Cross Keys Village, one person in the household must be at least 62 years old at the time of admission to a cottage or apartment. All other occupants must be at least 55 years of age.

The Health Care Center has 270 beds and is located in the main building and consists of three separate and distinct programs. A thirty-seven (37) bed special care programs for Residents with Alzheimer or other Dementias is served by a special trained staff. The second component of the Health Care Center is the 203-bed long term care unit. The third component is the Cross Keys Subacute Center, a thirty (30) bed unit that provides care to patients discharged from the hospital and others needing intensive nursing care services. Extensive rehabilitation services are available as well as skilled nurses to care for Patients with complex medical problems.

The Assisted Living Center (Personal Care) is also located in the main building with a separate entrance, program and staff.

FEES AND SERVICES

As of October 1, 2009

Cottages

Entrance Contribution	Monthly Service Fee One Person
\$31,200-\$237,800	\$575-\$817

Country Homes

Entrance Contribution	Monthly Service Fee One Person
\$277,300-\$321,800	\$1,181

Guaranteed refund options of 25%, 50%, and 75% are also available.

There is an \$85.00 per month second person fee charge for each additional occupant in a cottage.

Heritage Apartments

Entrance Fee	Monthly Fee
\$0	\$981-\$1,631

Harmony Ridge Apartments

Entrance Contributions	Monthly Service Fee One Person
\$87,600-\$280,000	\$908-\$2,121

There is a \$300 per month service fee for each additional occupant in an apartment.

REFUND POLICY

Termination Before Occupancy

Any Entrance Fee payments will be refunded in full if the resident rescinds the Agreement within seven (7) days in accordance with the Notice of Right to Rescind. In the event of termination of the Agreement due to death before the Designated Occupancy Date or actual date of Occupancy, whichever is earlier; or in the event the resident is precluded from taking Occupancy because of illness, injury, or incapacity prior to the Designated Occupancy Date or actual date of Occupancy, whichever is earlier; then at the specific written request of the resident or their representative, the Provider will make a full refund of the Entrance Fee payments less any amounts deducted to cover expenses incurred by the Provider. If the resident does not terminate the Agreement within the seven (7) day rescission period but does terminate prior to the Designated Occupancy Date or actual date of Occupancy, whichever is earlier, while not precluded from taking Occupancy by illness, injury, incapacity, or death; then the Provider will retain fifteen percent (15%) of the Entrance Fee. The balance of any Entrance Fee payments will be refunded to the resident, less any amounts deducted to cover expenses incurred by the Provider at the specific written request of the resident, in accordance with the refund provisions of the Agreement. Where two or more individuals have signed the Agreement for Multiple Occupancy, the death of one resident shall not constitute termination of the Agreement, and no refund shall be due.

Termination After Occupancy

The Entrance Fee shall be amortized at a rate of one percent per month from the Designated Occupancy Date or actual date of Occupancy, whichever is earlier, and is described in the agreement. Upon the Surrender of the Residence, any unamortized balance of the Entrance Fee will cease being amortized. Upon termination of the Agreement, and subject to other conditions described in the agreement, the unamortized balance of the Entrance Fee up to a maximum of eighty-five percent (85%) of the Entrance Fee will be refunded to the resident or the resident's estate, less any amounts deducted to pay any outstanding charges owed to the Provider.

Multiple Occupancy- Limitation on Availability of Refund

Any applicable refund will only be made after the last surviving Co-Resident vacates and surrenders the Residence and the Agreement is terminated. In situations of Multiple Occupancy where one Co-Resident is transferred to the Health Care Center and becomes eligible for Medical Assistance, no potential refund shall be available to pay for nursing care services. If, the Pennsylvania Department of Public Welfare ("DPW") or any court administrative agency or other appropriate tribunal construes any potential refund as an available resource or Medical Assistance eligibility requirements, then the Provider shall make available the amount determined by DPW or other appropriate tribunal as an available resource as a refund, and apply such refund to the payment of nursing care services for the particular Co-Resident.

No Accrual of Interest

No interest will accrue to the benefit of the resident estate on any amounts required to be refunded under the agreement, and no interest will be paid on termination.

Conditions and Due Date for Refund Payments

All applicable refunds will be made after the resident has surrendered the residence and only after it has been re-occupied by another resident from whom the Provider has received full payment of the applicable entrance fee. The amount of any refund is subject to deductions for any amounts due to the Provider and will be calculated by reference to the date of surrender of the residence. In situations of Multiple Occupancy, any applicable refund will be made to the estate of the last surviving Co-Resident.

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, 2009:

Name and Address	Principal Occupation
Erie Bortner Hanover, Pennsylvania	Engineer Penn Township
Bonnie G. Ferrence Spring Grove, Pennsylvania	Registered Nurse VNA of Hanover
Melvin L. Fleming Hanover, Pennsylvania	Retired
Lawrence L. Kendle Mercersburg, Pennsylvania	Retired
Sharon E. Myers East Berlin, Pennsylvania	Attorney/President CGA Law Firm
Ralph L. Miller York, Pennsylvania	Senior Price Analyst Bank of New York
M. Ann Rinker Hanover, Pennsylvania	Retired
Vernon L. King Spring Grove, Pennsylvania	President The Brethren Home Community

OFFICERS

The following Officers were serving as of June 30, 2009:

Name	Title
Brett A. Hoffacker	Chairman
Leroy M. Keeney	Vice Chairman
Vernon L. King	President
Rosemary Stoner	Secretary
Jacob E. Hershey	Treasurer
Paul E. Schildt	Assistant Secretary/Treasurer

CORPORATE RECORDS

ARTICLES OF INCORPORATION

There were no changes to the Provider's Articles of Incorporation during the period of the examination.

BY-LAWS

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

DISCLOSURE STATEMENT

A review of the 2009 Annual Disclosure Statement revealed that the Provider was in compliance with both 40 P.S. § 3207 and 31 Pa. Code § 151.7.

RESIDENT AGREEMENT

A review of the Resident Agreement currently offered by the Provider revealed that it was in compliance with both 40 P.S. § 3214 and 31 Pa. Code § 151.8.

PENDING LITIGATION

There was no known pending legal action which would have a materially adverse affect on the Provider's financial condition as of the examination date.

PENDING LITIGATION

There was no known 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 examination date.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of June 30, 2009, and the results of its operations for the last two years under examination, is reflected in the following statements:

Comparative Balance Sheet;
Comparative Statement of Operations; and
Comparative Statement of Cash Flows.

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

The Brethren Home Community d/b/a Cross Keys Village - The Brethren Home Community

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**COMPARATIVE BALANCE SHEET
AS OF JUNE 30,**

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 1,787,304	\$ 1,906,395
Resident funds	105,671	77,247
Accounts receivable:		
Department of Public Welfare	1,435,251	1,089,851
Other accounts receivable	4,153,665	3,599,451
Current portion of assets whose use is limited	4,210,301	4,202,022
Accrued investment and other income	362	30,368
Prepaid expenses	655,554	633,453
Pledges receivable, current portion	301,779	336,219
Total current assets	<u>12,649,887</u>	<u>11,875,006</u>
Investments	13,638,161	16,433,230
Split interest agreements receivable	221,409	22,917
Pledges receivable, net of current portion	321,334	466,842
Assets whose use is limited, net of current portion	22,281,300	36,392,028
Bond issue costs, net of accumulated amortization of \$52,115 in 2009 and \$19,682 in 2008	311,480	343,913
Property and equipment, net of accumulated depreciation of \$55,303,731 in 2009 and \$51,469,299 in 2008	76,849,563	63,159,634
Irrevocable trusts	1,328,664	1,728,596
Total assets	<u>\$ 127,601,798</u>	<u>\$ 130,422,166</u>
Liabilities and Net Assets		
Current Liabilities:		
Current maturities of long-term debt-bonds payable	\$ 2,125,000	\$ 1,565,000
Current maturities of long-term debt-note payable	23,013	23,013
Accounts payable-trade	803,630	642,483
Accounts payable-construction	1,828,574	2,315,790
Accrued liabilities	2,420,804	2,108,529
Interest payable	144,728	209,232
Resident funds	105,671	77,247
Annuities payable, current portion	355,439	388,607
Total current liabilities	<u>7,806,859</u>	<u>7,329,901</u>
Deferred revenue:		
Entrance fees	24,746,378	21,624,968
Prospective resident deposits	814,746	2,109,374
Entrance fees refund liabilities	1,238,096	749,388
Long-term debt, net of current maturities:		
Bonds payable	45,235,000	47,360,000
Note payable	38,416	61,429
Interest rate swap agreement	1,987,428	715,864
Other liabilities,	153,260	522,840
Annuities payable, net of current portion	2,274,302	2,436,160
Total liabilities	<u>84,294,485</u>	<u>82,909,924</u>
Net Assets:		
Unrestricted		
Undesignated:	29,233,862	30,516,991
Board designed:		
Good Samaritan Fund	6,832,911	8,115,390
Educational Assistance Programs	21,856	12,617
Assisted Living	13,307	13,307
Total unrestricted	<u>36,101,936</u>	<u>38,658,305</u>
Temporarily restricted	2,301,483	3,627,982
Permanently restricted	4,903,894	5,225,955
Total net assets	<u>43,307,313</u>	<u>47,512,242</u>
Total liabilities and net assets	<u>\$ 127,601,798</u>	<u>\$ 130,422,166</u>

The Brethren Home Community d/b/a Cross Keys Village - The Brethren Home Community

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**COMPARATIVE STATEMENT OF OPERATION
FOR THE YEAR ENDED JUNE 30,**

	2009	2008
Unrestricted revenues, gains, and other support:		
Resident services	\$ 36,946,607	\$ 33,693,385
Contributions	225,179	319,950
Interest and dividends	965,679	1,744,877
(Loss) gain on sale of investments	(233,552)	415,491
Unrealized loss on interest rate swap agreement	(1,271,564)	(715,864)
Loss on sale or disposition of property and equipment	(214,228)	(275,786)
Rental income	266,545	283,045
Net assets released from restriction, Good Samaritan Fund	373,238	389,055
Net assets released from restriction for programmatic purposes	168,350	146,289
Total operating revenues, gains, and other support	<u>37,226,254</u>	<u>36,000,442</u>
Expenses:		
Nursing services	13,488,242	12,070,772
Dietary	3,806,618	3,352,466
Housekeeping	903,414	858,009
Laundry	354,074	353,691
Operation and maintenance	3,520,342	3,366,584
Program and activities	401,437	418,997
Residential living	977,400	1,211,914
Assisted living	1,391,363	1,229,005
Pastoral care	168,388	160,666
Wellness	\$ 208,338	\$ -
Community services	88,081	95,294
Volunteer services	85,318	81,953
Social services	209,224	207,033
Administrative	4,669,028	4,371,265
Depreciation and amortization	4,985,910	4,654,703
Loss on refinancing of debt	0	611,528
Interest	1,145,136	2,063,278
Total expenses	<u>36,402,313</u>	<u>35,107,158</u>
Operating income	<u>823,941</u>	<u>893,284</u>
Other changes		
Unrealized (losses) on investments	(3,938,085)	(1,396,770)
Change in value of split interest agreements	(82,692)	(105,414)
Net assets released from restriction for the purchase of property and equipment	848,518	1,064,533
Investment return in deficiency of amounts designated for current operations	(208,051)	0
(Decrease) increase in unrestricted net assets	<u>(2,556,369)</u>	<u>455,633</u>
Temporarily restricted net assets:		
Contributions	1,172,570	658,699
Interest and dividends	218,246	253,467
(Loss) gain on sale of investments	(107,047)	43,766
Unrealized (loss) gain on investments	(1,240,184)	(350,890)
Transfer from liquidated trust	3,848	0
Net assets released from restriction	(1,390,106)	(1,599,877)
Change in value of split interest agreements	(191,877)	(155,802)
Investment return in deficiency of amounts designated for current operations	208,051	0
Decrease in temporarily restricted net assets	<u>(1,326,499)</u>	<u>(1,150,637)</u>
Permanently restricted net assets:		
Distribution of liquidated trust	(3,848)	0
Decrease in fair value of irrevocable trusts	(396,084)	(255,569)
Contributions	77,871	861,674
(Decrease) increase in permanently restricted net assets	<u>(322,061)</u>	<u>606,105</u>
Decrease in net assets	(4,204,929)	(88,899)
Net assets, beginning of year	<u>47,512,242</u>	<u>47,601,141</u>
Net assets, end of year	<u>\$ 43,307,313</u>	<u>\$ 47,512,242</u>

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**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30,**

	2009	2008
Cash flows from operating activities:		
Decrease in net assets	\$ (4,204,929)	\$ (88,899)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Amortization and recovery of entrance fees	(2,985,690)	(3,180,130)
Depreciation	4,953,477	4,609,856
Amortization-bond issue costs	32,433	44,847
Loss on refinancing of debt		611,528
Provision for doubtful accounts	117,000	37,000
Contributions restricted for long-term purposes	(1,250,441)	(1,520,373)
Loss (gain) on sale of investments	340,599	(459,257)
Loss on sale or disposition of property and equipment	214,228	275,786
Decrease in fair value of irrevocable trusts	396,084	255,569
Unrealized losses on investments	5,178,269	1,747,660
Unrealized losses on interest rate swap	1,271,564	715,864
Contributions recorded from annuity proceeds	(11,153)	(10,580)
Decrease in present value of pledges receivable	(23,389)	(45,655)
Provision for uncollectible pledges receivable	3,745	2,500
Change in annuity actuarial estimate	161,629	262,148
Proceeds from entrance fees and deposits	6,133,150	5,033,274
Change in other liabilities	(369,580)	(104,821)
Change in pledge receivable	1,100	303,823
Change in current assets and liabilities:		
Accounts receivable	(1,016,614)	(648,358)
Other current assets	7,905	84,764
Accounts payable and other current liabilities	408,918	260,661
Net cash provided by operating activities	<u>9,358,305</u>	<u>8,187,207</u>
Cash flows from investing activities:		
Purchase of property and equipment	(19,356,426)	(8,609,789)
Proceeds from sale of property and equipment	11,576	5,179
Purchases of investments and assets whose use is limited	(4,009,353)	(58,423,796)
Proceeds from liquidated trusts	3,848	0
Sales of investments and assets whose use is limited	15,388,003	43,190,949
Net cash used by investing activities	<u>(7,962,352)</u>	<u>(23,837,457)</u>
Cash flows from financing activities:		
Proceeds from contributions	1,250,441	1,520,373
Payments on note payable	(23,013)	(23,013)
Payments on bonds payable	(1,565,000)	(1,350,000)
Proceeds from issuance of bonds	0	50,275,000
Refunding of bonds	0	(33,245,000)
Bond issuance costs	0	(5,354)
Refunds of entrance fees and deposits	(831,970)	(651,126)
Payments on annuities payable	(375,502)	(398,914)
Proceeds from annuities	30,000	26,582
Net cash (used in) provided by financing activities	<u>(1,515,044)</u>	<u>16,148,548</u>
Net (decrease) increase in cash and cash equivalents	(119,091)	498,298
Cash and cash equivalents, beginning of year	1,906,395	1,408,097
Cash and cash equivalents, end of year	<u>\$ 1,787,304</u>	<u>\$ 1,906,395</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest:	\$ 1,209,640	\$ 2,043,642

Supplemental disclosure of non-cash investing and financing activities:
Accounts payable for construction totaled \$1,828,574 and \$2,315,790 at June 30, 2009,
and 2008, respectively

NOTES TO FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE

\$2,312,911

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 is \$2,312,911
- (2) Ten percent of the projected annual operating expenses of the facility exclusive of depreciation is \$2,150,224.

As of June 30, 2009 the Provider's reserve of \$23,132,973 complies with this requirement.

RECOMMENDATIONS

PRIOR RECOMMENDATIONS

There were no recommendations made from the prior examination.

CURRENT RECOMMENDATIONS

There are no recommendations made as a result of this examination.

CONCLUSION

The examination of The Brethren Home Community, made as of June 30, 2009, has determined that it is in compliance with all applicable Pennsylvania laws and regulations pertaining to Continuing Care Retirement Communities.

This examination was conducted by Joseph Monaco.

Respectfully

Dennis A. Mavrich / JAL

Dennis A. Mavrich, CFE
Examination Manager

Joseph P. Monaco / JAL

Joseph P. Monaco
Examiner