

EXAMINATION WARRANT # 10-CP-526

REPORT OF EXAMINATION

OF THE

BRETHREN VILLAGE  
LANCASTER, PENNSYLVANIA

AS OF

JUNE 30, 2010

For Informational Purposes Only

**BRETHREN VILLAGE**

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Harrisburg, Pennsylvania  
December 1, 2010

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 Number 10-CP-526 dated September 13, 2010, 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

**BRETHREN VILLAGE**

a continuing care retirement community hereafter referred to as the "Provider". This examination was conducted at the administrative office of the Provider located at 3001 Lititz Pike, Lancaster, PA 17606.

The report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Provider was last examined as of June 30, 2005. This examination covered the five-year period from July 1, 2005 through June 30, 2010, 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").

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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 June 30 fiscal years 2006 to 2010, financial statements were prepared on a consolidated basis for the Provider and affiliates, Brethren Services, Inc., ("BSI") and Brethren Services II, Inc. ("BSI2"). The statements for the June 30 fiscal years 2006 to 2009 were audited by the Certified Public Accounting firm of ParenteRandolph, LLC. For the fiscal year ending June 30, 2010, the consolidated financial statements were audited by the Certified Public Accounting firm ("CPA") of ParenteBeard, LLC. For all years covered under this examination, an unqualified audit opinion was rendered of the financial statements based on generally accepted accounting principles. Relevant work performed by the CPA during the audit of the Provider had been utilized by the examination and incorporated into the examination work papers.

### HISTORY

The Provider was founded in 1897 under the name "The Home for the German Baptist Brethren Church". In 1910, the Provider moved to its current location in Manheim Township and eventually became known as "Brethren Village."

The Provider received a Certificate of Authority from the Department to operate as a Continuing Care Retirement Community on March 6, 1986.

The Provider is affiliated with the Atlantic Northeast District of the Church of the Brethren. Any member of the Church of the Brethren, over 21 years of age, is eligible to serve as a Director.

The Provider operates two not-for-profit corporations, BS and BSII. The Provider is the controlling entity. BSI and BSI2 were established to provide housing for low-income elderly and/or handicapped families under specific sections of the National Housing Act and regulated by the U.S. Department of Housing and Urban Development.

The Provider is a tax exempt organization under 501 (c) (3) of the Internal Revenue Code.

### DESCRIPTION OF FACILITY

The Provider operates one facility by the same name, Brethren Village, located on approximately one hundred fifty three (153) acres in suburban Manheim Township, Lancaster County, Pennsylvania. Its registered address is within this property.

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As per the Provider's 2010 Disclosure Statement, there are two types of residential living units, cottages and apartments. There were 91 cottages each containing a living area, a full kitchen, one or two baths and two bedrooms. There were a total of 419 apartments located in various buildings on the property.

In addition, the Provider has personal care and skilled nursing care services at its Facility. As of June 30, 2010, there were 79 private rooms for personal care licensed by the Pennsylvania Department of Public Welfare and a 120-bed skilled nursing care licensed by the Pennsylvania Department of Health, certified for participation in the Medicare and Medicaid programs and is a participating provider with several managed care organizations.

Residents may receive in-home services from the Brethren Village Home Care Agency, which is certified for participation in Medicaid programs.

### FEES AND SERVICES

As of June 30, 2010, Entrance Fees ranged from \$17,500 (0% Refund Plan) Room and Bath in the Garden Spot complex to \$343,000 (90% Refund Plan) for a 2 bedroom deluxe apartment (fee for service plan).

The Single Occupancy Monthly Service Fee, at June 30, 2010, ranged from \$599 for a Studio to \$3,095 for a 2 bedroom deluxe apartment (life care and services plan). There is an additional monthly charge of \$209-\$895 for Double Occupancy.

The specific services offered are outlined in the resident agreement.

### REFUND POLICY

#### Refund During the Rescission Period

The Resident may terminate the agreement within seven (7) days of its execution (rescission period) and receive a full refund of the entrance fee paid, without interest, less any expense incurred by the Provider at the Resident's specific request for custom improvements to a residence as stated as an addendum to the agreement and the cost of removing the same, if needed.

#### Refund After Rescission Period

Under the Room and Bath Agreement, the entrance fee is non-refundable. For all other agreements, the entrance fees refunded range from 0% (fully amortized) to 95% depending upon the agreement and plan selected.

**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, 2010:

<b>Name and Address</b>	<b>Principal Occupation</b>
Douglas F. Deihm Lancaster, PA	Partner Trout, Ebersole & Groff, LLP
Steven L. Edris Manheim, PA	Owner Steven L. Edris Custom Contractor
Steven L. Faus Manheim, PA	President The Hess Agency
David L. Hawthorne Mount Joy, PA	President and Owner Hawthorne Electric, Inc.
S. Joan Hershey Mount Joy, PA	Director/Coordinator New Life Ministries
Carol Hess Lancaster, PA	Vice President, Human Resources Messiah Village
Carroll L. Kreider Elizabethtown, PA	Retired Professor
Alan R. Over Lancaster, PA	Vice President, Commercial Relationship Manager, Susquehanna Bank
Wilber G. Rohrer Lititz, PA	President Rohrer's Quarry, Inc.
Larry D. Sauder Manheim, PA	Retired
F. Barry Shaw Rheems, PA	President and Chief Executive Officer Wenger's Feed Mill, Inc.

**OFFICERS**

The following Officers were serving as of June 30, 2010:

<b>Name</b>	<b>Title</b>
F. Barry Shaw	Chairman
Carroll L. Kreider	Vice Chairman
David L. Hawthorne	Secretary
Steven L. Faus	Treasurer
Steven L. Edris	Assistant Secretary/Treasurer

## **CORPORATE RECORDS**

### **ARTICLES OF INCORPORATION**

As of June 30, 2010, there were no changes to the Provider's Articles of Incorporation during the period of the examination.

### **BY-LAWS**

As of June 30, 2010, there were no changes to the Provider's By-Laws during the period of the examination.

## **ANNUAL DISCLOSURE STATEMENT**

A review was made of the 2010 Annual Disclosure Statement for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act ("the Act"), namely 40 P.S. § 3207, Sections (a) through (d), and Pennsylvania Insurance Regulations ("the Regulations"), 31 Pa. Code § 151.7, Sections (a) through (f) and 31 Pa. Code § 151.9, Sections (a) through (f). The 2010 Disclosure Statement was found to contain all information required by the Act and the Regulations.

## **RESIDENT AGREEMENT**

The most current Resident Agreements were reviewed for compliance with 40 P.S. § 3214, Sections (a) through (f), of the Act, and 31 Pa. Code § 151.8 Sections (a) through (g), and 31 Pa. Code § 151.9 Sections (a) through (f), of the Regulations. The Resident Agreements contain the necessary information required of 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 affect on the Provider's financial condition as of the examination date.

### FINANCIAL STATEMENTS

The financial condition of the Provider, as of June 30, 2010, and the results of its operations for the last two years under examination are reflected in the consolidated statements titled "Brethren Village and Controlled Entities". The controlled entities are Brethren Services, Inc., and Brethren Services II, Inc. described earlier. The consolidated statements are:

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

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

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

ASSETS	<u>2010</u>	<u>2009</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,858,916	\$ 3,563,544
Resident trust funds	1,949	1,899
Assets whose use is limited	4,692,579	3,720,842
Accounts receivable, net of estimated allowance for doubtful collections	1,002,220	794,220
Other receivables	1,093,294	371,078
Pledges receivable, net	542,413	475,450
Prepaid expenses and other current assets	125,585	384,599
Total Current Assets	<u>11,316,956</u>	<u>9,311,632</u>
ASSETS WHOSE USE IS LIMITED:		
Board-designated	4,031,287	3,746,199
Under regulatory agreements	1,100,751	1,025,408
Under trust indenture, held by trustee	38,830,010	53,089,898
Total assets whose use is limited	<u>43,962,048</u>	<u>57,861,505</u>
LONG-TERM INVESTMENTS	<u>4,507,432</u>	<u>4,017,644</u>
LONG-TERM INVESTMENTS, RESTRICTED BY DONORS	<u>10,692,316</u>	<u>11,101,930</u>
PLEDGES RECEIVABLE, Net	<u>731,415</u>	<u>826,768</u>
PROPERTY, PLANT AND EQUIPMENT, Net	<u>123,555,214</u>	<u>109,773,608</u>
DEFERRED FINANCING COSTS, Net	<u>2,318,455</u>	<u>2,404,108</u>
COSTS OF ACQUIRING INITIAL CONTINUING-CARE CONTRACTS	<u>2,647,713</u>	<u>2,460,957</u>
OTHER ASSETS	<u>134,103</u>	<u>133,375</u>
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	<u>826,830</u>	<u>790,617</u>
TOTAL	<u>\$ 200,692,482</u>	<u>\$ 198,682,144</u>

**Comparative Balance Sheet (continued)**  
as of June 30,

LIABILITIES AND NET ASSETS	2010	2009
CURRENT LIABILITIES		
Current maturities on long-term debt	\$ 942,597	\$ 895,417
Accounts payable, trade	744,369	603,063
Accrued expenses	5,449,043	4,711,332
Resident trust funds	1,949	1,899
Total Current Liabilities	7,137,958	6,211,711
ACCOUNTS PAYABLE - CONSTRUCTION	1,481,591	2,621,519
RETAINAGE PAYABLE	1,664,771	2,659,050
LONG-TERM DEBT	125,426,367	126,368,964
REFUNDABLE FEES AND DEPOSITIS	22,288,762	16,825,205
DEFERRED REVENUES FROM ENTRANCE FEES	21,387,246	18,464,560
SPLIT-INTEREST OBLIGATIONS	1,134,502	1,056,348
ACCRUED PENSION COST	2,617,328	2,289,990
OTHER LIABILITIES	33,326	32,786
Total Liabilities	183,171,851	176,530,133
NET ASSETS		
Unrestricted	5,685,976	9,226,081
Temporarily restricted	1,969,678	3,356,634
Permanently restricted	9,864,977	9,569,296
Total Net Assets	17,520,631	22,152,011
TOTAL	\$ 200,692,482	\$ 198,682,144

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

	<u>2010</u>	<u>2009</u>
<b>UNRESTRICTED REVENUES AND OTHER SUPPORT:</b>		
Net resident service revenues	\$ 26,857,605	26,541,689
Other revenues	314,501	440,383
Unrestricted contributions	656,077	505,956
Net assets released from restrictions for:		
Interest expense	1,700,433	0
Benevolent care	<u>125,000</u>	<u>188,300</u>
 Total unrestricted revenues and other support	 <u>29,653,616</u>	 <u>27,676,328</u>
 <b>EXPENSES:</b>		
Health care	8,448,321	9,184,049
Home care	908,424	635,254
Barber and beauty shop	198,481	189,989
Dining services	3,121,212	2,994,788
Housekeeping	768,237	846,422
Laundry	226,854	227,645
Social services and activities	490,691	657,797
Plant operations	4,936,344	4,461,362
General and administrative	4,396,801	3,737,284
Depreciation	5,172,948	4,389,241
Amortization	211,735	85,653
Interest	<u>5,889,256</u>	<u>2,516,665</u>
 Total expenses	 <u>34,769,304</u>	 <u>29,926,149</u>
 OPERATING LOSS	 (5,115,688)	 (2,249,821)
 INVESTMENT INCOME (LOSS)	 <u>1,176,797</u>	 <u>(1,026,207)</u>
 REVENUES AND GAINS LESS EXPENSES	 (3,938,891)	 (3,276,028)
 PENSION LIABILITY ADJUSTMENT	 (95,213)	 (981,337)
 NET ASSETS RELEASED FROM RESTRICTIONS FOR:		
Principal payment on long-term debt	257,398	0
Purchase of property and equipment	205,276	0
Entrance fees	<u>31,325</u>	<u>40,000</u>
 DECREASE IN UNRESTRICTED NET ASSETS	 <u>\$ (3,540,105)</u>	 <u>\$ (4,217,365)</u>

**Comparative Statement of Operations (continued)**  
**For the Year Ended June 30,**

	2010	2009
<b>UNRESTRICTED NET ASSETS</b>		
Revenues and gains less than expenses	\$ (3,938,891)	(3,276,028)
Pension liability adjustment	(95,213)	(981,337)
Net assets released from restrictions for:		
Principal payment on long-term debt	257,398	0
Purchase of property and equipment	205,276	0
Entrance fees	31,325	40,000
	(3,540,105)	(4,217,365)
Decrease in unrestricted net assets		
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	856,534	925,678
Investment income (loss), including net unrealized loss on investments	162,009	(29,681)
Change in value of split-interest agreements	(86,067)	(74,409)
Net assets released from restrictions used for:		
Interest expense	(1,700,433)	0
Benevolent care	(125,000)	(187,500)
Principal payment on long-term debt	(257,398)	0
Purchase of property and equipment	(205,276)	0
Entrance fees	(31,325)	(40,000)
Other	0	(800)
	(1,386,956)	593,288
(Decrease) increase in temporarily restricted net assets		
<b>PERMANENTLY RESTRICTED NET ASSETS:</b>		
Contributions	131,494	98,877
Valuation gain (loss), beneficial interest in perpetual trusts	36,213	(157,124)
Change in value of split-interest agreements	127,974	(139,805)
	295,681	(198,052)
Increase (decrease) in permanently restricted net assets		
<b>DECREASE IN NET ASSETS</b>	(4,631,380)	(3,822,129)
<b>NET ASSETS, BEGINNING</b>	22,152,011	25,974,140
<b>NET ASSETS, ENDING</b>	17,520,631	22,152,011

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

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Decrease in net assets	\$ (4,631,380)	\$ (3,822,129)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,384,683	4,474,894
Proceeds from entrance fees and deposits-exiting units	3,344,556	2,857,950
Amortization of entrance fees	(2,588,195)	(2,494,696)
Net realized and unrealized (gain) loss on investments	(858,987)	1,519,726
Pension liability adjustment	95,213	981,337
Change in value of split-interest agreements	(41,907)	214,214
Contributions restricted for long-term purposes	(304,141)	(414,139)
Contributions, pledges receivable	(664,073)	(559,874)
Change in value of pledges receivable	(19,814)	(50,542)
Valuation (gain) loss, beneficial interest in perpetual trusts	(36,213)	157,124
Changes in assets and liabilities:		
Accounts and other receivables	(206,650)	391,087
Prepaid expenses and other current assets	259,014	(119,028)
Other assets	(728)	(477)
Accounts payable, trade	141,306	(108,187)
Accrued expenses	2,228,253	1,589,410
Other liabilities	540	515
Net cash provided by operating activities	<u>\$2,101,477</u>	<u>\$4,617,185</u>

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**Comparative Statement of Cash Flows (continued)**  
**For the Year Ended June 30,**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	\$(18,396,134)	\$(46,792,268)
Net sales of investments	13,706,533	35,777,195
Payment of costs acquiring initial continuing-care contracts	<u>(312,838)</u>	<u>(628,295)</u>
Net cash used in investing activities	<u>(5,002,439)</u>	<u>(11,643,368)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(895,417)	(118,362)
Proceeds from entrance fees and deposits- new units	7,500,148	10,378,024
Refunds of entrance fees and deposits	(593,832)	(230,103)
Net proceeds from (repayments of) split-interest obligations	120,061	(219,672)
Payment of accounts payable - construction	(2,621,519)	(2,621,558)
Payment of retainage payable	(1,329,525)	(542,359)
Contributions restricted for long-term purposes	304,141	414,139
Collection, pledges receivable	<u>712,277</u>	<u>670,224</u>
Net Cash Provided by Financing Activities	<u>3,196,334</u>	<u>7,730,333</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	295,372	704,150
CASH AND CASH EQUIVALENTS BEGINNING	<u>3,563,544</u>	<u>2,859,394</u>
CASH AND CASH EQUIVALENTS ENDING	<u>\$3,858,916</u>	<u>\$3,563,544</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid net of amounts capitalized	<u>\$4,650,795</u>	<u>\$1,045,211</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accrued interest expense capitalized	<u>\$676,083</u>	<u>\$1,934,500</u>
Accounts payable - construction	<u>\$1,481,591</u>	<u>\$2,621,519</u>
Retainage payable	<u>\$335,246</u>	<u>\$2,081,716</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**STATUTORY MINIMUM LIQUID RESERVE**

**\$8,457,987**

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 \$3,086,700 and number (2) is \$8,457,987 as of June 30, 2010. Per Note 3 of the 2010 consolidated financial statement, the "Board of Directors designated a portion of assets under trust indenture, held by trustee "reserved" to meet the requirements of Act 82". As of June 30, 2010, assets whose use is limited, under trust indenture, held by trustee amounted to \$43,522,589. The Provider's assets applied do satisfy the statutory requirement.

**RECOMMENDATIONS**

**PRIOR RECOMMENDATIONS**

There were no prior recommendations

**CURRENT RECOMMENDATIONS**

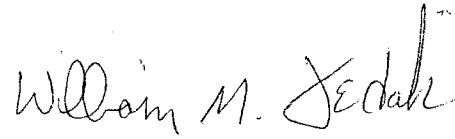
There are no current recommendations.

**CONCLUSION**


The examination of Brethren Village, made as of June 30, 2010, has determined that it is in compliance with all applicable Pennsylvania laws and regulations as pertaining to Continuing Care Retirement Communities.

This examination was conducted by Nicholas a. Kofira.

Respectfully submitted,



William M. Fedak,  
Examination Manager  
Bureau of Financial Examinations



Nicholas A. Kofira  
Examiner-In-Charge

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