

Examination Warrant Number 09-CP-519

Report of Examination of

Redstone Highlands Health Care Center  
Greensburg, Pennsylvania

As of June 30, 2009

For Informational Purposes Only

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Harrisburg, Pennsylvania  
June 30, 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 09-CP-519 dated February 10, 2010, and in accordance with provisions of the Pennsylvania Continuing Care Provider and Registration and Disclosure Act, 40 P.S. § 3219, an examination was conducted of the records and affairs of:

**Redstone Highlands Health Care Center**

a continuing care retirement community hereafter referred to as the "Provider." The examination was conducted at the administrative office of the Provider located at 6 Garden Center Drive, Greensburg, Pennsylvania 15601.

The 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 Parente Beard, LLC of Pittsburgh, Pennsylvania provided an unqualified opinion based on generally accepted accounting principles ("GAP").

## HISTORY

The Presbytery of Redstone ("Presbytery"), an organization of the Presbyterian Churches in a four (4) county area in Western Pennsylvania, established a non-profit corporation in 1978 known as the Greensburg Home of the Presbytery of Redstone for the stated purpose of meeting the needs of the elderly in Westmoreland County. Specifically, the Presbytery intended for this corporation to construct and operate a home for the elderly on land that had been donated to the Presbytery in the City of Greensburg, Westmoreland County ("Original Home"). As initially constructed, the Original Home was comprised of 64 nursing care beds and 63 personal care beds, which the corporation operated from 1980 until 1994. In 1990, the name of the corporation was changed to Greensburg Presbyterian Senior Care ("GPS"), which continued to operate the Original Home. During the latter years of its operation, GPS acquired additional land, which abutted the Original Home, with the intent that it would expand the Original Home, and convert the same to a full service retirement community to be known as Redstone Highlands and which is referred to herein as the "Greensburg Campus".

In January 1994, GPS filed Articles of Division under which it changed its name to Redstone Highlands Health Care Center ("RHHCC"), and a new Pennsylvania non-profit corporation was formed under the name of Greensburg Presbyterian Senior Care, which has since changed its name to Redstone Presbyterian Senior Center ("RPSC") (the "Reorganization"). As part of the reorganization, RHHCC retained the ownership of the Original Home, but the land upon which the Original Home was located and various vested assets were transferred to GPS. Also, at that time, RHPCH and RHA were formed. The purpose of the Reorganization was for RPSC to coordinate a proposed enlargement, in which RHHCC would survive as the owner and operator of the nursing care unit, RHPCH would own and operate the personal care unit.

Facility and RHA would own and operate the independent living units which were then in the planning stage. All of these corporations retain an affiliation with the Presbyterian Church.

During 1994, the Redstone corporations enlarged and completely rebuilt the Original Home. The renovation resulted in a facility which included (i) 75 new independent living apartments (owned by RHA), (ii) 51 personal care beds (owned by RHPCH), 33 of which were new as a result of the renovation, and (iii) a 70 bed nursing unit (owned by RHHCC), which included a 13 bed Alzheimer's unit. In 1996, the nursing unit was increased to 77 beds under the allowable expansion of the certificate of need process. The re-built facility replaced the Original

Home, with 93% occupancy being achieved by April of 1996. Since that date, an average of more than 90% occupancy has been maintained.

In 2001 and 2002, respectively, the Redstone corporations completed construction of two additional campuses at other locations. The facilities include 95 independent living units and 40 personal care beds (assisted living), of which 20 are designated for a memory impairment unit, called the "North Huntingdon Campus" which opened in 2001 in North Huntingdon, Pennsylvania and 90 independent living units and 44 personal care beds (assisted living), of which 20 beds are designated for a memory impairment unit, called the "Murrysville Campus" which opened in 2002 in Murrysville, Pennsylvania. The existing Greensburg Campus, as stated, consists of 75 independent living units, 51 personal care beds and 77 nursing beds.

On July 1, 2007 the Redstone corporations executed a Plan of Merger that merged all of the operations of the four previously affiliated entities into the existing RPSC entity.

## DESCRIPTION OF FACILITY

### A. General Description of the Area

The three campuses, which form the Redstone Highlands Communities, are located in Westmoreland County east of Allegheny County, home to the City of Pittsburgh. The facilities on the three campuses (Greensburg, North Huntingdon and Murrysville) are strategically located to take advantage of (i) the most populated portions of Westmoreland County and (ii) the easterly portion of Allegheny County.

### B. General Description of the Facilities

The primary difference among the campuses is that the Greensburg Campus provides skilled nursing care services (77 bed unit), which are not provided at either the Murrysville or North Huntingdon Campuses. Otherwise, each of the Campuses has many similar facilities. Each Campus is designed to permit privacy and separation of living accommodations, while permitting easy access to all areas of the complex in the event of need, and also to permit staff to service all of the residents. Each Campus is operated under a progressive "wellness model," which focuses on the long-term need to maximize each resident's potential and to maintain his/her optimal functional level.

The design of each campus is residential rather than institutional in character. At each campus there are various landscaped terraces, walking areas and garden plots available for the residents. On each campus there are common social areas and meeting rooms, some of which open onto outdoor areas.

### C. Description of the Individual Campuses

The Greensburg Campus is located in the City of Greensburg. Greensburg is a banking and government center with a well entrenched professional population. The Greensburg Campus is a six (6) acre site in a residential area. The facilities at the Greensburg Campus are all located within a single building, with various living areas connected by passageways and corridors. The building has three (3) stories plus a ground floor containing a total of 177,145 square feet, which is served by five (5) elevators. There is a common kitchen for all licensed levels of care, which

serves five (5) dining rooms together with two (2) private meeting (and dining) rooms which are available on a reservation basis. A separate kitchen serves the apartments.

The Murrysville Campus is located in the Municipality of Murrysville, approximately 14 miles northwest of the Greensburg Campus. It is bounded immediately on the Westerly side by Allegheny County and is home to many retired professionals. The complex is constructed on a 22-acre site, which is owned by RPSC, and is located on a hill in a residential area, which overlooks commercial and residential areas of Murrysville. The facility at the Murrysville Campus consists of a single building with the various living areas connected by passageways and corridors. The building has five stories plus a ground floor for a total of 190,000 square feet and three elevators. There is a common kitchen for all levels of care which serve three dining rooms together with two private meeting (and dining) rooms which are available on a reservation basis. The Murrysville Campus consists of 90 independent living units and 44 personal care units (which are licensed for 48 personal care residents), 20 of which are designated as a Memory Impairment Unit.

The North Huntingdon Campus is located in North Huntingdon Township, 14 miles west of the Greensburg Campus, and 14 miles south of the Murrysville Campus. It is bounded immediately on the west by Allegheny County, and is adjacent to the well-established communities of McKeesport, White Oak, North Versailles and Monroeville in that county. The North Huntingdon Campus is constructed on a 140-acre site that is located in a residential portion of the Township. The facilities at the North Huntingdon Campus consist of a single building with the various living areas connected by passageways and corridors. It has three stories, together containing 170,000 square feet and is served by three elevators. There is a common kitchen which serves three dining rooms together with a private meeting (and dining) room which is available on a reservation basis. The facility consists of 95 independent living apartments and 40 personal care units (which are licensed for 44 personal care residents) - 20 of which are designated for memory impaired residents.

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

## **FEES AND SERVICES**

### **Independent Living Apartments**

The independent living accommodations are varied at each Campus. At the Greensburg Campus, there are 75 independent living units housed in two separate but connected three-story wings. The Murrysville Campus has 90 and the North Huntingdon Campus has 95 independent living units housed in three connected five-story wings at Murrysville and three connected three-story wings at North Huntingdon. The Greensburg and Murrysville Campuses offers ten separate designs and the North Huntingdon campus offers twelve designs. In general, the unit designs are as follows, with the entrance fee (the "Entrance Fee") and the monthly service fee (the "Monthly Service Fee").



## Redstone Highlands Health Care Center

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	Entrance Fee (single occupancy)	Monthly Service Fee (single occupancy)	Entrance Fee (double occupancy)	Monthly Service Fee (double occupancy)
Greensburg Apartments	\$23,900 to \$36,700	\$1,835 to \$2,825	\$29,600 to \$42,400	\$2,275 to \$3,265
Murrysville Apartments	\$30,500 to \$44,100	\$2,345 to \$3,390	\$36,600 to \$50,200	\$2,815 to \$3,860
Noth Huntingdon Apartments Basic	\$26,900 to \$54,900	\$2,070 to \$4,220	\$33,000 to \$61,000	\$2,540 to \$4,690
Noth Huntingdon Apartments 90% Refundable	\$107,600 to \$219,600	\$2,070 to \$4,220	\$132,000 to \$244,000	\$2,540 to \$4,690

For all campuses, thirty (30%) percent of the Entrance Fee is due at the time that the apartment is reserved and the balance is due at the time of occupancy. The monthly service fee commences on the date that the individual takes possession of the apartment unit.

### REFUND POLICY

Redstone requires the payment of an entrance fee by residents who elect to reside in the Senior Apartments or Villa Homes and receive the respective level of services from Redstone in each setting.

For Senior Apartment Residents, a portion of an entrance fee is refundable only within the first 50 months of the Resident's right to occupy a Senior Apartment. For each of the first 50 months that a Resident has a right to reside in the Apartment, the amount of the entrance fee to be refunded is reduced by 2%.

If a resident desiring to move into a Senior Apartment has become contractually obligated to pay an entrance fee, and before the occupancy date, the person is precluded from becoming a resident under the terms of Our Agreement through illness, injury or incapacity, that resident may receive a full refund of the entrance fee, except those costs specifically incurred by the facility at the request of the resident, including architect fees.

For Villa Home Residents, a portion of an entrance fee is refundable only within the first 100 months of the Resident's right to occupy a Villa Home. For each of the 100 months that a Resident has a right to reside in a Villa Home, the amount of the standard entrance fee to be refunded is reduced by 1%. After 100 months, no portion of any entrance fee is refundable.

If a resident desiring to move into a Villa Home has become contractually obligated to pay an entrance fee and before the occupancy date, the person is precluded from becoming a resident under the terms of Our Agreement through illness, injury or incapacity, but construction has not started on that person's Villa Home, that resident may receive a full refund of the entrance fee, except those costs specifically incurred by the facility at the request of the resident, including architect fees. If a resident desiring to move into a Villa Home has become

contractually obligated to pay an entrance fee and before the occupancy date, the person is precluded from becoming a resident under the terms of Our Agreement through illness, injury or incapacity, but construction has started on that person's Villa Home, that resident may receive a partial refund of the entrance fee paid, less any costs specifically incurred by the facility at the request of the resident, including architect fees, and then deducting 10% of the standard entrance fee.

## 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	Occupation
John Brenzia North Huntingdon, Pennsylvania	Chief Financial Officer Irwin Car, Inc.
Artahur Caramella Greensburg, Pennsylvania	Retired
Regis Synan Export, Pennsylvania	President F. Tinker & Sons
Ann Pauly Murrysville, Pennsylvania	Administrative Manager Ventana USA
Martin Ankrum Greensburg, Pennsylvania	Presbyterian Clergy
Robert Brooks Murrysville, Pennsylvania	Retired
Robert Carpenter Greensburg, Pennsylvania	Owner Carpenter Construction
Dennis Diffenderfer Huntingdon, Pennsylvania	Insurance Sales/Self Employed
Jo Ann Lightcap Ligonier, Pennsylvania	Self Employed Retailer The Kitchen Shelf
J. Charles MacPherson Harrison City, Pennsylvania	Presbyterian Clergy
John Parker Greensburg, Pennsylvania	Physician
Lois Runzo Greensburg, Pennsylvania	Self Employed Landmark Leasing, Inc.



## OFFICERS

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

Name	Title
John R. Dickson IV	President and Chief Executive Officer
Randy Thornton	Chief Financial Officer
Francis J. King	Chief of Corporate Services
Vicki L. Loucks	Chief Officer of Quality Services
James W. Hodge	Chief Officer of Human Resources

## 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 both the Resident Agreements currently offered by the Provider revealed that they were in compliance with both 40 P.S. § 3214 and 31 Pa. Code § 151.8.

### PENDING LITIGATION

There was no pending litigation other than in the ordinary course of business.

### 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.

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### Comparative Balance Sheet as of June 30,

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,455,993	\$ 3,417,963
Certificates of deposit	120,000	0
Assets whose use is limited	1,921,980	2,239,583
Accounts receivable, net	2,789,231	2,222,394
Prepaid expenses and other current assets	690,479	265,559
Total current assets	<u>6,977,683</u>	<u>8,145,499</u>
Investments:	12,123,469	13,310,749
Assets whose use is limited	6,805,784	6,667,320
Property and equipment, net	45,906,922	46,019,435
Deferred financing costs, net	1,720,141	1,785,337
Deferred marketing costs, net	426,745	432,792
Land held for investment	1,199,200	1,199,200
Other assets	283,082	244,082
Beneficial interest in charitable		
Remainder and perpetual trusts	31,118	108,549
Total assets	<u>\$ 75,474,144</u>	<u>\$ 77,912,963</u>
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 1,070,000	\$ 1,020,000
Accounts payable		
Trade	419,046	384,164
Construction	0	523,517
Accrued interest payable	848,344	1,159,028
Accrued payroll and payroll taxes	658,764	420,358
Security deposits	540,783	563,275
Total current liabilities	<u>3,536,937</u>	<u>4,070,342</u>
Derivative financial Instruments	2,263,442	2,102,165
Long-term debt	70,534,691	71,619,571
Deferred residency deposits	5,145,497	4,385,306
Total liabilities	<u>81,480,567</u>	<u>82,177,384</u>
Net (deficit) assets:		
Unrestricted	(7,289,058)	(5,445,472)
Temporarily restricted	236,613	146,738
Permanently restricted	1,046,022	1,034,313
Total net deficit	<u>(6,006,423)</u>	<u>(4,264,421)</u>
Total	<u>\$ 75,474,144</u>	<u>\$ 77,912,963</u>

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

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Net resident service revenue	\$ 22,850,798	\$ 21,467,861
Other operating revenues	102,035	178,178
Net assets released from restrictions used for operations	17,820	855,687
Total operating revenues, gains, and other support	<u>22,970,653</u>	<u>22,501,726</u>
Operating Expenses:		
Residential and nursing care	7,748,294	6,800,682
General and administrative	3,628,162	3,457,005
Interest	2,593,605	3,394,883
Dietary	3,062,970	2,732,830
Depreciation and amortization	2,674,290	2,568,640
Plant operations	2,295,455	2,098,087
Housekeeping and laundry	852,620	712,926
Property taxes	274,272	546,278
Letters of credit fees	548,803	502,078
Other operating expenses	169,766	182,724
Total operating expenses	<u>23,848,237</u>	<u>22,996,133</u>
Operating loss	<u>(877,584)</u>	<u>(494,407)</u>
Non-operating (expenses) revenues:		
Investment (loss) income	(1,105,474)	1,338,971
Valuation loss on derivative financial instruments	(161,277)	(1,012,705)
Unrestricted gifts and bequests	300,749	326,743
Total non-operating income	<u>(966,002)</u>	<u>653,009</u>
Revenues (less than) in excess of expenses	(1,843,586)	158,602
Net assets released from restrictions used for purchase of property and equipment	0	49,574
Net unrealized loss on investments other than trading securities	0	(1,524,060)
Increase in unrestricted net assets	<u>\$ (1,843,586)</u>	<u>\$ (1,315,884)</u>

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

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Increase in net deficit	(\$1,742,002)	(\$1,104,044)
Adjustments to reconcile increase in net deficit to net cash provided by operating activities:		
Depreciation and amortization	2,674,290	2,568,640
Provision for bad debts	236,043	0
Net realized and unrealized loss on investments	1,485,041	1,477,128
Valuation loss, beneficial interest in charitable remainder trusts	74,998	64,532
Valuation loss, beneficial interest in perpetual trust	2,433	2,497
Valuation loss on derivative financial instruments	161,277	1,012,705
Residency deposits received, existing units	1,433,163	1,346,207
Amortization of deferred residency deposits	(879,122)	(810,981)
Restricted contributions	(100,500)	(1,036,810)
Changes in assets and liabilities:		
Accounts receivable	(802,880)	(405,577)
Prepaid expenses and other current assets	(424,920)	53,366
Accounts payable, trade	34,882	94,972
Accrued interest payable	(310,684)	146,114
Accrued payroll and payroll taxes	238,406	(39,891)
Security deposits	(22,492)	(75,828)
Net cash provided by operating activities	<u>2,057,933</u>	<u>3,293,030</u>
Cash flows from investing activities		
Purchase of property and equipment	(2,436,898)	(4,312,634)
Purchase of certificates of deposit	(120,000)	0
Net purchases of investments and assets whose use is limited	(118,622)	(2,411,285)
Increase in other assets	(39,000)	(12,000)
Net cash used by investing activities	<u>(2,714,520)</u>	<u>(6,735,919)</u>
Cash flows from financing activities		
Repayments on long-term debt	(1,020,000)	(955,000)
Payments of accounts payable, construction	(523,517)	(19,998)
Refund of deferred residency deposits	(318,293)	(740,687)
Increase in deferred project costs	(68,516)	(99,023)
Residency deposits received, new units	524,443	239,866
Proceeds from restricted contributions	100,500	1,036,810
Proceeds from long-term debt	0	1,872,231
Net cash (used in) provided by financing activities	<u>(1,305,383)</u>	<u>1,334,199</u>
Net decrease in cash and cash equivalents	(1,961,970)	(2,108,690)
Cash and cash equivalents, beginning of year	3,417,963	5,526,653
Cash and cash equivalents, end of year	<u>1,455,993</u>	<u>3,417,963</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>2,904,289</u>	<u>3,248,769</u>
Non-cash investing and financing activities		
Accounts payable incurred to purchase of property and equipment	<u>\$ 0</u>	<u>\$ 523,517</u>

## NOTES TO THE FINANCIAL STATEMENTS

### STATUTORY MINIMUM LIQUID RESERVE

**\$4,190,000**

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 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 \$4,190,000 and number (2) is \$2,268,575. As of June 30, 2009 the Provider's reserve of \$13,699,462 complies with this requirement.

## RECOMMENDATIONS

### PRIOR RECOMMENDATIONS

It was recommended that the Provider complete Biographical Affidavits for the members of its Board of Directors and Officers and forward copies to the Pennsylvania Insurance Department as required by Title 31, Pa. Code 151.4 (ll) (i). The Provider has complied with this recommendation.

### CURRENT RECOMMENDATIONS

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

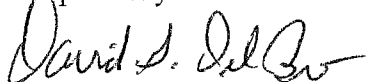
## CONCLUSION

The examination of Redstone Highlands Health Care Center, 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 P. Monaco.


Respectfully



David G. DelBiondo, CPA  
Director, Bureau of Financial Examinations



Dennis A. Mavrich, CFE  
Examination Manager



Joseph P. Monaco  
Examiner

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