

EXAMINATION WARRANT # 07-CP-532

REPORT OF EXAMINATION

OF THE

**RIDDLE VILLAGE
MEDIA, PENNSYLVANIA**

AS OF

JUNE 30, 2007

For Informational Purposes Only

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Harrisburg, Pennsylvania
January 30, 2009

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 07-CP-532 dated September 22, 2008, 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

RIDDLE VILLAGE

a continuing care non-profit Provider, hereafter referred to as the "Provider". This examination was conducted at the administrative home of the Provider located at 1048 West Baltimore Pike, Media, Pennsylvania 19063.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Provider was last examined as of June 30, 2002. This examination covered the five-year period from July 1, 2002 through June 30, 2007, 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.

FINANCIAL AUDITS

The Certified Public Accounting, "CPA", firm of PricewaterhouseCoopers, LLP, provided an unqualified opinion on the Provider's 2002 through 2006 audited financial statements based on generally accepted accounting principles. For fiscal year 2007, the CPA firm of LarsenAllen, LLC, provided an unqualified opinion on the Provider's financial statements based on generally accepted accounting principles. The financial annual reports prepared by the CPA's, were reviewed during the examination and incorporated into the examination work papers.

The objective of this examination was to determine the extent of the Provider's compliance with the Act; 40 P.S. § 3202.

HISTORY

Riddle Village was incorporated on January 29, 1990, and became a licensed Continuing Care Provider on January 23, 1991.

The Provider was organized with the assistance of Riddle Memorial Hospital and the Hospital's parent corporation, Riddle Memorial Foundation (now Riddle Health System). The Provider is a non-profit Pennsylvania Corporation which is an affiliate of the Hospital or the Foundation. Neither Riddle Memorial Hospital nor Riddle Memorial Foundation has any legal or financial responsibility for the Provider.

DESCRIPTION OF FACILITY

Riddle Village is located just south of U.S. Route 1 and west of Pennsylvania Route 352 on approximately 40 acres of wooded land adjacent to Riddle Memorial Hospital. The community was built in phases with Phase I consisting of 235 residential units. Phase I also includes a common facilities building connected to the residential units. The common area includes two dining rooms, café, lounge, library, community activity rooms and the administrative offices. Construction of Phase I began in June 1992 and occupancy began October 15, 1993.

Phase II consists of 50 additional residential units and a healthcare Facility with 60 skilled nursing beds, 38 personal care (assisted living) units and certain common related areas including a swimming pool with fitness area. Construction of Phase II began in June 1994. The residential units were completed September 1, 1995 and the skilled nursing beds were completed August 31, 1995.

Phase IIB consists of 80 additional residential units. Construction of the units began in October 1996 and occupancy began on February 16, 1998. The completed facility consists of 365 residential units and a healthcare services contract and ground lease with Riddle Memorial Hospital.

As of the examination date, Riddle Village was presently constructing an addition to the Monticello House that will provide an additional 11 personal care units (assisted living units) and 26 skilled nursing beds.

FEES AND SERVICES

The following fees and services were in effect as of June 30, 2007:

TYPE OF UNIT	FEES SCHEDULE	
APARTMENT SIZE	Entrance Fee First Person	MONTHLY FEE
Studio	\$98,190	\$1,644
Classical One Bedroom	\$149,312	\$1,963
Deluxe One Bedroom	\$173,286	\$2,082
Classical One Bedroom, 1 1/2 baths	\$194,973	\$2,365
Deluxe One Bedroom, 1 1/2 bath	\$207,486	\$2,420
Classical Two Bedroom, 2 baths	\$246,798	\$2,739
Deluxe Two Bedroom, 2 baths	\$272,890	\$2,903
Deluxe Three Bedroom, 2 1/2 baths	\$344,636	\$4,151
Deluxe Two-Bedroom, 2 1/2 baths	\$377,249	\$4,279
The Grand Three-Bedroom, 3 baths	\$450,026	\$4,745

Add \$17,000 to entrance fee for second person under Plan A

Add \$903 - \$927 monthly fee for second person

Plan A: Under the declining refund agreement, the entrance fee paid less a sum equal to 1.5% of the entrance fee paid for each month the agreement has been in force will be refunded to the resident. Under this agreement, after 67 months of occupancy, a resident will not receive a refund.

Plan B: Under the 50% declining refund agreement, a resident terminating the residency agreement will receive a refund equal to the entrance fee paid less 2% per month for the initial 25 months of occupancy or a minimum refund of 50% of the entrance fee paid.

Plan C: Under the 90% declining refund agreement, a resident terminating the residency agreement will receive a refund equal to the entrance fee paid less 2% a month for the initial 5 months of occupancy or a minimum of 90% of the entrance fee paid.

Services Included In The Monthly Fee

There are numerous services being offered by the Provider as part of the monthly fee. These are outlined in the Provider's sales literature.

REFUND POLICY

TERMINATION BY RESIDENT

Rescission Period – Resident may terminate the Agreement within seven (7) days of execution by signing the Notice of Right to Rescind and delivering it to the Provider. All payments, except the Application Processing Fee, shall be refunded to the Resident.

After Rescission Period – After the lapse of the seven (7) day rescission period, but prior to the Designated Occupancy Date, Resident may terminate the agreement by delivering written notice to the Provider. Resident may terminate the agreement by delivery of written notice to Provider and surrender of unit. Resident may also terminate the agreement at any time by delivery of written notice to Provider at least thirty (30) days prior to termination. Such termination shall be effective upon the date Resident surrenders the unit, but in no event shall such termination be effective less than thirty (30) days after Resident delivers written notice of termination to Provider, regardless of whether Resident actively surrenders the unit prior to the conclusion of said thirty (30) day notice period.

TERMINATION BY PROVIDER

The Provider may terminate the agreement at any time prior to occupancy by delivery of written notice to Resident. Provider may terminate the agreement upon determination of just cause and delivery of thirty (30) days written notice or such written notice as is reasonable under the circumstances to Resident or Resident's Personal Representative.

TERMINATION BY DEATH – The Agreement shall terminate at death of Resident and surrender of unit.

REFUND AFTER OCCUPANCY

In the event of termination after occupancy by reason of death, permanent transfer or other reason, any unamortized portion of the Residency Investment Fee, less any amounts

necessary to cover costs incurred by Provider to upgrade, restore or repair the unit in the event of unreasonable wear and tear, or to satisfy unpaid charges, shall be refunded to Resident or Resident's Estate.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The business and affairs of the Provider are managed by its Board of Directors which consisted of the following members as of June 30, 2007:

<u>NAME AND ADDRESS</u>	<u>PRINCIPAL OCCUPATION</u>
Daniel E. Kennedy Media, PA	President CEO Riddle Health System
Lorraine Bradshaw Media, PA	Principal Lorraine Bradshaw Architect
Robert F. Fischer, CPA West Chester, PA	CPA and Consultant Fischer Cunnane and Associates
Marian P. Laufer, Ed.D. Media, PA	Retired
Daniel R. Butler Wilmington, DE	Chairman/Director CSC Trust Company of Delaware
Edwards H. Chambers Devon, PA	Principal The Chambers Group
William F. Chaveas Media, PA	Consultant
Robert E. Sutton West Chester, PA	Retired
Sophia T. Wisniewska, Ph.D. Media, PA	Chancellor Penn State University

Under the Ground Lease Agreement, the directors and management of company have the following restriction/oversight placed upon the operation of the facility:

- Final approval of the facility budget must be done by Foundation.
- Variations in the budget that are greater than \$10,000 require the Foundation notification/approval.

- The Lessor shall be provided periodic financial statements on Riddle Village
- The Lessor has the right to perform quarterly reviews of Riddle Village
- At the end of each fiscal year, a reconciliation will be provided to the Lessor comparing budget to actual activity for the year

OFFICERS

The following Officers were elected and serving as of June 30, 2007:

<u>NAME</u>	<u>TITLE</u>
Robert G. Bertolette	President/CEO
Kimberly Roguszewski	Vice President/CFO
Ronald J. Waterman	Vice President of Health Services
Robert F. Fischer	Treasurer
Marian P. Laufer	Secretary

CORPORATE RECORDS

BY-LAWS

On April 30, 2007, the Provider's Board of Directors adopted restated By-laws.

ANNUAL DISCLOSURE STATEMENT

A review was made of the 2004 Annual Disclosure Statement for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 31 Pa. Code § 151.9(a) – (f), required information for the Disclosure Statement and the delivery of the Annual Disclosure Statement to the Residents. It appeared the Provider was in compliance with the Act.

RESIDENT AGREEMENT

The Resident Agreement was reviewed and found to be in compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. § 3214(a) – (f), required information in the Resident's Agreement and 31 Pa. Code § 151.8(a)-(g), the distribution of a copy to the Resident. It appeared the Provider was in compliance with the necessary legal provisions.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of June 30, 2007, and the results of its operations were reviewed for the five-year period under examination and is reflected in the following statements:

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

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

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Comparative Balance Sheet
as of June 30,

	2007	2006
Current Assets		
Cash	\$ 602,682	1,062,319
Accounts Receivables, residents	1,562,338	1,480,773
Other Current Assets	0	742,442
Inventory	120,245	0
Prepaid Expenses and Other Current Assets	644,193	0
Accrued Interest Receivable	127,998	0
Total Current Assets	<u>3,057,456</u>	<u>3,285,534</u>
Assets Whose Use is Limited:		
Restricted Cash - Capital Fund	61,151	0
Restricted Cash - Resident Endowment Fund	664,628	0
Funds Held by Bond Trustee	17,313,073	10,545,214
Total Assets Whose Use is Limited	<u>18,038,852</u>	<u>10,545,214</u>
Property and Equipment	<u>34,579,131</u>	<u>34,091,721</u>
Other Assets:		
Assets from Interest Rate Swap Agreement	654,725	909,351
Deferred Marketing and Development Costs	1,580,696	1,679,564
Deferred Financing Cost, net	861,220	1,470,428
Total Other Assets	<u>3,096,641</u>	<u>4,059,343</u>
Total Assets	<u>\$ 58,772,080</u>	<u>\$ 51,981,812</u>
Current Liabilities		
Current maturities on long-term debt	\$ 825,000	\$ 685,000
Deferred Revenue for Resident Care	1,135,784	5,838,371
Current Portion of Refundable Entrance Fee Deposits	1,391,373	
Accounts Payable and Accrued Expenses	987,910	1,116,357
Accounts Payable - Riddle Health System	93,853	140,761
Accounts Payable - Construction	410,388	0
Total Current Liabilities	<u>4,844,308</u>	<u>7,780,489</u>
Deferred Revenue from Resident Entrance Fees	17,136,672	19,725,030
Refundable Entrance Fee Deposits	24,039,643	21,411,158
Long-Term Debt, Less Current Maturities	<u>52,085,000</u>	<u>43,935,000</u>
Total Liabilities	<u>98,105,623</u>	<u>92,851,677</u>
Net Assets		
Unrestricted	(40,059,322)	(40,869,865)
Temporarily Restricted	172,574	0
Permanently Restricted	553,205	0
Total Unrestricted Net Assets	<u>(39,333,543)</u>	<u>(40,869,865)</u>
Totals Liabilities and members' Equity (Deficit)	<u>\$ 58,772,080</u>	<u>\$ 51,981,812</u>

Comparative Statement of Operations for the Year Ended June 30,

	2007	2006
Revenue, gains and Other Support		
Resident Care Services	\$ 16,608,705	\$ 15,443,379
Net Patient Service Revenue	4,463,680	4,404,749
Other Operating Revenue	48,622	56,888
Interest Income	827,351	592,923
Total underwriting deductions	<u>21,948,358</u>	<u>20,497,939</u>
Expenses		
Administration	3,096,982	2,933,756
Nursing	4,362,286	3,987,934
Activities	111,135	264,474
Transportation	106,170	93,282
Housekeeping, Laundry and Linens	718,093	661,660
Dining Services	2,744,099	2,660,009
Maintenance	724,126	660,983
Security	206,285	196,410
Depreciation and Amortization	3,412,091	3,358,452
Facility Cost and Utilities	3,558,270	3,703,534
Interest	2,390,994	2,292,758
Total Expenses	<u>21,430,531</u>	<u>20,813,252</u>
Operating Losses	517,827	(315,313)
LOSS ON EXTINGUISHMENT OF DEBT	1,235,052	2,773,270
Decrease in Unrestricted Net Assets	(717,225)	(3,088,583)
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Unrealized Gain/(Loss) on Investments	(85,064)	(299,769)
Change in Fair Value of Interest Rate Swap Agreement	(254,626)	909,351
Total Other Changes in Unrestricted Net Assets	<u>(339,690)</u>	<u>609,582</u>
Decrease in Unrestricted Net Assets (Deficiency)	<u>(1,056,915)</u>	<u>(2,479,001)</u>
Changes in Temporarily Restricted Net Assets		
Contributions	28,280	0
Increase (decrease) in Temporarily Restricted Net Assets	28,280	0
Changes in Permanently Restricted Net Assets:		
Contribution	68,307	0
Increase in Permanently Restricted Net Assets	68,307	0
Increase in Net Assets	<u>\$ (960,328)</u>	<u>\$ 0</u>

Comparative Statement of Cash Flow for the Year Ended June 30,

	2007	2006
Cash from Operating Activities		
Increase (decrease) in Net Assets	\$ (960,328)	\$ (2,479,001)
Adjustments to reconcile decrease in Net Assets to net Cash used in Operating Activities:		
Depreciation and Amortization	3,412,091	3,358,452
Entrance Fee Deposits and Deferred Entrance Fees	5,389,870	7,594,327
Unrealized Loss on Interest Rate Swaps	254,626	(909,351)
Loss on Refinancing of Debt	1,235,052	2,773,270
Amortization of Entrance Fees	(5,469,488)	(4,715,323)
Change in assets and Liabilities:		
Accounts receivable	(81,565)	95,377
Other Current Accounts	(149,994)	(17,663)
Accounts payable - Riddle Health System	(46,908)	(101,753)
Accrued Interest Payable	166,377	(272,637)
Accrued Interest Payable - Riddle Health System	0	(520,417)
Accounts payable and Accrued Expenses	115,564	430,526
Deferred revenue - forward purchase agreement	0	(307,649)
Net cash from operations	<u>3,865,297</u>	<u>4,928,158</u>
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(3,771,293)	(757,129)
Increase in Funds Held by Trustee, Net	(6,767,859)	4,579,556
Increase in Restricted Cash	(96,587)	0
Net cash from investments	<u>(10,635,739)</u>	<u>3,822,427</u>
Cash from Financing Activities		
Cost of Debt Issuance	(655,184)	(3,029,791)
Redemption of Series 2005B Bonds Payable	(36,390,000)	0
Redemption of Series 2005A Bonds Payable	(120,000)	0
Redemption of Series 2006 Bonds Payable	(470,000)	0
Issuance of Series 2006 Bonds	45,270,000	0
Repayment of 1996 series bonds payable	0	(47,485,000)
Repayment of 2005 series bonds payable	0	(410,000)
Issuance of Series 2005 Bonds	0	45,030,000
Refunds Paid from Entrance Fees	(1,324,011)	(2,607,520)
Net cash provided by (used in) financing activities	<u>6,310,805</u>	<u>(8,502,311)</u>
Net change in cash and short-term investments	(459,637)	248,274
Reconciliation of cash and short-term investments:		
Beginning of the year	1,062,319	814,045
End of the year	<u>\$ 602,682</u>	<u>\$ 1,062,319</u>

STATUTORY MINIMUM LIQUID RESERVE**\$3,561,000**

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 \$3,561,000 and number (2) is \$1,912,800 as of June 30, 2007. The Provider's Liquid Reserve in Assets Limited as to Use of \$11,140,888 satisfies the statutory requirement.

RECOMMENDATIONS**PREVIOUS RECOMMENDATIONS**

There were no recommendations made as a result of the prior examination.

CURRENT RECOMMENDATIONS

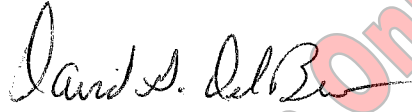
No recommendations were made as a result of this examination.

CONCLUSION

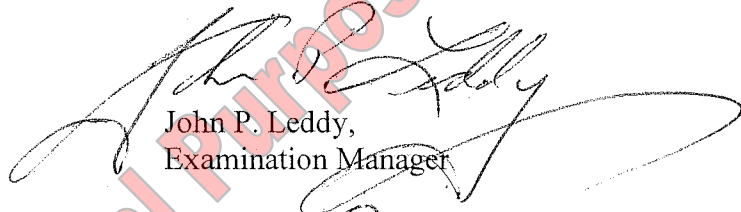
The examination of Riddle Village, made as of June 30, 2007, has determined that the Provider appear to be in compliance with all applicable Pennsylvania laws and regulations as they pertain to Continuing Care Retirement Communities.

This examination was conducted by Bernard Mingo.

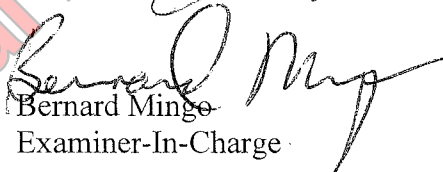
Respectfully submitted,



David G. DelBiondo, CPA
Director
Bureau of Financial Examinations



John P. Leddy,
Examination Manager



Bernard Mingo
Examiner-In-Charge

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