

EXAMINATION WARRANT # 08-CP-553

REPORT OF EXAMINATION

OF THE

SIMPSON HOUSE, INC.
PHILADELPHIA, PENNSYLVANIA

AS OF

DECEMBER 31, 2008

For Informational Purposes Only

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For Informational Purposes Only

Harrisburg, Pennsylvania
December 15, 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 08-CP-553 dated February 11, 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

SIMPSON HOUSE, INC.

a continuing care retirement community, hereafter referred to as the "Provider" or "Facility." This examination was conducted at the administrative office of the Provider located at 2101 Belmont Avenue, Philadelphia, Pennsylvania 19131.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Provider was last examined as of December 31, 2003. This examination covered the five-year period from January 1, 2004 through December 31, 2008, 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 the Act 40 P.S. § 3202 and 31, Pa. Code §151.

The Certified Public Accounting, ("CPA"), firm of LarsonAllen, LLP, issued audit reports with an unqualified opinion of the audited financial statements based on generally accepted accounting principles for all years covered by the examination. The financial annual reports prepared by the CPA were reviewed during the examination and incorporated into the examination work papers.

HISTORY

A facility to care for older individual(s) was first the idea of Jane Henry. Mrs. Henry shared her idea with Bishop Matthew Simpson and his wife Ellen. On June 14, 1865, through the efforts of Mrs. Jane Henry, the Simpsons and others, a special meeting was convened at which a new organization was created and named "The Ladies United Aid Society of the Methodist Episcopal Church in the city of Philadelphia for the benefit of Aged and Infirm Members." On October 12, 1865, a facility acquired by the group, located at 10 Popular Street, was incorporated under the name The Ladies United Aid Society of the Methodist Episcopal Church in the City of Philadelphia.

In the 1870's, the organization moved its operation to a new and larger location (at Thirteen and Lehigh Avenue) to accommodate an increase in demand for its services but it quickly outgrew this location.

In the 1880's the organization received a land donation/grant from a Joseph M. Bennet on which the facility currently sits. Various connecting buildings were added to the original building over the past 120 years.

In 1897, the facility/organization changed its name to The Methodist Episcopal Home for the Aged.

In 1970, the organization changed its name to the Simpson House of the United Methodist Church.

On June 18, 1987, the Department issued a license to the facility to operate as a continuing care provider.

In 1988, the facility name was changed to the Simpson House, Inc.

DESCRIPTION OF FACILITY

The facility is located on approximately 5 acres of land in the urban metropolitan area of Philadelphia, overlooking Fairmount Park. The types of residential living accommodations available include 24 studio units with half baths, 27 studio units with full baths, 58 one-bedroom units with full baths and 9 two-bedroom units with full baths. A number of accommodations contain small kitchenette units, however all meals are provided in the central dining facilities. Simpson House also operates a distinct assisted living center consisting of 57 units and a health care area which consist of 154 nursing beds. There are five buildings connected by corridors on the ground and first level.

FEES AND SERVICES

The following fees and services were in effect as of December 31, 2008:

TYPE OF UNIT APARTMENT SIZE	ENTRANCE FEES		MONTHLY FEE
	Traditional PLAN	ESTATE 90% Refundable PLAN	
Studio	\$10,000 - \$46,000	\$52,200 - \$68,080	\$1,411 - \$1,772
One Bedroom	\$35,000 - \$80,000	\$72,520 - \$118,400	\$1,675 - \$2,229
Two Bedroom	\$89,000 - \$94,000	\$131,720 - \$139,120	\$2,318 - \$2,449

Add \$625 to monthly fee for second person

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 resident agreement.

REFUND POLICY

TERMINATION BY RESIDENT

Rescission Period – Resident may terminate this 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 Recession Period – After the lapse of the seven (7) day rescission period, but prior to the Designated Occupancy Date, Resident may terminate Agreement by delivering written notice to the Provider. Residents will receive full refund of entrance fees.

TERMINATION BY PROVIDER

The Provider may terminate the agreement at any time prior to or after 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, etc., residents will receive a refund based on one of two plans offered. The Provider offered the following plans:

1. Traditional Plan – if resident contract is terminated within the first 90-days of occupancy, resident or his/her estate will receive a full refund of their entrance fee. Beginning with the 91st day of occupancy, the entrance fee is amortized at a rate of 5% per month for the next 20 months. If a contract is terminated within the first 22 months of occupancy, a resident will be refunded the unamortized portion of the entrance fee upon there departure and surrender of the unit.

2. 90% Refund Plan – Resident or his/her estate will receive a guaranteed refund of 90% of their entrance fee for reason of death, Permanent Transfer, etc.

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 December 31, 2008:

Name and Address	Principal Occupation
Mary Bamford Philadelphia, PA	Retired
Gloria Boring Bensalem, PA	Executive Director Simpson House, Inc.
Yvonne M. Downey Philadelphia, PA	Retired
Mildred Lilly Allentown, PA	Retired
Betty Gibson Philadelphia, PA	Retired
March Goldberg, M.D. Philadelphia, PA	Retired
Dorothy Famous Bethlehem, PA	Retired
Kim Williams Philadelphia, PA	CEO Simpson Seniors Services, Inc.
W. Lee Miller Philadelphia, PA	Owner/Proprietor Sealing Company

Mary White
Rosemont, PA

Executive Director
United Methodist Church Program

Rev. Alfred T. Day III
Jenkintown, PA

Pastor

OFFICERS

The following Officers were elected and serving as of December 31, 2008:

Name	Title
Mark Goldberg	Chairman
Mary Bamford	Vice Chair
Mary Bamford	Secretary

CORPORATE RECORDS

ARTICLES OF INCORPORATION

During the period covered by this examination, there were no amendments made to the Provider's Articles of Incorporation.

BY-LAWS

During the period covered by this examination, there were no amendments made to the Provider's By-Laws.

ANNUAL DISCLOSURE STATEMENT

A review of the 2008 Annual Disclosure Statement for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. § 3207(a), required information for the Disclosure Statement and 40 P.S. § 3207(c), which requires the Provider to deliver to each resident a copy of the Annual Disclosure Statement. The Provider was in compliance with the Act.

RESIDENT AGREEMENT

The Resident Agreement was reviewed for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. § 3214, required information in the Resident's Agreement and 31 Pa. Code § 151.8 (a)-(g), the distribution of a copy to the Resident. The Provider was in compliance with the Act and the Regulation.

PENDING LITIGATION

There was no 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 December 31, 2008, and the results of its operations for the last two years under examination are 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.

Comparative Balance Sheet as of June 30,

	2008	2007
Assets		
Cash	\$ 4,900,619	\$ 5,624,964
Accounts Receivables, net of allowance	3,571,662	3,395,172
Assets Limited as to use	330,008	300,146
Prepaid expenses and deposits	<u>917,234</u>	<u>659,079</u>
Total Current Assets	9,719,523	9,979,361
Assets Whose Use is Limited		
Board-Designated	12,288,264	17,829,820
Under Indenture agreement, held by trustee	702,857	663,939
Restricted deposits	<u>338,424</u>	<u>333,941</u>
Total Assets Whose Use is Limited	13,329,545	18,827,700
Investments	2,805,338	2,706,591
Property and equipment, net	87,258,730	90,024,570
Other deposits	2,539,431	2,880,770
Beneficial interest in perpetual and other trusts	<u>4,802,031</u>	<u>7,066,076</u>
TOTAL ASSETS	<u>\$ 120,454,598</u>	<u>\$ 131,485,068</u>
Current Liabilities		
Demand note payable	\$ 134,955	\$ 254,955
Current maturities on bonds payable	1,365,000	1,295,000
Current maturities of mortgage payable	1,386	1,295
Accounts payable and accrued expenses	1,860,057	1,727,890
Accrued payroll and related taxes	827,772	1,417,627
Accrued Interest	<u>339,503</u>	<u>263,617</u>
Total Current Liabilities	4,528,673	4,960,384
Long-Term Debt		
Bonds payable	50,512,542	51,863,051
Loan Payable	600,000	600,000
HUD capital advance	5,410,300	5,410,300
Mortgage payable	<u>2,251,686</u>	<u>2,223,297</u>
Total Long-Term Liabilities	58,774,528	60,096,648
Deferred Compensation	0	80,440
Annuities Payable	254,116	268,147
Security Deposits	831,348	808,685
Funds Held for Residents	201,489	155,113
Deferred Revenue from Advance Fees	56,952,941	58,052,613
Obligation Under Interest Rate Swap Agreement	<u>9,447,194</u>	<u>2,130,020</u>
Total Liabilities	130,990,289	126,552,050
Limited Partners' Interest in Partnership	2,015,764	2,224,610
Net Assets		
Unrestricted	(21,711,751)	(8,114,516)
Temporarily Restricted	1,180,250	1,050,257
Permanently Restricted	<u>7,960,046</u>	<u>9,772,667</u>
Total Net Assets (deficits)	<u>(12,551,455)</u>	<u>2,708,408</u>
Totals Liabilities and Net Assets (Deficit)	<u>\$ 120,454,598</u>	<u>\$ 131,485,068</u>

Comparative Statement of Operations for the Year Ended June 30,

	2008	2007
Revenue, gains and Other Support		
Net resident service revenue	\$ 37,288,479	\$ 36,323,334
Amortization of Advance Fees	4,326,953	3,591,134
Net assets released from restriction	19,730	0
Net asset re-restricted	<u>(404,966)</u>	<u>(377,411)</u>
Total underwriting deductions	41,230,196	39,537,057
Expenses		
Nursing	9,127,485	8,699,388
Dietary	6,561,021	6,335,288
depreciation and amortization	5,633,219	5,499,471
General and Administrative	5,450,613	5,342,316
Plant operation	5,353,186	5,306,822
Personal care	3,584,175	3,411,372
Interest	2,558,805	2,718,603
Housekeeping and laundry	1,773,999	1,659,306
Rehabilitation	1,045,449	945,840
Residential care	919,088	856,219
Clinic	277,023	333,825
Provision for bad debt	115,000	100,000
Total Expenses	<u>42,399,063</u>	<u>41,208,450</u>
Operating Losses	(1,168,867)	(1,671,393)
Unrestricted Net Assets		
Revenue and gains in Excess of (less than) expenses and losses before limited partners' interest	(6,852,278)	1,165,958
Limited partners' interest in (profit) loss of partnership	<u>208,846</u>	<u>(97,859)</u>
Revenue and gains in Excess of (less than) expenses and losses	(6,643,432)	1,068,099
Net unrealized losses on investments	<u>(6,953,803)</u>	<u>(2,056,904)</u>
Change in Unrestricted Net Assets	(13,597,235)	(988,805)
Temporarily Restricted Net Assets		
Contributions	175,333	211,331
Valuation loss	<u>(45,340)</u>	<u>(27,199)</u>
Increase (decrease) in Temporarily Restricted Net Assets	129,993	184,132
Permanently Restricted Net Assets		
Valuation gain (loss), beneficial interest in perpetual trust	(2,177,857)	239,842
Net assets re-restricted	404,966	377,411
Net assets released from restriction	<u>(19,730)</u>	<u>0</u>
Increase (decrease) in Temporarily Restricted Net Assets	(1,792,621)	617,253
Increase (Decrease) in Net Assets	(15,259,863)	(187,420)
Net Assets - Beginning of Year	<u>2,708,408</u>	<u>2,895,828</u>
Net Assets - End of Years	<u>\$ (12,551,455)</u>	<u>\$ 2,708,408</u>

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

	2008	2007
Cash from Operating Activities		
Change in net assets	\$ (15,259,863)	\$ (187,420)
Proceeds from advance fees	8,115,031	9,361,744
Amortization of advance fees	(4,326,953)	(3,591,134)
Amortization of bond discount	14,491	14,491
Depreciation and amortization	5,633,219	5,499,471
Net realized and unrealized (gains) losses on investments	7,003,285	515,266
Valuation gains	(14,031)	(8,431)
Valuation (gain) loss, beneficial interest in perpetual trust	2,264,045	(242,098)
Change in fair value of derivative financial instruments	7,317,174	1,286,128
Provision for bad debt	115,000	100,000
Limited partners' interest in profit (loss) of partnership	(208,850)	97,859
(Increase) decrease in assets:		
Accounts receivable	(291,490)	(286,823)
Prepaid expenses and other current assets	(258,155)	293,222
deposits	0	1,562
(Increase) decrease in liabilities:		
Accounts payable	131,828	(259,579)
Accrued payroll and related taxes	(589,854)	116,037
Accrued interest	105,662	18,458
Security deposits	22,824	83,040
Deferred compensation	(80,440)	(123,781)
Net cash from operations	9,692,923	12,688,012
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(2,472,716)	(2,087,067)
Decrease in trustee held funds	(68,780)	-83734
Purchase of investments, net	(1,560,476)	(2,132,349)
Payment to affiliate	342	0
Increase in restricted deposits	(4,644)	(28,237)
payment of costs of acquiring initial continuing care contracts	0	(78,796)
Net cash from investments	(4,106,274)	(4,410,183)
Cash from Financing Activities		
Payment of deferred financing costs	(53,324)	0
Payment on long-term debt	(1,296,296)	(626,211)
payment of deferred developer fee	0	(212,255)
Principal payment on demand note payable	(120,000)	(95,000)
Change in funds held for resident	46,376	(20,842)
Refunds of advance fees	(4,887,750)	(5,158,197)
Capital contributions from limited partner	0	212,250
	(6,310,994)	(5,900,255)
Net increase (decrease) in cash	(724,345)	2,377,574
Reconciliation of cash and short-term investments:		
Beginning of the year	5,624,964	3,247,390
End of the year	\$ 4,900,619	\$ 5,624,964

NOTES TO THE FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE

\$822,312

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 \$633,250 and number (2) is \$822,312 as of December 31, 2008. The Provider's reserve of \$2,087,178 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

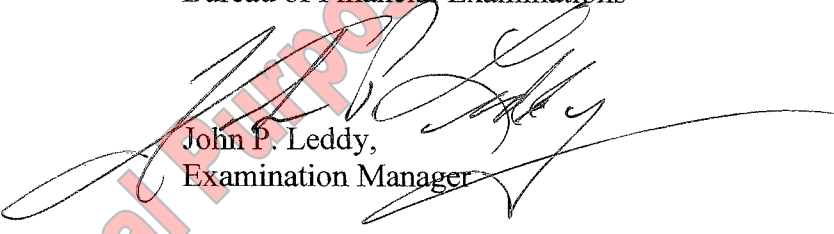
The examination of Simpson House, Inc. made as of December 31, 2008, has determined that they appear to be in compliance with all applicable Pennsylvania laws and regulations as they pertain to Continuing Care Retirement Communities.

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
Bernard Mingo
Examiner-In-Charge

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