

Examination Warrant Number 08-CP-554

Report of Examination of

SIMPSON MEADOWS  
DOWNTOWN, PENNSYLVANIA

AS OF

DECEMBER 31, 2008

For Informational Purposes Only

TABLE OF CONTENTS

Subject	Page
Salutation.....	1
Scope of Examination.....	1
History.....	2
Description of Facility.....	2
Fees and Services.....	3
Refund Policy.....	3
Management and Control:	
Board of Directors.....	4
Officers.....	5
Corporate Records	
Articles of Incorporation.....	5
By-laws.....	5
Annual Disclosure Statement.....	6
Resident Agreement.....	6
Financial Statements:	
Comparative Balance Sheet.....	7
Comparative Statement of Operations.....	8
Comparative Statement of Cash Flows.....	9
Notes to the Financial Statements	
Statutory Minimum Liquid Reserve.....	10
Recommendations:	
Prior Examination.....	10
Current Examination.....	10
Conclusion.....	11

For Informational Purposes Only

Harrisburg, Pennsylvania  
August 13, 2009

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 08-CP-554 dated February 20, 2009, and in accordance with provisions of the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. §3219, an examination was conducted of the records and affairs of

#### **SIMPSON MEDOWS**

a continuing care retirement community, hereafter referred to as the "Provider." This examination was conducted at the administrative offices of the Provider located at 101 Plaza Drive, Downingtown, Pennsylvania 19335.

This 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").

## SIMPSON MEADOWS

-2-

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 examination was to determine the extent of the Provider's compliance with Pennsylvania Insurance Laws and Regulations, especially 40 P.S. §3202 and 31 Pa. Code §151.

The Certified Public Accounting, ("CPA"), firm of Larson and Allen, 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

Simpson Meadows was issued a Certificate of Authority on June 1, 1998. On January 4, 2000 the Provider opened its residential and assisted care units. The Independent Living units were opened on March 27, 2000. The Provider has historical ties to the United Methodist Church and Simpson Senior Services.

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

### DESCRIPTION OF FACILITY

The Provider is located in a suburban setting on 6.3 acres of land in East Caln Township, Downingtown, Pennsylvania. The campus is comprised of two, three story, buildings; the Jane Henry and the Asbury Crossing. The Jane Henry Building includes 28 residential units, 36 assisted living units and 19 dementia assisted living units. The Asbury Crossing Building has 66 residential living units and contains: a number of dining rooms, a multi-purpose room, a gift shop, a café, a reading room and several other special purpose rooms..

Minimum age for occupancy for the above Facility is 62 years of age.

**FEES AND SERVICES**

As of December 31, 2008, the following Entrance Fees and Monthly Service Fees were in effect.

Apartment size and type	Entrance Fee	Monthly Service Fee
One Bedroom	\$140,000	\$809
One Bedroom Deluxe	\$145,000	\$809
One Bedroom/Den	\$155,000 to \$160,000	\$1,002 to \$1,034
Two Bedroom /Den	\$168,000	\$1,210

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 – The 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 non-refundable Application Processing Fee, shall be refunded to the Resident.

Prior to Occupancy – After the lapse of the seven (7) day rescission period, but prior to the Designated Occupancy Date, the Resident may terminate this agreement by delivering written notice to the Provider prior to occupancy. Any refund due to the Resident shall be paid in accordance with the refund provisions of the agreement.

After Occupancy – The resident may terminate this agreement by delivering written notice to the Provider at least sixty (60) days prior to the termination, and by surrender of the residential unit. Termination shall be effective after the lapse of the sixty (60) days prior to the termination, and the surrender of the residential unit. Any refund due to the resident shall be paid in accordance with the refund provisions of the agreement.

## TERMINATION BY THE PROVIDER

Prior to Occupancy – The Provider may terminate this agreement at any time prior to occupancy by providing written notice to the Resident prior to the Designated Occupancy Date for failure of the Resident to satisfy the Conditions of Occupancy or other cause, or if for whatever reason, or if the Provider elects to discontinue operations. Any refund due to the Resident shall be paid in accordance with the refund provisions of the agreement.

After Occupancy – The Provider may terminate this agreement upon a determination of just cause and delivery of thirty (30) days written notice or such written notice as is reasonable under the circumstances to the resident or the resident's representative. Just cause may include, among other reasons, a default in payment, the submission of any material false information in the application documents.

## TERMINATION BY DEATH

Following the death of the Resident, this Agreement shall terminate when the residential unit has been surrendered to the Provider. In situations of Double Occupancy, the death of one co – resident, either before or after occupancy, shall not terminate this agreement.

## MANAGEMENT AND CONTROL

### BOARD OF DIRECTORS

The government of this organization, the conduct of its business and control of its property, real and personal, establishing of policies and the supervision of its work, shall be vested in the Board of Directors. The Board of this organization shall consist of at least six (6) members and not more than eight (8) members.

Members serving as of December 31, 2008, were as follows:

<b>Name And Address</b>	<b>Principal Occupation</b>
Ronald Dankanich Glenmore, PA	Senior Vice President Bryn Mawr Trust Company
Mary Louise Corrigan Downingtown, PA	Consultant
Elaine R Green Royersford, PA	College Dean

## SIMPSON MEADOWS

-5-

### Name And Address

Helen Harner  
Downingtown, PA

Diana Seip  
West Chester, PA

Kathy Stocker  
Phoenixville, PA

Kim Williams  
Bala Cynwyd, PA

Charles Weigel, Jr.  
Downingtown, PA

### Principal Occupation

Retired  
Resident

Executive Director  
Simpson Meadows

Director of Volunteers  
Chester County Hospital

President/CEO  
Simpson Senior Services

Minster  
United Methodist Church

## OFFICERS

As of the examination date, December 31, 2008, the following were serving as Officers of the Provider:

### Name

Charles Weigel, Jr.  
Ronald Dankanich  
Kathy Stocker

### Title

Chairman  
Vice Chairman  
Secretary

## CORPORATE RECORDS

### ARTICLES OF INCORPORATION

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

### BY-LAWS

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

## 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, required information in the Disclosure Statement, and 40 P.S. § 3207(a) – (f), which requires the Provider to deliver to each resident a copy of the Annual Disclosure Statement, was conducted. 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.

## 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 Consolidated Financial Statements, as prepared by The CPA firm of Larson and Allen LLP of Blue Bell,

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

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



### Comparative Balance Sheet as of December 31,

<u>Assets</u>	<u>2008</u>	<u>2007</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4,900,619	\$ 5,624,964
Accounts receivable, net of Allowance for Doubtful Collections of \$210,000 in 2008 and \$155,000 for 2007	3,571,662	3,395,172
Assets whose use is limited, under an indenture agreement, held by trustee	330,008	300,146
Prepaid expenses and other assets	917,234	659,079
Total current assets	<u>9,719,523</u>	<u>9,979,361</u>
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	338,424	333,941
Total Assets whose use is limited	<u>13,329,545</u>	<u>18,827,700</u>
Investments	2,805,338	2,706,591
Property and equipment, net:	87,258,730	90,024,570
Other Assets	2,539,431	2,880,770
Beneficial interest in perpetual and other trusts	4,802,031	7,066,076
<b>Total Assets</b>	<b>\$ 120,454,598</b>	<b>\$ 131,485,068</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Demand note payable	\$ 134,955	\$ 254,955
Current maturities of bonds payable	1,365,000	1,295,000
Current maturities of mortgages 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	339,503	263,617
Total current liabilities	<u>4,528,673</u>	<u>4,960,384</u>
<b>Long-Term Debt</b>		
Bonds payable	50,512,542	51,863,051
Loan payable	600,000	600,000
HUD capital advance	5,410,300	5,410,300
Mortgages payable	2,251,686	2,223,297
Total Long-Term Debt	<u>58,774,528</u>	<u>60,096,648</u>
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	9,447,194	2,130,020
Total liabilities	<u>130,990,289</u>	<u>126,552,050</u>
<b>Limited partners' interest in partnership</b>	<b>2,015,764</b>	<b>2,224,610</b>
<b>Net Assets: (Deficit)</b>		
Unrestricted	(21,711,751)	(8,114,516)
Temporarily Restricted	1,180,250	1,050,257
Permanently Restricted	7,980,046	9,772,667
<b>Total Net Assets</b>	<b>(12,551,455)</b>	<b>2,708,408</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 120,454,598</b>	<b>\$ 131,485,068</b>

**Comparative Statement of Operations  
for the Year Ended December 31,**

	<u>2008</u>	<u>2007</u>
Unrestricted revenues and other support		
Net resident service revenue	\$ 37,288,479	\$ 36,323,334
Amortization of advanced fees	4,326,953	3,591,134
Net assets released from restrictions	19,730	0
Net assets re-restricted	(404,966)	(377,411)
Total unrestricted revenue and othe support	<u>41,230,196</u>	<u>39,537,057</u>
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 operations	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 debts	115,000	100,000
Total expenses	<u>42,399,063</u>	<u>41,208,450</u>
Operating loss	(1,168,867)	(1,671,393)
Other income (expenses)		
Investment income	791,449	3,160,856
Contributions	807,646	436,008
Miscellaneous income	34,668	526,615
Change in the fair value of Derivative Financial Instruments	(7,317,174)	(1,286,128)
Total other income (expenses)	<u>(5,683,411)</u>	<u>2,837,351</u>
Revenue and gains in excess of (less than) expenses and losses before limited partners' interest	(6,852,278)	1,165,958
Limited partner's interest in (Pofit) 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 Gains and Losses on Investments	<u>(6,953,803)</u>	<u>(2,056,904)</u>
Change in Unrestricted Net Assets (deficit)	(13,597,235)	(988,805)
Change in Temporarily Restricted Net Assets	129,993	184,132
Change in Permanently Restricted Net Assets	<u>(1,792,621)</u>	<u>617,253</u>
Change in Net Assets	(15,259,863)	(187,420)
Net Assets, Beginning	<u>2,708,408</u>	<u>2,895,828</u>
Net Assets, Ending	<u>(12,551,455)</u>	<u>2,708,408</u>

**Comparative Statement of Cash Flows  
for the Year Ended December 31,**

	<u>2008</u>	<u>2007</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (15,259,863)	\$ (187,420)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
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 gain	(14,031)	(8,431)
Valuation (gain) loss, beneficial interest in perpetual trusts	2,264,045	(242,098)
Change in fair value of derivative financial instruments	7,317,174	1,286,128
Provision for bad debts	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 provided by operating activities	<u>9,692,923</u>	<u>12,688,012</u>
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(2,472,716)	(2,087,067)
Decrease in trustee held funds	(68,780)	(83,734)
Purchases of investments, net	(1,560,476)	(2,132,349)
Payment to affiliate	342	0
Increase in restricted deposits	(4,644)	(28,237)
Payments of costs of acquiring initial continuing care contracts	0	(78,796)
Net Cash used in investing activities	<u>(4,106,274)</u>	<u>(4,410,183)</u>
<b>Cash Flows From Financing Activities:</b>		
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 payments on demand note payable	(120,000)	(95,000)
Change in funds held for residents	46,376	(20,842)
Refund of advance fees	(4,887,750)	(5,158,197)
Capital contributions from limited partner	0	212,250
Net cash from financing activities	<u>(6,310,994)</u>	<u>(5,900,255)</u>
Net Increase (decrease) in cash and cash equivalents	(724,345)	2,377,574
Cash and cash equivalents, beginning of year	<u>5,624,964</u>	<u>3,247,390</u>
Cash and cash equivalents, end of year	<u>\$ 4,900,619</u>	<u>\$ 5,624,964</u>

**NOTES TO FINANCIAL STATEMENTS**

**STATUTORY MINIMUM LIQUID RESERVE**

**\$530,532**

The Pennsylvania Continuing Care 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 for the next 12 month period on account of any mortgage loan or other long-term financing of the facility; or
- 2). Ten per cent (10%) of the projected annual operating expenses, exclusive of depreciation, multiplied by the ratio of residents under lifetime lease arrangements to the total of residents.

Of the above requirements, number (1) is \$530,532 and number (2) is \$421,932 as of December 31, 2008. The provider's designated reserve of \$2,393,498 satisfies this statutory requirement.

**RECOMMENDATIONS**

**PRIOR EXAMINATION**

There were no recommendations as a result of this examination.

**CURRENT EXAMINATION**

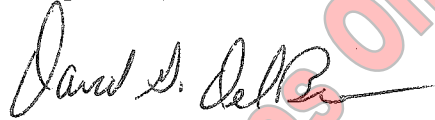
There were no recommendations as a result of this examination.

**CONCLUSION**

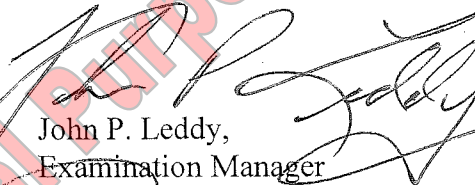
The examination of SIMPSON MEADOWS, made as of December 31, 2008, has determined that they appear to be in compliance with all applicable Pennsylvania laws and regulations as they pertain to Continuing Care Retirement Communities.

This examination was conducted by Robert A. Young.

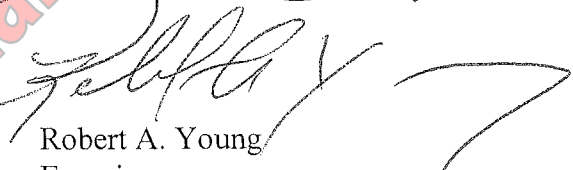
Respectfully submitted,



David G. DelBiondo, CPA  
Director  
Bureau of Financial Examinations



John P. Leddy,  
Examination Manager



Robert A. Young  
Examiner

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