

EXAMINATION WARRANT # 09-CP-521

REPORT OF EXAMINATION

OF THE

SOUDERTON MENNONITE HOMES
SOUDERTON, PENNSYLVANIA

AS OF

JUNE 30, 2008

For Informational Purposes Only

SOUDERTON MENNONITE HOMES

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For Informational Purposes Only

Harrisburg, Pennsylvania
January 22, 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-521 dated October 13, 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

SOUDERTON MENNONITE HOMES

a continuing care retirement community, hereafter referred to as the "Provider." This examination was conducted at the administrative office of the Provider located at 207 West Summit Street, Souderton, Pennsylvania 18964.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Provider was last examined as of June 30, 2003. This examination covered the five-year period from July 1, 2003 through June 30, 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").

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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.

The Certified Public Accounting, ("CPA"), firm of Mayer Hoffman McCann, P.C. issued audit reports with unqualified opinions on 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

The Provider was incorporated and organized on July 1, 1916, as the Eastern Mennonite Home. The Provider, a non-profit corporation, is affiliated with the Franconia conference of the Mennonite Church (Conference). The Conference, through its Brotherhood Commission, approves members of the Board of Directors of the Provider and approves amendments to the Provider's By-Laws.

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

DESCRIPTION OF FACILITY

The Provider is situated in a suburban setting on a twenty seven (27) acre campus in Souderton, Franconia Township in Montgomery County, Pennsylvania.

The Provider consists of a sixty-one (61) bed skilled nursing care facility, one hundred fifty four (154) personal care beds, one hundred thirty two apartments, thirty apartments in cottage or single family structures and forty (40) Villa Units. In addition, the main building houses dining facilities, lounges, recreational and social rooms, laundry, chapel banking center, convenience store and associated support and administrative offices.

FEES AND SERVICES

The Entrance Fees in effect as of July 1, 2007 ranged from \$69,900 for a Studio Apartment to \$157,500 for a Two Bedroom Apartment. The Entrance Fees for Cottages ranged from \$81,250 for a One Bedroom Cottage to \$119,500 for a Two Bedroom Cottage. Villas and Townhomes ranged from \$147,500 to \$187,500. There are numerous services being offered by the Provider which are included under the monthly fee. These services are outlined in the Resident Agreement and the Annual Disclosure Statement.

REFUND POLICY

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.

Prior to Occupancy – If the Resident dies or terminates the Resident Agreement prior to occupancy, the resident, or his/her estate, is entitled to a full refund of any money deposited with the Provider, except for those costs specifically incurred by the Provider at the request of the Resident.

Prior After Occupancy – If the Resident dies or terminates the Resident Agreement after occupancy, the resident, or his/her estate, is entitled to a refund of the entrance fee calculated as follows: The entrance fee less one percent (1%) of the entire amount of the entry fee as an administrative fee, and less two percent (2%) of the entire fee for each month or portion thereof of occupancy, provided that any refund shall be no less than twenty-five percent (25%) of the entrance fee.

Time for Payment of Refunds – Any refund of the entry fee shall be payable within sixty (60) days of the date when the Resident ceases to occupy the living accommodation.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The Board of Directors was comprised of the following members as of June 30, 2008:

Name and Address

J. Todd Alderfer, M.D.
Perkasie, PA

Principal Occupation

Cardiologist

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Name and Address	Principal Occupation
Kenneth J. Clemmer Schwenksville, PA	Business Owner
Ivan L. Derstine Harleysville, PA	Building Superintendent
Philip Detweiler Telford, PA	Business Owner
P. Scott Heckler Salford, PA	Chief Financial Officer
Charlotte A. Hunsberger Telford, PA	Attorney
L. Brent Kolb Perkasie, PA	Certified Public Accountant
Marilyn M. Kriebel Souderton, PA	Homemaker
Timothy Mininger Telford, PA	Investment Officer
Alfred H. Richter, III Perkasie, PA	Business Owner
James L. Rittenhouse Souderton, PA	Certified Public Accountant
Wendell Weaver Telford, PA	Business Owner

OFFICERS

The following Officers were elected and serving as of June 30, 2008:

Name	Title
James L. Rittenhouse	President
Wendell Weaver	Vice- President
Charlotte A. Hunsberger	Secretary
L. Brent Kolb	Treasurer

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

In February 2006, the Provider updated the language in Article II of its' By-Laws.

ANNUAL DISCLOSURE STATEMENT

A review was made of the 2008 Annual Disclosure Statement for compliance with 40 P.S. § 3207, Sections (a) through (d), and 31 Pa. Code § 151.7, Sections (a) through (f) and 31 Pa. Code § 151.9, Sections (a) through (f). The 2008 Disclosure Statement was found to contain all information required by the Act and the Regulations.

RESIDENT AGREEMENT

The most current Resident Agreement was reviewed for compliance with 40 P.S. § 3214, Sections (a) through (f), and 31 Pa. Code § 151.8 Sections (a) through (g), and 31 Pa. Code § 151.9 Sections (a) through (f). The Resident Agreement contains the necessary information required of the Act and the Regulations.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of June 30, 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.

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Comparative Balance Sheet
as of June 30,

	2008	2007
Current Assets		
Cash and cash equivalents	\$ 3,483,302	\$ 2,753,848
Assets whose use is limited, amount required for current liabilities	440,701	368,198
Accounts receivable, net of allowance for doubtful accounts	1,501,059	1,192,003
Prepaid expenses and other current assets	<u>276,909</u>	<u>136,295</u>
Total Current Assets	5,701,971	4,450,344
Non-Current Assets		
Assets whose use is limited, amount required for current liabilities	8,634,563	8,571,400
Property and equipment, at cost, less accumulated depreciation	<u>29,374,701</u>	<u>30,103,577</u>
Total Non-Current Assets	<u>38,009,264</u>	<u>38,674,977</u>
Total Assets	<u>\$ 43,711,235</u>	<u>\$ 43,125,321</u>
Current Liabilities		
Current portion of long-term debt	\$ 402,352	\$ 383,701
Accounts payable:	207,329	181,062
Accrued payroll and payroll taxes	561,693	474,224
Deferred entrance fee revenue - personal and dementia	<u>83,969</u>	<u>139,508</u>
Total Current Liabilities	1,255,343	1,178,495
Non-Current Liabilities		
Long-term debt, less current portion above	1,066,049	1,443,062
Refundable entrance fees	8,082,586	7,146,212
Deferred entrance fee revenue	<u>4,039,394</u>	<u>5,104,687</u>
Total Non-Current Liabilities	<u>13,188,029</u>	<u>13,693,961</u>
Total liabilities	<u>14,443,372</u>	<u>14,872,456</u>
NET ASSETS:		
Unrestricted	25,485,968	24,778,507
Permanently Restricted	3,622,486	3,318,299
Permanently Restricted	<u>159,409</u>	<u>156,059</u>
Total net assets	29,267,863	28,252,865
Totals Liabilities and Net Assets	<u>\$ 43,711,235</u>	<u>\$ 43,125,321</u>

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

	2008	2007
Unrestricted Net Asstes		
Operating Revenues		
Nursing careet resident service revenue	\$ 4,910,481	\$ 4,388,179
Personal care	4,658,546	4,759,793
Independing living, including amortization of deferred revenue from nonrefundable entrance fees	3,749,252	3,501,080
Café revenue	268,744	261,242
Ancillary and other operating revenue	424,862	465,282
Total Operating Revenues	<u>14,011,885</u>	<u>13,375,576</u>
Operating Expenses		
Nursing services	2,448,240	2,255,360
Dietary services	1,394,080	1,384,794
Housekeeping services	685,107	678,675
Laundry and linen services	198,643	208,541
Human services	465,041	432,637
General and administrative services	2,064,791	1,713,953
Maintenance	1,537,892	1,537,325
Property	438,115	512,520
Residential services	1,422,259	1,426,136
Nonreimbursable services	496,513	400,931
Café expenses	330,475	327,352
Bad debt provision	10,496	19,044
Depreciation	1,696,791	1,671,700
Interest	83,861	35,715
Total Operating Expenses	<u>13,272,304</u>	<u>12,604,683</u>
Operating income	<u>739,581</u>	<u>770,893</u>
Non-operating Income		
Contributions	50	121,675
Investment income	346,670	338,889
Net assets released from restrictions	36,920	211,158
Total Non-Operating Expenses	<u>383,640</u>	<u>671,722</u>
Excess of Revenues over Expenses	<u>1,123,221</u>	<u>1,442,615</u>
Changes in net unrealized gains (losses) in other than trading securities	<u>(415,760)</u>	<u>78,716</u>
Increase in Unrestricted Net Assets	707,461	1,521,331
Change in Temporarily Restricted Net Assets	304,187	1,256,359
Change in Permanently Restricted Net Assets	3,350	7,299
Increase in Net Assets	1,014,998	2,784,989
Net Assets Beginning of Year	<u>28,252,865</u>	<u>25,467,876</u>
Net Assets End of Year	<u>\$ 29,267,863</u>	<u>\$ 28,252,865</u>

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

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 1,014,998	\$ 2,784,989
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	1,696,791	1,671,700
Amortization of entrance fees	(1,355,461)	(1,210,933)
Investment income and contributions temporarily restricted for long-term investments	(439,518)	(1,409,875)
Income restricted for long-term investments	(3,350)	(1,754)
Changes in allowance for doubtful accounts	31,070	16,894
Net unrealized losses (gains) on other than trading securities	524,621	(140,339)
Realized loss on sale of other than trading securities	0	3,981
Decrease (increase) in operating assets		
Accounts receivable	(340,126)	325,081
Prepaid expenses and other current assets	(140,614)	194,830
Increase (decrease) in operating liabilities		
Accounts payable	26,267	(226,647)
Accrued payroll and payroll taxes	87,469	187,403
Deferred entrance fee revenue - personal and dementia	(55,539)	(8,025)
Total adjustments	<u>31,610</u>	<u>(597,684)</u>
Net cash flows from operating activities	<u>1,046,608</u>	<u>2,187,305</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(967,915)	(1,473,199)
Purchase of assets whose use is limited	(3,400,923)	(762,937)
Sale of assets whose use is limited	3,796,790	656,738
Temporarily restricted - purchase of investments	(1,052,804)	(1,410,210)
Permanently restricted - purchase of investments	(3,350)	(7,299)
Net cash flows from investing activities	<u>(1,628,202)</u>	<u>(2,996,907)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from temporarily restricted contributions and investment income	439,518	1,409,875
Proceeds from permanently restricted contributions and investment income	3,350	1,754
Repayment of long-term debt	(358,362)	(545,828)
Proceeds from entrance fees	1,626,400	1,869,375
Refunds of entrance fees	(399,858)	(408,426)
Net cash flows from financing activities	<u>1,311,048</u>	<u>2,326,750</u>
Net increase in cash and cash equivalents	729,454	1,517,148
Cash and cash equivalents, beginning of year	<u>2,753,848</u>	<u>1,236,700</u>
Cash and cash equivalents, end of year	<u>\$ 3,483,302</u>	<u>\$ 2,753,848</u>

NOTES TO FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE **\$1,183,573**

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 \$73,613 and number (2) is \$1,183,573 (Note, the reserve was computed on the proportional share of financing or operational expenses that is applicable to residents under continuing-care agreements at the end of the Provider's most recent fiscal year). The Provider's cash and equivalents and investments of \$3,483,302 exceed the statutory requirement.

RECOMMENDATIONS

PREVIOUS RECOMMENDATIONS

It was recommended that the Provider maintain the minimum number of Board members in accordance with Article III, Section 1 of the Provider's By-laws.

The Provider is in compliance.

CURRENT RECOMMENDATIONS

No recommendations were made as a result of this examination.

CONCLUSION

The examination of Souderton Mennonite Home, made as of June 30, 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.

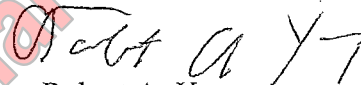
Respectfully submitted,



David G. DelBiondo, CPA
Director
Bureau of Financial Examinations



David R. Evans
Examination Manager



Robert A. Young
Examiner-In-Charge

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