

EXAMINATION WARRANT # 07-CP-525

REPORT OF EXAMINATION

OF THE

**HATFIELD MENNONITE HOME, INC.
HATFIELD, PENNSYLVANIA**

AS OF

JUNE 30, 2007

FOR INFORMATION ONLY

HATFIELD MENNONITE HOME, INC.

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FOR INFORMATION ONLY

Harrisburg, Pennsylvania
April 27, 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-525 dated January 15, 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

HATFIELD MENNONITE HOME, INC.

a continuing care non-profit Provider, hereafter referred to as the "Provider" or "Facility". This examination was conducted at the administrative home of the Provider located at 2343 Bethlehem Pike, Hatfield, Pennsylvania 19440.

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.

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The Certified Public Accounting, "CPA", firm of Parente Randolph, LLC, provided an unqualified opinion on the Provider's audited 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 40 P.S. § 3202 and 31 Pa Code § 151.

HISTORY

The facility, Dock Meadows (first known as Eastern Mennonite Convalescent Home and later Hatfield Mennonite Home), was an institution established by the Franconia Mennonite Conference (Mennonite Church) in 1942. A board of seven brethren from the churches in the Franconia Conference District was appointed by the bishops to serve as trustees. A charter for the institution was granted December 14, 1942. The first buildings were located on Highway 309 near Hatfield, Pennsylvania, with accommodations for 16 patients.

Although established for the care of members of the Mennonite Church, a majority of the guests have been non-Mennonites.

A Certificate of Authority was issued to the Provider by the Insurance Commissioner of the Commonwealth of Pennsylvania granting permission to transact the business of continuing care in accordance with the laws of the Commonwealth of Pennsylvania on April 9, 1990.

The Provider is tax-exempt under Section 501 (c) (3) of the Internal Revenue Code. The Provider's members (who are the same persons as the directors of this Corporation) are named by the directors of Dock Woods Community, Inc., a Pennsylvania nonprofit corporation, and the ultimate controlling entity of the Provider.

DESCRIPTION OF FACILITY

The Facility is located at the intersection of Route 309 and Unionville Pike on approximately 9 acres in Hilltown Township, Bucks County, Pennsylvania.

The Facility provides many different personal care units. There are twenty-three (23) units, which consist of two rooms, compact kitchen, bath and closets. The forty-three (43) remaining units consist of one or two rooms, with bath, closet, and range in size from 196 square

HATFIELD MENNONITE HOME, INC.

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feet to 594 square feet. The Facility is under one roof, which gives residents access to dining, mail, laundry, etc. without needing to go outside the building. Elevators are provided to connect the various floors.

Currently, an applicant must be sixty-two (62) years of age to be considered for acceptance into the Facility.

FEES AND SERVICES

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

Depending upon the floor plan selected, Entrance Fees range from \$18,000 to \$48,000, with monthly service fees of \$2,776 for the first person, and \$3,940, for the second.

Services Included In The Monthly Fee

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

REFUND POLICY

TERMINATION PRIOR TO OCCUPANCY

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 Application Processing Fee, shall be refunded to the Resident.

After Recession Period – If the Facility terminates this Agreement prior to Occupancy, all payments made by Resident less deduction for payment of any outstanding bills or other amounts due Facility will be refunded. If Resident terminates this Agreement prior to occupancy, then Resident shall be entitled to a refund of all monies paid to Facility less the non-refundable application fee of Two Hundred Fifty Dollars (\$250.00) and all costs incurred by Facility at the Resident's request.

TERMINATION BY DEATH

The Agreement shall terminate at death of Resident and Surrender of Unit.

REFUND AFTER OCCUPANCY

Resident or Resident's estate shall be entitled to a refund of fifty percent (50%) of said Entrance Fee and, in addition thereto, a refund equal to fifty percent (50%) of the Entrance Fee less two percent (2%) of the Entrance Fee per month (a portion of one month to be treated as a whole month) of occupancy however, the Provider shall retain at least Five Thousand Dollars (\$5,000.00) as a minimum non-refundable charge.

Any refund of the entry fee shall be payable within ninety (90) days of the date when Resident ceases to occupy the living accommodation.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The Provider's By-laws require there be no less than ten nor more than fifteen directors. The Provider shares a common board of Directors with Dock Woods Community, Inc. Their boards are ultimately governed by the Franconia Mennonite Conference of the Mennonite Church. The business and affairs of the Provider is managed by its Board of Directors which consisted of the following members as of June 30, 2007:

Name and Address	Principal Occupation
K. Leon Moyer Souderton, PA	President and COO Univest Nation Bank and Trust Company
H. William Longacre Pennsburg, PA	President Perkiomen Motorcoach, LLC
Daryl J. Hackman Telford, PA	President Farm & Home Oil Company
Bryan K. Hunsberger Schwenksville, PA	Self Employed Real Estate Developer
Natasha Alderfer Montgomeryville, PA	Certified Public Accountant Seitz, Leatherman & Kolb

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Willard Bergey Hatfield, PA	President Bergey Electric, Inc.
Miriam F. Book Harleysville, PA	Pastor Salford Mennonite Church
J. Oliver Gingrich Souderton, PA	Attorney Bricker, Landis, & Hunsberger, LLP
Vernon H. Kratz, MD Sellersville, PA	Doctor Penn Foundation
Horace W. Longacre Telford, PA	Retired
Carolyn Nolan Harleysville, PA	Retired
Sylvia F. Shelly Telford, PA	Staff Nurse Grand View Hospital
Steven Swartley Silverdale, PA	President Penn Builders, Inc.

OFFICERS

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

Name	Title
K. Leon Moyer	Chairman
H. William Longacre	Vice Chair
Bryan K. Hunsberger	Secretary
Daryl J. Hackman	Treasurer

CORPORATE RECORDS

ARTICLES OF INCORPORATION

For the period under examination, the Provider made no amendments to its Articles of Incorporation.

BY-LAWS

On August 17, 2004 the Provider's Board of Directors adopted a restated By-laws. The amendments were not material for purposes of this examination.

ANNUAL DISCLOSURE STATEMENT

A review was performed of the 2006 Annual Disclosure Statement for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. § 3207(a), required information in the Disclosure Statement and 40 P.S. § 3207(c), 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 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 the results of 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,**

	2007	2006
Current Assets		
Cash	\$ 304,808	\$ 419,761
Accounts Receivables:		
Resident	21,095	10,275
Other	5,430	5,257
Prepaid Expenses and Other Current Assets	26,581	27,587
Total Current Assets	<u>357,914</u>	<u>462,880</u>
Assets Whose Use is Limited	1,789,425	1,459,553
Property and Equipment	1,410,702	1,477,558
TOTAL ASSETS	<u><u>\$ 3,558,041</u></u>	<u><u>\$ 3,399,991</u></u>
Current Liabilities		
Accounts Payable:		
Trade	\$ 17,329	\$ 23,283
Entrance Fee Refunds	99,379	76,758
Accrued Payroll and Payroll Taxes	143,626	127,602
Total Current Liabilities	<u>260,334</u>	<u>227,643</u>
Refundable entrance fees and deposits	907,650	877,150
Deferred Revenue from Entrance Fees	595,718	613,509
Total Liabilities	<u>1,763,702</u>	<u>1,718,302</u>
Net Assets		
Unrestricted	1,794,339	1,681,689
Totals Liabilities and members' Equity (Deficit)	<u><u>\$ 3,558,041</u></u>	<u><u>\$ 3,399,991</u></u>

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

	2007	2006
Revenue, gains and Other Support		
Net Resident Service Revenues	\$ 2,235,714	\$ 2,139,931
Other Operating Revenue, Net	<u>17372</u>	<u>13404</u>
Total underwriting deductions	2,253,086	2,153,335
Expenses		
Health Care	593,696	568,753
Dietary	514,111	505,711
Housekeeping and laundry	85,504	86,404
Social Services and activities	127,443	119,815
Plant Operations	431,965	408,285
General and Administrative	426,898	346,905
Depreciation	<u>161,198</u>	<u>158,260</u>
Total Expenses	<u>2,340,815</u>	<u>2,194,133</u>
Operating Losses	(87,729)	(40,798)
Other Income:		
Unrestricted Contributions	121	0
Investment Income, primarily interest	<u>96,174</u>	<u>67,568</u>
Increase (Decrease) in Unrestricted Net Assets	<u>8,566</u>	<u>26,770</u>
Changes in Net Unrealized gains and losses Assets on investmentsother than trading securities	38,227	(2,050)
Net Transfers to Affiliate	<u>65,857</u>	<u>43,450</u>
Increase (decrease) in Temporarily Restricted Net Assets	104,084	41,400
Increase (Decrease) in Net Assets	112,650	68,170
Net Assets - Beginning of Year	<u>1,681,689</u>	<u>1,613,519</u>
Increase in Net Assets	<u>\$ 1,794,339</u>	<u>\$ 1,681,689</u>

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

	2007	2006
Cash from Operating Activities		
Increase (decrease) in Net Assets	\$ 112,650	\$ 68,170
Adjustments to reconcile decrease in Net Assets to net Cash used in Operating Activities:		
Depreciation	161,198	158,260
Net Realized and unrealized gain on investment	(57,056)	(2,796)
Net transfers to affiliate	(65,857)	(43,450)
Proceeds from entrance fees and deposits	437,500	452,000
Entrance Fee Amortization	(210,001)	(206,056)
Increase (decrease) in Assets		
Receivable	(10,993)	3,979
Inventory	0	4,022
Prepaid Expenses	1,006	355
Due from affiliate	0	4,191
Accounts payable	(5,954)	8,871
Accrued Expenses	16,024	(2,100)
Due to affiliates	0	(4,024)
Net cash from operations	<u>378,517</u>	<u>441,422</u>
Cash Flows from Investing Activities:		
Net Purchases of investments	(272,816)	230,650
Purchase of property and equipment	<u>(94,342)</u>	<u>(104,291)</u>
Net cash from investments	<u>(367,158)</u>	<u>126,359</u>
Cash from Financing Activities		
Refunds of entrance fees and deposits	(192,169)	(289,733)
Net transfers from affiliate	<u>65,857</u>	<u>43,450</u>
	(126,312)	(246,283)
Net change in cash and short-term investments	(114,953)	321,498
Reconciliation of cash and short-term investments:		
Beginning of the year	419,761	98,263
End of the year	<u>\$ 304,808</u>	<u>\$ 419,761</u>

STATUTORY MINIMUM LIQUID RESERVE

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 zero and number (2) is \$266,588 as of June 30, 2007. The Provider's cash balance of \$304,808 satisfies the statutory requirement.

SUBSEQUENT EVENTS

The examiner was not made aware of any development that could have had a materially adverse impact on the Provider's financial position.

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 Hatfield Mennonite Home, Inc., made as of June 30, 2007, 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
Examiner-In-Charge

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