

Report on the Examination

As of December 31, 2018

of

Wake Robin Corporation

by the





State of Vermont
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

For consumer assistance:
[Banking] 888-568-4547
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[Securities] 877-550-3907
www.dfr.vermont.gov

Martha Maksym
President and CEO
Wake Robin Corporation
200 Wake Robin Drive
Shelburne, VT 05482

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of Wake Robin Corporation for the year ending December 31, 2018 is adopted.

Wake Robin Corporation may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.

A handwritten signature in blue ink, appearing to read "Michael S. Pieciak", written over a horizontal line.

Michael S. Pieciak, Commissioner

2/16/2021

Date



**WAKE ROBIN CORPORATION
EXAMINATION REPORT
AS OF DECEMBER 31, 2018**

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February 4, 2021

Michael S. Pieciak, Commissioner
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner Pieciak:

Pursuant to the November 29, 2018 examination order, the Insurance Division's financial examination team has conducted an examination of:

Wake Robin Corporation
with their offices located at
200 Wake Robin Drive
Shelburne, VT 05482

The examination was performed pursuant to 8 V.S.A. §3563 in order to ascertain the Company's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.



SCOPE OF EXAMINATION

As of December 31, 2018, the financial examination of Wake Robin Corporation (the “Corporation” or “Company”) was performed. The Corporation’s last financial condition examination conducted by the Vermont Department of Financial Regulation (the “Department”) was as of December 31, 2013 for the previous five-year period.

The examination was conducted pursuant to 8 V.S.A. §3563 and guidance provided by the National Association of Insurance Commissioners (“NAIC”). The examination covered the period from January 1, 2014 through December 31, 2018. The Department conducted the examination in accordance with NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Corporation and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Corporation were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with applicable Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Corporation’s financial statements.

This examination report includes significant findings of fact, as mentioned in 8 V.S.A. §3574 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Corporation.

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SUMMARY OF SIGNIFICANT FINDINGS

There were no findings in the prior exam report or the current exam report. There were no adjustments made to the annual statement based on this examination.

HISTORY

Wake Robin is a nonprofit (501(C)(3)) corporation, operating as a Continuing Care Retirement Community (“CCRC”). The Corporation is regulated by the Vermont Department of Financial Regulation, Division of Insurance, due to their insurance type-offering of nursing, medical, health, and health-related services for the duration of an individual’s life. Regulatory authority is derived from Vermont Statutes Annotated, Title 8, Chapter 151, Continuing Care Retirement Communities. The Corporation is Vermont’s first and only CCRC and currently consists of 212 independent living units, a community center and a health center with 31 units for residential care, and 51 units for skilled nursing. Located on 136 acres in Shelburne, VT, the Corporation was organized in 1984 and admitted its first residents in the summer of 1993. In 2017 Wake Robin began a construction project to expand the facility, to add 38 independent living apartments, 10 residential care units, and 6 skilled care units. The CCRC provides residents with a living unit, use of the health center, and other facilities and services for the resident’s lifetime. Residents pay a one-time entrance fee and monthly fees during the time the individual resides in a Wake Robin unit.

In 2011, the Corporation formed Wake Robin Management, LLC (“WRM”), a wholly owned subsidiary that manages a retirement community. WRM offers management services, financial and accounting procedures, and personnel administration to provide quality independent living and assisted living services to the community’s residents. WRM is incorporated under the laws of the State of Vermont as a limited liability company. WRM became operationally in-active in 2015.

MANAGEMENT AND CONTROL

Corporate Records

The Corporation’s headquarters and administrative offices are located in Shelburne, Vermont. The Articles of Incorporation, By-Laws and minutes of the Board of Directors meetings held

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during the period under examination were reviewed. Based upon that review, the Corporation is conducting its affairs in accordance with the By-Laws of the Corporation. The recorded minutes of these meetings adequately documented approval and oversight of the Corporation's investment transactions, other material transactions, events and changes in directors.

Board of Directors

The business affairs of the Corporation are managed under the direction of the Board of Directors. Board of Directors need not be residents of the State of Vermont. Unless authorized by the Vermont Nonprofit Corporation Act (the "Act"), not more than 49% of the Directors may be "financially interested persons" as such term is defined in the Act. The Board of Directors consists of thirteen members or such other number (but not less than seven) as may be determined by a resolution of the Board. No Director may serve more than three terms, except that: (a) one additional term may be allowed after the completion of three terms and after being off the Board for at least one year; (b) the term of the Chair of the Board may be extended beyond the three-term limit for directors as necessary to permit that director to serve as Chair of the Board for up to three years; and (c) the term of the Immediate Past Chair may be extended for one year beyond the three-term limit for directors in the event that the director has completed three terms at the termination of his or her office as Chair of the Board of Directors. Notwithstanding the foregoing, any director who is a resident of the Corporation's continuing care retirement community may serve not more than one term. The election of Directors is yearly, with approximately one third of the Directors being elected each year. Former Directors may be elected as Directors Emeritus, who will have the right to attend meetings, but not the right to vote.

Regular meetings of the Board of Directors are held quarterly or more often, at times and places fixed by the Board at its first meeting of the year or otherwise. Special meetings of the Board of Directors are called by the Chair or by a majority of the Directors. A majority of the Board of Directors constitutes a quorum at all meetings. An annual meeting of the Board of Directors is held during the month of March, April, May or June of each year, at a time and place determined by the Board.

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The following were elected to the Board of Directors of Corporation in accordance with the By-Laws and serving as of December 31, 2018:

<u>Name</u>	<u>Residence</u>
Christine Dunbar Global Foundaries	Vermont
Bob Duncan Duncan Wisniewski Architecture	Vermont
Cathy Frank Community College of Vermont	Vermont
Peter Galbraith Wake Robin – resident	Vermont
Janice Gallant, MD University of Vermont Larner College of Medicine	Vermont
Rosalyn Graham Shelburne Farms	Vermont
Eric Hanson Hanson & Doremus	Vermont
Katie Hawley Hawley Consulting Services LLC	Vermont
Theresa Hyland Shelburne Farms	Vermont
Allyson Laackman Burlington Housing Authority	Vermont
Joan Lenes Champlain Valley High School	Vermont
Marc Tischler University of Vermont Larner College of Medicine	Vermont
Bill Truex TruexCullins	Vermont

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Officers

The Officers of the Corporation are a President, Treasurer, Secretary, and any other Officers that may be appointed in accordance with the By-laws. Any two or more offices may be held by the same person, except the offices of President and Secretary.

The Officers of the Corporation as of December 31, 2018 were as follows:

<u>Name</u>	<u>Title</u>
Patrick McKee	President and CEO
Fred Erdman	Secretary and Treasurer

CERTIFICATE OF AUTHORITY

During the exam period the following amendments to the Corporation's Certificate of Authority were issued:

- Effective November 8, 2016, the Corporation received approval for an expansion project at the Facility to construct additional independent living homes, residential care homes, skilled nursing homes and to construct improvements to the health center and common areas around the Facility. This project will be funded by the issuance of new bonds.
- Effective June 19, 2017, the Corporation received approval to issue additional bonds in the amount of \$68,285,000 (collectively the 2017 bonds) which will be used for the defeasance/retirement of the Series 2006B bonds and finance the Phase III Project of which approval was received in 2016.
- Effective June 8, 2018, the Corporation received approval to transfer its Statutory Reserve funds from a financial institution within the State of Vermont to a financial institution outside of Vermont permitting specific conditions are maintained.

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LONG – TERM DEBT

On July 11, 2017, the Corporation entered into a Loan Agreement and Mortgage with the Vermont Economic Development Authority (the “Authority”) pursuant to which the Authority sold the following issues of bonds:

Vermont Economic Development Authority Bonds:

Series 2017A Mortgage Revenue Bonds	\$ 21,590,000
Series 2017B Mortgage Revenue Bonds	29,500,000
Series 2017C Mortgage Revenue Bonds	<u>16,000,000</u>
Total	<u>\$ 67,090,000</u>

The proceeds of the Series 2017A Bonds, along with other available funds were used to refund the outstanding balance of the Series 2006B Bonds (\$14,225,000), to finance a portion of the costs for the renovation and reconfiguration of existing facilities, construct the new independent living apartment building, fund debt service reserve funds for the Series 2017A Bonds, and to pay the costs of issuing the Series 2017A Bonds. The Series 2017A Bonds bear interest at fixed rates between 2.5% and 5%.

The proceeds of the Series 2017B and Series 2017C Bonds are to be used to finance a portion of the cost of the various renovation and new building projects as well as to pay the cost of issuing the Series 2017B and Series 2017C Bonds. The Series 2017B Bonds bear interest at 0.72% of one-month LIBOR plus 2.05% (1.85% after the Certificate of Occupancy is received), a rate which was converted to a fixed rate of 1.72% using a derivative instrument through July 1, 2024. The Series 2017C Bonds bear interest at 0.72% of LIBOR plus 2.05%.

On December 10, 2014, the Corporation entered into a loan agreement and mortgage with the State of Vermont, acting through the Authority, pursuant to which the Authority sold the Series 2014 Bond in the amount of \$19,955,000 to Manufacturers & Traders Trust. The bond bears a variable interest rate equal to 0.75% of the 30-Day LIBOR Rate plus 1.85%. The variable rate which was converted to a fixed rate of 1.49% using a derivative instrument through July 1, 2024.

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On May 31, 2012, the Corporation entered into a Loan Agreement and Mortgage with the Authority pursuant to which the Authority sold the following issues of bonds:

Vermont Economic Development Authority Bonds:	
Series 2012 Serial Bonds	\$ 10,480,000
Series 2012 Term Bonds	2,655,000
Series 2012 Term Bonds	<u>10,700,000</u>
Total	<u>\$ 23,835,000</u>

From the proceeds, the organization borrowed \$23,835,000 of Mortgage Revenue Bonds (Wake Robin Corporation Project), Series 2012 (referred to as the "Series 2012 Bonds"). The Series 2012 Bonds are comprised of 1) \$10,480,000 of Serial Bonds bearing interest at fixed rates between 2.75% and 5.125% with a yield ranging between 2.75% and 5.125% over the life of the issuance; 2) \$2,655,000 of term bonds at a fixed rate of 5.3% and with a yield of 5.3% and 3) \$10,700,000 of term bonds at a fixed rate of 5.4% and with a yield of 5.4%.

A portion of the proceeds from the sale of the Series 2012 Bonds, along with other funds, were used to refund the Series 1999A Bonds, to fund a debt service reserve fund and to pay costs of issuance relating to the Series 2012 Bonds.

On June 1, 2006, the Corporation entered into a Loan Agreement and Mortgage with the Authority pursuant to which the Authority sold the following issues of bonds and lent the proceeds to the Corporation:

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Vermont Economic Development Authority Bonds:	
Series 2006A Mortgage Revenue Bonds	\$ 23,500,000
Series 2006B Variable Rate Demand Mortgage Revenue Bonds	\$ 16,455,000
Series 2006C Variable Rate Demand Mortgage Revenue Bonds	8,250,000
Series 2006D Variable Rate Demand Mortgage Revenue Bonds - taxable	<u>2,250,000</u>
Total	<u><u>\$ 50,455,000</u></u>

The proceeds of these bonds were used to finance the construction and equipping of an additional 37 independent living and 18 skilled nursing units, to advance refund the Wake Robin Mortgage Revenue Bonds Series 1999B Bonds, to establish reserves required to be maintained by the trustee, for acquisition, improvement, and development of the facility site, for routine capital expenditures of the Corporation, and to pay for the costs of bond issuance. During 2017 the 2006B bonds were fully repaid with the proceeds from the issuance of the Series 2017A bonds. During 2014 the 2006A bonds were defeased using the proceeds from the issuance of the Series 2014 bonds. The Series 2006C and 2006D bonds were retired in 2008 and 2007 using Company funds.

The Corporation is subject to various covenants under the bond agreements. These covenants require various reporting, financial, and operations requirements. As of December 31, 2018, the Corporation is not aware of any instances of non-compliance with these covenants.

LETTERS OF CREDIT

On December 30, 2013, the Corporation executed a Letter of Credit with M & T Bank, with an expiration date of December 30, 2016. The Letter of Credit was subsequently renewed in 2017 and was allowed to expire as of December 30, 2018.

FINANCIAL STATEMENTS

The following statements are based on the financial statements filed by the Corporation with the Department and present the financial condition of the Corporation for the period ending December 31, 2018.

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Statement of Financial Position

Current Assets:

Cash and cash equivalents	\$ 5,444,914
Investments	8,780,811
Resident accounts receivable and other receivables	444,168
Supplies inventory	90,303
Prepaid expenses	<u>181,969</u>
 Total current assets	 <u>14,942,165</u>

Assets Limited As To Use:

Under priority deposits and donor restrictions	7,222,688
Under bond indenture agreement - held by trustee	<u>7,606,857</u>
 Total assets limited as to use	 <u>14,829,545</u>

Assets Under Interest Rate Swap Agreements 213,579

Property and Equipment, net 89,871,154

Total assets \$ 119,856,443

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Statement of Financial Position (continued)

Current Liabilities:

Current portion of long-term debt	\$ 1,865,000
Estimated liability for refunds of entrance fees	558,000
Accounts payable	463,156
Accrued Expenses	533,748
Accrued interest	456,215
Construction payable - 2017 project	5,688,748
Priority and interim deposits	491,100
Deposits - 2017 project	2,774,380
Entrance fee deposits	<u>1,138,800</u>

Total current liabilities	<u>13,969,147</u>
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Long-term Liabilities:

Long-term debt - bonds, net current portion	79,755,917
Liability under interest rate swap agreements	30,047
Deferred revenue - amortizable entrance fees	49,474,804
Refundable entrance fee liability	2,199,351
Annuity obligations	<u>105,644</u>

Total long-term liabilities	<u>131,565,763</u>
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Total liabilities	145,534,910
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Net Assets (Deficit)

Without donor restriction	(29,112,525)
With donor restriction	<u>3,434,058</u>

Total net deficit	<u>(25,678,467)</u>
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Total liabilities and net deficit	<u><u>\$ 119,856,443</u></u>
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**WAKE ROBIN CORPORATION
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Statement of Operations

<u>Revenue, Gains and Other Support:</u>	
Resident service revenue	\$ 12,673,096
Amortization of entrance fees	5,018,572
Termination fees	1,924,824
Health care revenue	3,574,043
Ancillary and other resident revenue	493,996
Investment income and realized gains	900,689
Contributions	1,635
Net assets released from restrictions used for operations	14,808
Net assets released for donor related restrictions	68,636
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Total revenue, gains and other support	24,670,299
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<u>Expenses:</u>	
General and administrative	3,766,884
Dining services	2,427,052
Resident services	1,012,874
Linden Health Center	4,316,744
Environmental Services	2,805,866
Property tax and insurance	1,264,538
Utilities	1,057,402
Depreciation and amortization	4,132,576
Interest	2,593,575
	<hr/>
Total expenses	23,377,511
	<hr/>
Income from operations	1,292,788
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<u>Nonoperating Loss:</u>	
Change in fair value of gift annuities	(12,737)
Net unrealized loss on equity security investments	(255,490)
	<hr/>
Total nonoperating loss	(268,227)
	<hr/>
Excess of revenue over expenses	1,024,561
	<hr/>
<u>Other Changes in Net Deficit Without Donor Restrictions:</u>	
Change in fair value of derivative instrument	339,211
Net unrealized loss on fixed income securities and other investments	(541,535)
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Total other changes in net deficit without donor restrictions	(202,324)
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Decrease in net deficit without donor restrictions	\$ 822,237
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Statement of Changes in Net Deficit

Income from Operations	\$ 1,292,788
<u>Nonoperating Loss:</u>	
Change in fair value of gift annuities	(12,737)
Net unrealized loss on equity investments	<u>(255,490)</u>
Total nonoperating loss	<u>(268,227)</u>
Excess of revenue over expenses	<u>1,024,561</u>
<u>Other Changes in Net Deficit Without Donor Restrictions:</u>	
Change in fair value of derivative instrument	339,211
Net unrealized loss on fixed income securities and other investments	<u>(541,535)</u>
Total other changes in net deficit without donor restrictions	<u>(202,324)</u>
Decrease in net deficit without donor restrictions	<u>822,237</u>
<u>Changes in Net Assets With Donor Restrictions:</u>	
Contributions	121,917
Net assets released from restrictions used for operations	(14,808)
Net assets released for donor-related restrictions	(68,636)
Investment income	43,651
Realized gain on investments	378,239
Unrealized loss on investments	<u>(576,056)</u>
Decrease in net assets with donor restrictions	<u>(115,693)</u>
Decrease in net deficit	<u>706,544</u>
Cumulative effect of change in accounting principle	(21,158)
Net deficit - beginning of year	<u>(26,363,853)</u>
Net deficit - end of year	<u>\$ (25,678,467)</u>

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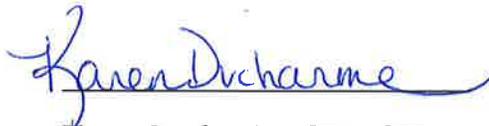
COMMENTS AND RECOMMENDATIONS

There are no significant findings or financial adjustments as a result of this examination. A Comment Letter will be issued to the Board as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report. In such cases, these matters were thoroughly discussed with responsible personnel during the examination.

CONCLUSION

In addition to the undersigned, Jesse Lussier, CPA, CFE, Administrative Examiner and Miranda Cloutier, AFE, Examiner in Charge, participated in the examination. We wish to express our appreciation to the Officers and Directors for the courteous cooperation extended during the course of the examination.

Respectfully submitted,



Karen Ducharme, CPA, CFE
Director of Company Licensing and Examinations
Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Karen Ducharme, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn to before me

This 11th day of February, 2021



Notary Public