

EXAMINATION WARRANT # 09-CP-547

REPORT OF EXAMINATION

OF THE

ALLIED SERVICES CONTINUING CARE RETIREMENT COMMUNITY  
CLARK SUMMIT, PENNSYLVANIA

AS OF

JUNE 30, 2010

For Informational Purposes Only

# ALLIED SERVICES CONTINUING CARE RETIREMENT COMMUNITY

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Harrisburg, Pennsylvania  
January 21, 2011

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-547 dated December 15, 2010, and in accordance with provisions of the Pennsylvania Continuing Care Provider and Registration and Disclosure Act, 40 P.S. § 3219, an examination was conducted of the records and affairs of

**ALLIED SERVICES CONTINUING CARE RETIREMENT COMMUNITY**

a continuing care retirement community hereafter referred to as the "Provider". This examination was conducted at the administrative office of the Provider located at 100 Abington Executive Park, Clark Summit, Pennsylvania 18411.

The report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

This is the first examination of the Provider. This examination covered the five-year period from July 1, 2006 through June 30, 2010, 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.

For the years 2006 through 2008, the financial statements were audited by the Certified Public Accounting ("CPA") firm of ParenteRandolph, LLP. For the years 2009 and 2010 the financial statements were audited by the same CPA under the name of ParenteBeard, LLC. For all years covered by the examination, the CPA rendered, in all cases, an unqualified opinion of the financial statements based on generally accepted accounting principles.

## HISTORY

The Provider was incorporated on February 24, 2006.

On June 8, 2006, the Provider received a Certificate of Authority from the Department to operate as a Continuing Care Retirement Community.

The Provider is affiliated with Allied Services Foundation ("Foundation"), a not-for-profit organization. The Foundation has control of the Provider and other affiliates through the ability to appoint Board members.

The Provider is a not-for profit organization tax exempt under 501 (c) (3) of the Internal Revenue Code.

## DESCRIPTION OF FACILITY

The Provider operates one facility under the name Allied Services Retirement Community located at 100 Terrace Lane, Scranton, Lackawanna County. There are presently four (4) one-bedroom, one-bath apartments in the complex owned by an affiliate, Allied Services Personal Care, Inc. ("Allied Terrace"). The complex also has personal care and nursing care facilities. The Provider leases the apartment units from Allied Terrace.

Two of the apartments are presently occupied by two (2) residents.

## FEES AND SERVICES

The Entrance Fee structure is determined according to the age of the prospective resident at the time the agreement is executed. As of June 30, 2010, entrance fees ranged from \$34,000 for a prospective resident age 55 to \$21,500 for a prospective resident age 80 and above. Per the agreement, "in case of double occupancy, the entrance fee charged will be that of the younger occupant". The entrance fee is amortized at the rate of one thirty-sixth (1/36) per month

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beginning in the month of the Designated Occupancy Date or the actual date of Occupancy, whichever is earlier. After thirty-six (36) months, the entrance fee is fully amortized.

The Monthly Service Fee, at June 30, 2010, was \$1,500 for single occupancy and \$1,750 for double occupancy. There are numerous services offered in the resident agreement as part of the monthly fee. There are also miscellaneous, ancillary and other services outlined for which the Provider charges extra.

### REFUND POLICY

#### Refund During the Rescission Period

The Resident may terminate the agreement within seven (7) days of its execution (rescission period) and receive a full refund of the entrance fee paid, without interest.

#### Refund After Occupancy

The resident will be entitled to a refund of the unamortized entrance fee, if any, less deductions for any financial assistance, and/or any cost incurred by the Provider for refurbishments, repairs, or restorations to the residence, and/or any unpaid charges.

#### Refund Under Conditions Of Double Occupancy

If one of two residents covered under the agreement remains in the residence after the other resident's death or relocation from the Provider's facility, the refund of the entrance fee will be paid only after the surviving resident has vacated the residence. As per the agreement, refund determination under a double occupancy may change depending upon the rules and requirements of the Department of Public Welfare, any court, administrative agency or other appropriate tribunal.

#### Conditions and Due Date for Refund Payments

Prior to occupancy, all applicable refunds will be made within thirty (30) days of the termination of the agreement. After occupancy, all applicable refunds will be paid after surrender of the residence and after the residence is reoccupied by another resident from whom the Provider has received full payment of the entrance fee. Amortization of the entrance fee ceases on the effective date of the surrender. In the situation of a double occupancy, there is no refund upon the death, permanent transfer, discharge or voluntary departure of only one of the co-residents.

### MANAGEMENT AND CONTROL

#### MEMBERSHIP

Members of the Provider, as stated in its By-laws, are the individuals serving on the Executive Committee of the Board of Directors of the Foundation. As of June 30, 2010, those members serving were:

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<b>Title</b>	<b>Name</b>
Chairman	William Scranton III
Vice Chairman	Louis DeNaples
Secretary	Ralph Lomma
Treasurer	Gerald Franceski

## BOARD OF DIRECTORS

The business and affairs of the Provider is managed by its Board of Directors which consisted of the following individuals as of June 30, 2010:

<b>Name and Address</b>	<b>Principal Occupation</b>
Gerald Franceski Uniondale, PA	Retired
Philip A. Burne Scranton, PA	Retired
William P. Conaboy Clark Summit, PA	President Allied Services Foundation
Ralph Lomma Uniondale, PA	President Lomma Enterprises

## OFFICERS

The following Officers were serving as of June 30, 2010:

<b>Name</b>	<b>Title</b>
Gerald Franceski	Chairman
Philip A. Burne	Vice Chairman
William P. Conaboy	Secretary
Ralph Lomma	Treasurer

## CORPORATE RECORDS

### ARTICLES OF INCORPORATION

The Articles of Incorporation were established in 2006. There were no changes to the Articles of Incorporation during the period of the examination.

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### BY-LAWS

The By-laws were established in 2006. There were no changes to the By-laws during the period of the examination.

### ANNUAL DISCLOSURE STATEMENT

A review was made of the 2008 Annual Disclosure Statement for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act ("the Act"), namely 40 P.S. § 3207, Sections (a) through (d), and Pennsylvania Insurance Regulations ("the Regulations"), 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), of the Act, and 31 Pa. Code § 151.8 Sections (a) through (g), and 31 Pa. Code § 151.9 Sections (a) through (f), of the Regulations. The Resident Agreement contains the necessary information required of the Act and the Regulations.

### SERVICE AGREEMENTS

The following are service agreements with affiliated organizations. Each agreement became effective March 24, 2006 and continue to be in effect as of June 30, 2010 and subsequent. The agreements enable the Provider to operate as a Continuing Care Retirement Community through leasing of the property for the apartments, management, and priority access to personal care and skilled nursing services for its residents.

### LEASE AGREEMENT

The Provider has a Lease Agreement with Allied Terrace to lease a portion of the building owned by Allied Terrace for independent living apartment use. Permitted use of the premises is for a twenty-five (25) year period from July 1, 2006 to July 1, 2031.

### PERSONAL CARE SERVICES AGREEMENT

The Provider has an agreement with Allied Terrace to provide access to Allied Terrace's personal care facility for the Provider's residents should the requirement is needed on a priority basis. The agreement continues until either party decides to terminate.

## **NURSING CARE SERVICES AGREEMENT**

The Provider has an agreement with Allied Services Skilled Nursing Center (“Nursing Center”) to provide access to the Nursing Center’s skilled nursing care facility for the Provider’s residents should the requirement is needed on a priority basis. The agreement continues until either party decides to terminate.

## **MANAGEMENT AGREEMENT**

The Provider has an agreement with Allied Healthcare Services to provide management services including administration and financial, marketing, and other services mutually agreed upon. The agreement automatically renews for one-year terms until either party decides to terminate.

## **MANAGEMENT SERVICES AGREEMENT**

The Provider has an agreement with Allied Terrace to provide general management of day to day operations, ancillary services and other services mutually agreed upon. The agreement became effective for a one-year term and automatically renews for one-year terms until either party decides to terminate.

## **PENDING LITIGATION**

There was no known 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 June 30, 2010, 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 Net Assets (Deficit) and;
- Comparative Statement of Cash Flows

The Comparative Statement of Cash Flows is of the Consolidated Financial Statements of Allied Services Foundation and Controlled Entities since there is no separate cash flow statement of the Provider.

There were no changes made to the financial statements as a result of this examination.

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Comparative Balance Sheet  
as of June 30,

Assets	2010	2009
<b>Current Assets</b>		
Cash and cash equivalents	\$ 11,524	\$ 21,568
Restricted cash, resident funds	8,958	16,542
Accounts receivable, net	550	0
Prepaid expenses and other current assets	4,697	3,548
<b>Total current assets</b>	<b>25,729</b>	<b>41,658</b>
<b>Total assets</b>	<b>25,729</b>	<b>41,658</b>
<b>Liabilities and Net Assets (Deficit)</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	3,818	0
Resident funds	26,142	16,542
Intercompany payables, net	0	3,971
<b>Total current liabilities</b>	<b>29,960</b>	<b>20,513</b>
<b>Total liabilities</b>	<b>29,960</b>	<b>20,513</b>
<b>Net Assets (Deficit)</b>	<b>(4,231)</b>	<b>21,145</b>
<b>Total Liabilities and Net Asset (Deficit)</b>	<b>\$ 25,729</b>	<b>\$ 41,658</b>

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Comparative Statement of Operations  
for the Year Ended June 30,

	<u>2010</u>	<u>2009</u>
<b>Unrestricted Revenues:</b>		
Net patient service revenues	\$ 20,305	\$ 35,549
	<u>20,305</u>	<u>35,549</u>
<b>Expenses:</b>		
Salaries, wages, and contract labor	11,409	43,135
Supplies and expenses	32,168	2,531
Employee benefits	2,101	0
	<u>45,678</u>	<u>45,666</u>
Operating income (loss)	(25,373)	(10,117)
Investment income (loss)	<u>(3)</u>	<u>77</u>
Revenues in excess of (less than) expenses	<u>\$ (25,376)</u>	<u>\$ (10,040)</u>

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Comparative Statement of Changes In Net Assets (Deficit)  
For the Year Ended June 30,

	<u>2010</u>	<u>2009</u>
Unrestricted Net Assets (Deficit):		
Revenues in excess of (less than) expenses	\$ (25,376)	\$ (10,040)
Change in unrestricted net assets (deficit)	(25,376)	(10,040)
Net Assets (Deficit), Beginning	21,145	31,185
Net Assets (Deficit), Ending	<u>\$ (4,231)</u>	<u>\$ 21,145</u>

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**Comparative Statement of Cash Flows**  
**For the Year Ended June 30,**

	<u>2010</u>	<u>2009</u>
<b>Cash Flows From Operating Activities:</b>		
Increase in net assets	\$ 2,167,130	\$ 14,710,793
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,032,202	5,180,633
Net gain from sale of long-lived assets	0	(18,636,103)
Provision for doubtful collections	1,498,451	2,574,679
Net realized (gain) loss on sale of investments	(71,134)	778,786
Restricted contributions and investment income	(515,173)	(211,230)
Net unrealized (gain) loss on investments	(1,206,642)	2,329,016
Pension liability adjustment	4,092,206	3,739,003
Changes in assets and liabilities:		
Accounts receivable	3,087,060	(999,186)
Estimated third-party payor settlements	(811,979)	(116,923)
Inventories	103,551	(191,246)
Prepaid expenses and other current assets	(653,851)	619,602
Accounts payable and accrued expenses	(173,226)	(1,724,538)
Malpractice and general liability	896,679	(19,937)
Pension liability	(194,549)	(1,435,652)
Workers compensation	229,268	470,733
Net cash provided by operating activities	<u>\$ 13,479,993</u>	<u>\$ 7,068,430</u>

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**Comparative Statement of Cash Flows (continued)  
For the Year Ended June 30,**

	<u>2010</u>	<u>2009</u>
<b>Cash Flows From Investing Activities</b>		
Net (purchases) sales of investments	\$ (3,399,907)	\$ (5,398,205)
Purchase of property and equipment	(3,311,935)	(3,636,438)
Proceeds from the sale of long-lived assets	<u>0</u>	<u>32,720,372</u>
Net cash (used in) provided by investing activities	<u>(6,711,842)</u>	<u>23,685,729</u>
<b>Cash Flows From Financing Activities</b>		
Repayment of long-term debt	(3,509,197)	(25,947,172)
Proceeds from restricted contributions and investment income	<u>515,173</u>	<u>211,230</u>
Net Cash Provided by Financing Activities	<u>(2,994,024)</u>	<u>(25,735,942)</u>
Net increase in cash and cash equivalents	3,774,127	5,018,217
Cash and Cash Equivalents, Beginning	<u>6,203,756</u>	<u>1,185,539</u>
Cash and Cash Equivalents, Ending	<u>\$ 9,977,883</u>	<u>\$ 6,203,756</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 1,510,419</u>	<u>\$ 1,933,682</u>

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## NOTES TO THE FINANCIAL STATEMENTS

### STATUTORY MINIMUM LIQUID RESERVE

**\$4,707**

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 \$0 and number (2) is \$4,707 as of June 30, 2010. The Provider had cash and cash equivalents of \$11,524 as of June 30, 2010. The Provider's current assets applied satisfy the statutory requirement.

### SUBSEQUENT EVENT

The Provider entered into a Home Care Services Agreement with an affiliate, Allied Services Home Health ("Home Health") to provide access to Home Health's nursing care services to the Provider's residents in their Continuing Care Retirement Community should the requirement be needed on a priority basis. The agreement became effective, October 1, 2010 and continues until either party decides to terminate.

### RECOMMENDATIONS

#### CURRENT RECOMMENDATIONS

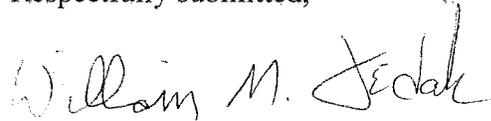
There are no current recommendations.

### CONCLUSION

The examination of Allied Services Continuing Care Retirement Community, made as of June 30, 2010, has determined that it is in compliance with all applicable Pennsylvania laws and regulations as pertaining to Continuing Care Retirement Communities with the exceptions noted under "Current Recommendations."

This examination was conducted by Nicholas A. Kofira.

Respectfully submitted,



William M. Fedak, CFE  
Manager  
Bureau of Financial Examinations



Nicholas A. Kofira  
Examiner-In-Charge

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