

EXAMINATION WARRANT # 14-204472148-CP

REPORT OF EXAMINATION

OF THE

**ALLIED SERVICES CONTINUING CARE RETIREMENT COMMUNITY
d/b/a ALLIED SERVICES RETIREMENT COMMUNITY
CLARKS SUMMIT, PENNSYLVANIA**

AS OF

JUNE 30, 2014

For Informational Purposes Only

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Harrisburg, Pennsylvania
September 30, 2016

Honorable Joseph DiMemmo, 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 14-2044725148-CP dated September 21, 2015, and in accordance with provisions of the Pennsylvania Continuing-Care Provider Registration and Disclosure Act ("the Act"), as cited in 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, Clarks Summit, Pennsylvania 18411.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

This is the second examination of the Provider. This examination covered the period from July 1, 2011 through June 30, 2014, 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 its annual audits. 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 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.

The objective of this examination was to determine the extent of the Provider's compliance with the Act and 31 Pa. Code § 151 ("the Regulations").

For the years 2011 through 2013, the financial statements were audited by the certified public accounting firm ("CPA") of ParenteBeard, LLC. For the year 2014, the financial statements were audited by the CPA firm of BakerTilly, formerly ParenteBeard, LLC.

HISTORY

The Provider was incorporated on February 24, 2006, and received approval to use its fictitious name on March 7, 2006.

On June 8, 2006, the Provider received a Certificate of Authority from the Department to operate as a continuing care retirement community ("CCRC"). The Provider's first resident was admitted in June 2006.

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 tax exempt organization 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 one-bedroom, one-bath apartments in the complex owned by an affiliate, Allied Services Personal Care, Inc. ("Allied Terrace"). The Provider's complex also includes personal care and nursing care facilities. The Provider leases the apartment units from Allied Terrace.

As of the examination date, two of the apartments were occupied by two 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, 2014, 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 beginning in the month of the Designated Occupancy Date or the actual date of Occupancy, whichever is earlier. After 36 months, the entrance fee is fully amortized.

The monthly service fee at June 30, 2014, was \$2,600 for single occupancy and \$2,850 for double occupancy.

There are numerous services offered in the resident agreement as part of the monthly fee which include water, heat, electricity, sewer, refuse collection, basic satellite television, activities, maintenance and repair of the provider's property, equipment, appliances and grounds, and usage of the washer and dryers.

Other services such as light housekeeping, transportation, the use of the health and wellness center, barber/beauty services, and meals are provided at an extra charge

REFUND POLICY

Two continuing-care resident agreements were terminated during the examination period. No refunds were made to the residents in accordance with the amortization period contained in the resident's agreement and in compliance with the Act.

Refund During the Rescission Period

The Resident may terminate the agreement within seven 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 re-occupied 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, 2014, those members serving were:

<u>Title</u>	<u>Name</u>
Chairman	Douglas M. Boyle, CPA
Vice Chairman	Gerald B. Franceski
Secretary	William P. Conaboy, Esq.
Treasurer	Thomas J. Melone, CPA

BOARD OF DIRECTORS

The business and affairs of the Provider is managed by its Board of Directors which consisted of the following individual as of June 30, 2014:

<u>Name and Address</u>	<u>Principal Occupation</u>
Douglas M. Boyle, CPA Peckville, PA	Faculty Senate President University of Scranton
William P. Conaboy, Esq. Clarks Summit, PA	Vice President/General Counsel Allied Services
Gerald B. Franceski Uniondale, PA	Retired
Kenneth J. Krogulski, CFA Wilkes Barre, PA	President Berkshire Asset Management, LLC
Thomas J. Melone, CPA Pittston, PA	Partner Albert B. Melone Co.
William W. Scranton, III Scranton, PA	Director Scranton Family Office

OFFICERS

The following officers were serving as of June 30, 2014:

<u>Name</u>	<u>Title</u>
Douglas M. Boyle	Chairman

Gerald B. Franceski
William P. Conaboy
Thomas J. Melone

Vice Chairman
Secretary
Treasurer

CORPORATE RECORDS

ARTICLES OF INCORPORATION

No changes were made to the Articles of Incorporation during the period of the examination.

BY-LAWS

No changes were made to the by-laws during the period of the examination.

ANNUAL DISCLOSURE STATEMENT

The 2014 annual disclosure statement was reviewed for compliance with the Act, 40 P.S. § 3207 and the Regulations, 31 Pa. Code § 151.7 and § 151.9. The 2014 disclosure statement was found to contain all required information required by the Act and the Regulations.

RESIDENT AGREEMENT

The 2014 resident agreement was reviewed for compliance with the Act, 40 P.S. § 3214, and 31 Pa. Code §§ 151.8 and 151.9. The 2014 resident agreement was found to contain all information required by 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, 2014, and subsequent. The agreements enable the Provider to operate as a CCRC 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 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 be 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 be 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.

Services Agreement

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 CCRC residence should the requirement is needed on a priority basis. The agreement became effective, October 1, 2010 and continues 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 effect on the Provider's financial condition as of the examination date.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of June 30, 2014, 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

The financial information used to compile the following financial statements was presented in the audited financial statements as of June 30, 2014. 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,**

	2014	2013
<u>Assets</u>		
Current Assets		
Cash	\$ 32,053	\$ 32,539
Accounts receivable, residents	1,500	-
 Assets Whose Use is Limited		
Statutory minimum liquid reserve	5,950	5,900
Total assets	\$ 39,503	\$ 38,439
 <u>Liabilities and Net Assets</u>		
Current Liabilities:		
Due to Allied Services Foundation	\$ 3,862	\$ 3,759
Deferred revenue	951	951
Total current liabilities	4,813	4,710
Deferred Revenues from Entrance Fees	28,394	15,632
Total liabilities	33,207	20,342
Net Assets - Unrestricted	6,296	18,097
Total liabilities and net assets	\$ 39,503	\$ 38,439

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

	<u>2014</u>	<u>2013</u>
Unrestricted Revenues		
Net resident service revenues	\$ 40,427	\$ 33,259
Expenses:		
Rent	27,900	27,900
Purchased services	14,970	14,696
Purchased administrative services	2,716	2,382
Professional fees	4,295	4,949
Insurance	2,344	1,559
	<u>52,225</u>	<u>51,486</u>
Total expenses		
Operating (loss)	(11,798)	(18,227)
Investment loss	(3)	(9)
Transfers from Affiliates	-	50,000
	<u> </u>	<u> </u>
Decrease/Increase in net assets	(11,801)	31,764
Net Assets, Beginning	18,097	(13,667)
	<u> </u>	<u> </u>
Net Assets, Ending	\$ 6,296	\$ 18,097
	<u> </u>	<u> </u>

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

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities		
Decrease/Increase in net assets	\$ (11,801)	\$ 31,764
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Amortization of entrance fees	(8,738)	(3,036)
Changes in assets and liabilities:		
Proceeds from entrance fees	20,000	-
Due to Allied Services Foundation	103	(187)
	<u> </u>	<u> </u>
Net cash used in operating activities	(436)	28,541
 Cash Flows Provided by Investing Activities		
Decrease/Increase in assets whose use is limited	(50)	(800)
	<u> </u>	<u> </u>
Net decrease in cash	(486)	27,741
	<u> </u>	<u> </u>
Cash, Beginning	32,539	4,798
	<u> </u>	<u> </u>
Cash, Ending	<u>\$ 32,053</u>	<u>\$ 32,539</u>

NOTES TO THE FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE \$5,950

In accordance with 40 P.S. § 3209, the Provider must establish and maintain a 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, the value of (1) is \$0 and the value of (2) is \$5,950. As of June 30, 2014, the Provider had established and reported a reserve of \$5,950 for this purpose.

ESCROW ACCOUNT REQUIREMENTS

At June 30, 2014, the Provider had no deposits that were subject to escrow. The Provider must place any deposits it receives in excess of 5% of the then existing entrance fee into an escrow account to be released in accordance with 40 P.S. § 3212.

SUBSEQUENT EVENTS

The examiner noted that the 2015 engagement letter signed by the Provider with its CPA, BakerTilly, LLP, included an indemnity clause which is a violation of 31 Pa. Code § 147.6(b)(4). This violation was communicated to the Provider. The Provider advised its CPAs that this clause must be removed from the 2016 engagement letter and all engagement letters going forward.

RECOMMENDATIONS

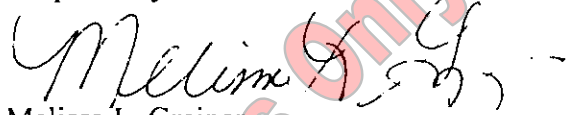
This is the second examination of the Provider. There were no recommendations made as a result of the prior examination. There are no recommendations made as a result of the current examination.

CONCLUSION

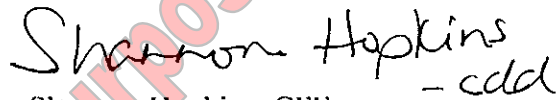
As a result of our examination, we conclude that Allied Services Continuing Care Retirement Community, is in compliance with all applicable Pennsylvania laws and regulations as they pertaining to continuing-care retirement communities as of June 30, 2014

This examination was conducted by Barbara Kowalski

Respectfully submitted,



Melissa L. Greiner
Director
Bureau of Financial Examinations



Shannon Hopkins, CFE
Examination Manager



Barbara Kowalski
Examiner-In-Charge

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