

EXAMINATION WARRANT # 13-231705204-CP

REPORT OF EXAMINATION

OF THE

BIBLE FELLOWSHIP CHURCH HOMES, INC.
d/b/a FELLOWSHIP COMMUNITY
WHITEHALL, PENNSYLVANIA

AS OF

JUNE 30, 2013

For Informational Purposes Only

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Harrisburg, Pennsylvania
December 18, 2013

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 13-231705204-CP dated November 26, 2013, and in accordance with provisions of the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. §3219, an examination was conducted of the records and affairs of

**BIBLE FELLOWSHIP CHURCH HOMES, INC.
d/b/a/ FELLOWSHIP 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 3000 Fellowship Drive, Whitehall, Pennsylvania 18052.

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, 2009 through June 30, 2013, 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 40 P.S. §3202 and 31 Pa. Code §151.

For the fiscal years ending June 30, 2009 through June 30, 2013, the financial statements were audited by the Certified Public Accounting ("CPA") firm of ParenteBeard, LLC. For all years covered by the examination, the CPA issued unqualified opinions of the financial statements based on generally accepted accounting principles.

HISTORY

The Bible Fellowship Church ("Church") started a boarding home in Center Valley, Pennsylvania in 1906. A 121-bed skilled nursing facility, known as Fellowship Manor, was constructed in 1988. The Church also owned a personal care home in Nazareth, Pennsylvania, known as Fellowship Home. In 1994, the Church conveyed both Fellowship Manor and Fellowship Home to the Provider.

In 1995, the Provider constructed eight single-story townhouses adjacent to the nursing facility. The community has since grown to include 117 independent living units, as well as a 90-bed personal care center located on the campus. The independent living community, the personal care home, and the skilled nursing facility are collectively known as Fellowship Community.

On August 12, 2005, the Provider was granted a Certificate of Authority from the Department to operate as a continuing care retirement community.

The Provider is a tax exempt organization under 501 (c) (3) of the Internal Revenue Code.

DESCRIPTION OF FACILITY

The Provider's facility is located on approximately forty-six acres of land in Whitehall Township, Lehigh County, Pennsylvania. The Provider's independent living units consist of 117 single story townhouses comprised of both one-bedroom and two-bedroom units known as Fellowship Courts. The Provider's health care center includes a 121-bed skilled nursing facility and a 90-bed personal care home.

FEES AND SERVICES

Entrance fees for the community ranged from \$139,000 to \$144,000 for a one-bedroom townhouse and \$151,000 to \$255,000 for a two-bedroom townhouse. The monthly service fee, at June 30, 2013, ranged from \$1,223 to \$1,249 for a one-bedroom townhouse to \$1,373 to \$1,546 for a two-bedroom townhouse.

An additional monthly service fee is charged for a second occupant. That additional fee is \$164 per month for a one-bedroom townhouse and \$169 per month for a two-bedroom townhouse. There are no additional entrance fees for a second occupant. Numerous services are offered by the Provider as part of the monthly fee, and these are outlined in the resident agreement.

The Provider charges a \$1,000 application fee which is applied as a credit towards the entrance fee. If the resident rescinds the agreement prior to occupancy, \$100 of the application fee is retained by the Provider, and \$900 is returned to the applicant.

REFUND POLICY

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, less \$100 of the application fee and any expense incurred by the Provider at the resident's specific request for custom improvements to a residence as stated as an addendum to the agreement, as well as the cost of removing the same, if needed.

Refund after Rescission Period But Prior to Occupancy

After the lapse of the seven-day rescission period, but prior to occupancy, if the resident is precluded from occupying the unit because of death, injury, illness, incapacity, etc., the entrance fee paid would be refunded, without interest, less \$100 of the application fee, and less any expense incurred by the Provider as described above.

After the lapse of the seven-day rescission period, but prior to occupancy, if the resident is not precluded from occupying a unit and terminates an agreement, the entrance fee paid would be refunded, without interest, less \$100 of the application fee and five-percent (5%) of the entrance fee, and less any expense incurred by the Provider as described above.

Refund after Occupancy

A resident is entitled to a refund of seventy five-percent (75%) of their entrance fee if the agreement is terminated within the first three (3) years from the designated occupancy date. If the agreement is terminated after the third year but prior to the end of the sixth year, a resident is entitled to a refund of seventy percent (70%) of their entrance fee. If the agreement is terminated after the sixth year but prior to the end of the ninth year, a resident is entitled to a refund of sixty five percent (65%) of their entrance fee. If the agreement is terminated after the ninth year, a resident is entitled to a refund of sixty percent (60%) of their entrance fee.

The refund is reduced for any amounts owed to the Provider by the resident and any amounts to be charged against the refund as written in the agreement.

Refund Where Two Residents Execute the Agreement

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 spouse, or other resident, has vacated the residence.

Condition and Due Date of Refunds

Prior to occupancy, the Provider will pay the refund to which the resident is entitled under the agreement within 30 days from termination of the agreement. After occupancy, the Provider will pay any refund to which the resident is entitled after the unit has been occupied by a new resident including full payment of the applicable entrance fee.

MANAGEMENT AND CONTROL

Board of Directors

The business and affairs of the Provider is managed by its Board of Directors, which consisted of the following members as of June 30, 2013:

Name and Address	Principal Occupation
Rev. Bruce Ellingson Coopersburg, PA	Retired
Robert Erland Bethlehem, PA	Assistant Vice President St. Luke's Hospital and Health Network

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Christopher J. Fellon Northumberland, PA	Agent Purdy Insurance Agency
Rev. LeRoy S. Heller Lebanon, PA	Assistant Pastor Lebanon Bible Fellowship Church
Dr. Robin Ann Musselman Fogelsville, PA	Faculty Member Lehigh Carbon Community College
Rev. D. Thomas Phillips East Greenville, PA	Retired
Dr. Ronald Reed Mohnton, PA	Emergency Physician Reading Hospital and Medical Center
Dr. Glenn Ruoss Sinking Spring, PA	Dentist Self Employed
Henry U. Sandt, Jr. Wind Gap, PA	CFO H.A. Berkheimer, Inc.
Rev. Dean A. Stortz Laureldale, PA	Pastor Bible Fellowship Church
Kelly Vanek Riegelsville, PA	President/Creative Director Cassidy Communications
Hans R. Waldvogel Holmes, NY	Director of Engineering Jamaica Hospital Medical Center
Robert H. Zentz Whitehall, PA	President and CEO Fellowship Community

Officers

The following officers were serving as of June 30, 2013:

Name	Title
LeRoy S. Heller	Chairman
Rev. Dean A. Stortz	Vice Chairman
Rev. Bruce Ellingson	Secretary
Henry U. Sandt, Sr.	Treasurer

CORPORATE RECORDS

Articles of Incorporation

The Provider was incorporated May 28, 1962. The most recent amendment to the Articles of Incorporation was on June 30, 2004. There were no changes to the Provider's Articles of Incorporation during the period of the examination.

By-Laws

During the period of examination, the By-laws were changed to no longer allow the Annual Conference of the Bible Fellowship Church to elect five board members. The change also no longer requires that the President become a member of the Bible Fellowship Church or subscribe to the Faith and Order of the Bible Fellowship Church.

ANNUAL DISCLOSURE STATEMENT

A review was made of the 2013 annual disclosure statement for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act ("the Act"), 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 2013 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 was found to contain all information required by the Act and the Regulations.

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, 2013, 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 financial statements as a result of this examination.

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Comparative Balance Sheet
as of June 30,

ASSETS	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,791,339	\$ 5,218,051
Assets whose use is limited, under trust indenture, held by trustee	403,749	540,051
Accounts receivable:		
Residents, net of estimated allowance for doubtful collections	1,591,674	1,673,657
Entrance fees	302,100	151,050
Inventories	148,118	155,227
Prepaid expenses and other current assets	170,361	149,423
Total current assets	<u>10,407,341</u>	<u>7,887,459</u>
ASSETS WHOSE USE IS LIMITED:		
Under trust indenture, held by trustee	17,044,637	1,787,355
Board designated endowment fund	1,274,009	793,087
ACT 82 RESERVE	779,000	724,000
LONG-TERM INVESTMENTS	3,225,591	3,136,181
PROPERTY AND EQUIPMENT, Net	25,457,344	21,829,499
DEFERRED FINANCING COSTS, Net	2,062,198	666,520
TOTAL	<u>\$ 60,250,120</u>	<u>\$ 36,824,101</u>
LIABILITIES AND NET ASSETS/(DEFICIT)		
CURRENT LIABILITIES:		
Current maturities of		
Long-term debt	\$ -	\$ 590,000
Trade	100,000	100,000
Accounts payable:		
Trade	672,332	420,876
Construction	1,374,648	-
Entrance fees	84,000	-
Amounts withheld from employees for taxes, etc.	173,029	176,737
Accrued expenses	1,466,668	661,921
Deferred revenue		
Total current liabilities	<u>3,870,677</u>	<u>1,949,534</u>
LOAN-PAYABLE	-	100,000
LONG-TERM DEBT	37,270,000	17,150,000
REFUNDABLE FEES AND DEPOSITS	11,079,450	10,823,650
DEFERRED REVENUES FROM ADVANCE FEES	4,213,191	3,960,458
Total liabilities	<u>56,433,318</u>	<u>33,983,642</u>
NET ASSETS:		
Unrestricted	3,786,286	2,809,943
Temporarily restricted	30,516	30,516
Total net assets	<u>3,816,802</u>	<u>2,840,459</u>
TOTAL	<u>\$ 60,250,120</u>	<u>\$ 36,824,101</u>

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Comparative Statement of Operations
for the Year Ended June 30,

	<u>2013</u>	<u>2012</u>
UNRESTRICTED REVENUES:		
Net resident service revenue	\$ 21,108,033	\$ 20,051,513
Other revenues	163,587	149,386
Pennsylvania nursing home assessment	348,543	320,546
Investment income	186,730	98,882
Unrestricted contributions	554,348	112,523
Total unrestricted revenue	<u>22,361,241</u>	<u>20,732,850</u>
EXPENSES:		
Healthcare	9,383,808	9,509,618
Dietary	1,962,646	1,967,688
Housekeeping and laundry	967,216	976,160
Social services and activities	1,096,923	1,175,687
Plant operations	2,099,816	2,019,708
General and administrative	2,122,746	1,987,628
Pennsylvania nursing home assessment	288,684	232,014
Depreciation	1,591,324	1,575,257
Amortization	57,453	58,075
Interest	1,177,393	1,271,054
Loss on refinance	636,889	-
Total expenses	<u>21,384,898</u>	<u>20,772,889</u>
OPERATING INCOME	976,343	(40,039)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	<u>-</u>	<u>75</u>
INCREASE IN NET ASSETS	976,343	(39,964)
NET ASSETS, BEGINNING	<u>2,840,459</u>	<u>2,880,423</u>
NET ASSET, ENDING	<u>\$ 3,816,802</u>	<u>\$ 2,840,459</u>

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

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 976,343	\$ (39,964)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,648,777	1,633,332
Provision for doubtful collections	152,014	158,065
Net realized and unrealized (gains) loss on investments	(3,322)	70,419
Proceeds from advance fees and deposits	2,356,400	1,553,450
Amortization of entrance fees	(587,167)	(538,318)
Loss on refinance	636,889	-
Changes in assets and liabilities:		
Accounts receivable, residents	(70,031)	(666,021)
Inventories	7,109	3,014
Prepaid expenses and other current assets	(20,938)	36,506
Accounts payable, trade	251,456	(62,324)
Amounts withheld from employees for taxes, etc.	(3,708)	124,058
Accrued expenses	804,747	(326,492)
Deferred revenue	-	(1,500)
Net cash provided by operating activities	<u>6,148,569</u>	<u>1,944,225</u>
CASH FLOWS FROM INVESTING		
Net purchases of investments	(15,742,990)	(402,492)
Purchases of property and equipment	(3,812,856)	(1,191,737)
Net cash used in investing activities	<u>(19,555,846)</u>	<u>(1,594,229)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	37,270,000	-
Repayment of long-term debt and loan payable	(17,840,000)	(560,000)
Refunds of advance fees and deposits	(1,327,750)	(857,050)
Payment of deferred financing costs	(2,121,685)	-
Net cash provided by financing activities	<u>15,980,565</u>	<u>(1,417,050)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,573,288	(1,067,054)
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	5,218,051	6,285,105
END OF YEAR	<u>\$ 7,791,339</u>	<u>\$ 5,218,051</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of amount capitalized	<u>\$461,115</u>	<u>\$1,274,113</u>
NONCASH INVESTING AND FINANCING ACTIVITY		
Obligation incurred for the acquisition of property and equipment	<u>\$1,374,648</u>	<u>\$200,000</u>
Amortization of deferred financing costs capitalized	<u>\$31,665</u>	<u>\$0</u>

NOTES TO THE FINANCIAL STATEMENTS

Statutory Minimum Liquid Reserves **\$778,844**

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 \$664,817 and number (2) is \$778,844 as of June 30, 2013. The Provider established and reported a reserve of \$779,000 as of June 30, 2013 in order to satisfy this requirement.

RECOMMENDATIONS

Prior Recommendations

This is the second examination of the Provider. There were no recommendations made in the previous examination.

Current Recommendations

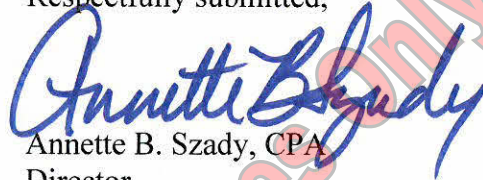
There are no recommendations made as a result of our examination of the Provider.

CONCLUSION

As a result of our examination, we conclude that Bible Fellowship Church Homes, Inc., d/b/a Fellowship Community, is in compliance with all applicable Pennsylvania laws and regulations as pertaining to continuing care retirement communities, as of June 30, 2013.

This examination was conducted by Barbara Kowalski.

Respectfully submitted,



Annette B. Szady, CPA

Director
Bureau of Financial Examinations



James Minder, CPA
Examination Manager
Bureau of Financial Examinations



Barbara Kowalski
Examiner-In-Charge

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