

**EXAMINATION WARRANT # 09-CP-502**

**REPORT OF EXAMINATION**

**OF THE**

**CALVARY FELLOWSHIP HOMES  
LANCASTER, PENNSYLVANIA**

**AS OF**

**JUNE 30, 2009**

**For Informational Purposes Only**

# CALVARY FELLOWSHIP HOMES

## TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Salutation .....	1
Scope of Examination .....	1
History .....	2
Description of Facility .....	2
Fees and Services .....	3
Refund Policy .....	3
Corporate Records:	
Articles of Incorporation .....	5
By-Laws .....	5
Management and Control:	
Board of Directors .....	5
Officers .....	6
Annual Disclosure Statement .....	6
Resident Agreement .....	7
Pending Litigation .....	7
Financial Statements:	
Comparative Balance Sheet .....	8
Comparative Statement of Operations .....	9
Comparative Statement of Cash Flows .....	10
Notes to Financial Statements:	
Statutory Minimum Liquid Reserve .....	11
Recommendations:	
Previous Recommendations .....	11
Current Recommendations .....	11
Conclusion .....	12

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Harrisburg, Pennsylvania  
April 9, 2010

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-502 dated February 24, 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

### **CALVARY FELLOWSHIP HOMES**

a continuing care retirement community, hereafter referred to as the "Provider" or "Facility." This examination was conducted at the administrative office of the Provider located at 502 Elizabeth Drive, Lancaster, Pennsylvania 17601.

The report of this examination is hereby respectfully submitted.

### **SCOPE OF EXAMINATION**

The Provider was last examined as of June 30, 2004. This examination covered the five-year period from July 1, 2004 through June 30, 2009, 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").

## CALVARY FELLOWSHIP HOMES

- 2 -

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; 40 P.S. § 3202 and Pa. Code § 151.

The Certified Public Accounting, ("CPA"), firm of Parente Randolph, LLC and its successor firm Parente Beard, LLC issued audit reports with unqualified opinions on the Provider's financial statements based on generally accepted accounting principles for all years covered by the examination (June 30, 2005 through June 30, 2009). The financial annual reports prepared by the CPA were reviewed during the examination and incorporated into the examination work papers.

### HISTORY

Calvary Fellowship Homes Retirement Community was established as a non-profit home for the aging by a group of Lancaster area Christian Leaders. A corporation was formed on October 12, 1962 with the Commonwealth of Pennsylvania granting a charter on November 10, 1962.

The Provider is exempt from federal income taxes under section 501(c) (3) of the Internal Revenue Code.

### DESCRIPTION OF FACILITY

The Facility is situated in a suburban setting on a thirty-four (34) acre campus in Manheim Township in Lancaster County, Pennsylvania.

The campus consists of three hundred and eight (308) units, and a maximum population of three hundred and ninety (390) residents. The facilities include two and three bedroom cottages; two bedroom apartments; one-bedroom garden apartments/cottages; one-bedroom apartments and efficiency apartments. A Personal Care Center that houses a forty-two (42) bed personal care center including an eight (8) bed dementia care unit. In addition, there is also a forty-five (45) bed Skilled Nursing Care Center. All buildings are of single level construction with several exceptions. The following are bi-level buildings: a four unit apartment building, nine (9) one-bedroom apartments and the Skilled Nursing Center. There is also a three level apartment building which houses thirty-seven (37) apartments.

The minimum age for admission is fifty-five (55) years of age.. There is an extra fee of eight percent (8%) for all residents admitted under the age of sixty-two (62) years of age.

# CALVARY FELLOWSHIP HOMES

- 3 -

## FEES AND SERVICES

The following fees and services were in effect as of July 1, 2008:

APARTMENT	ENTRANCE FEES		MONTHLY FEES	
	From	To	One Person	Two People
Studio apartment	\$ 35,000	\$ 44,000	\$ 1,095	\$ 1,393
One-Bedroom Apartment	\$ 64,500	\$ 92,500	\$ 984	\$ 1,103
Two-Bedroom Apartment	\$ 92,500	\$ 139,000	\$ 1,053	\$ 1,162
<b>COTTAGES</b>				
One-Bedroom	\$ 82,200	\$ 82,200	\$ 718	Plus electric
Two-Bedroom	\$ 106,000	\$ 190,500	\$ 795	Plus Elec. & Gas
Three-Bedroom	\$ 156,500	\$ 156,500	\$ 824	Plus Elec. & Gas

There are numerous services being offered by the Provider which are included under the monthly fee. These services are outlined in the Resident Agreement and the Annual Disclosure Statement.

## REFUND POLICY

Rescission Period – 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.

Prior to Occupancy – If the Resident dies or terminates the Resident Agreement prior to occupancy, the resident, or his/her estate, is entitled to a full refund of any money deposited with the Provider, except for those costs specifically incurred by the Provider at the request of the Resident.

After Occupancy (Standard Fee Option) – If the Resident selects the Standard Entrance Fee Option, the Entrance Fee will be amortized fully and accrue to the benefit of the Provider over a five (5) year period. Under the Standard Entrance Fee Option, if this agreement is terminated after occupancy for any reason other than death, the Resident shall receive a refund of any unamortized portion of the Entrance Fee in accordance with the following schedule:

<u>Termination</u>	<u>Amount Refunded</u>
Termination during the first 90 days	90% of the entrance fee
Termination 91 <sup>st</sup> day through 1 year	70% of the entrance fee
Termination during the second year	40% of the entrance fee
Termination during the third year	20% of the entrance fee
Termination during the fourth year	10% of the entrance fee
Termination during the fifth year	5% of the entrance fee
Termination after the fifth year	No refund

## CALVARY FELLOWSHIP HOMES

- 4 -

After Occupancy (Twenty-five (25) % Refundable Entrance Fee Option). If the Resident selected the referenced Entrance Fee Option and this agreement is terminated after occupancy for any reason other than death, the resident shall receive a refund of twenty five percent (25%) of the Entrance Fee paid, less any charges due to the Provider. An amount equivalent to seventy-five percent (75%) of the Entrance Fee will be amortized and will accrue to the benefit of the Provider over a five year period in accordance with the schedule included under the Standard Entrance Fee Option above.

After Occupancy (Fifty (50) % Refundable Entrance Fee Option). If the Resident selected the referenced Entrance Fee Option and this agreement is terminated after occupancy for any reason other than death, the resident shall receive a refund of fifty percent (50%) of the Entrance Fee paid, less any charges due to the Provider. An amount equivalent to fifty percent (50%) of the Entrance Fee will be amortized and will accrue to the benefit of the Provider over a five year period in accordance with the schedule included under the Standard Entrance Fee Option above.

Termination by Death Within Two (2) Years of Occupancy. In the event the Resident dies within the first two (2) years of occupancy, a portion of the Entrance Fee will be refunded in accordance with the Death Benefit Amortization Schedule. The Death Benefit Amortization Schedule shall extend for a period of twenty-four (24) months at a rate of 4.17% per month. The amount of any applicable refund shall be calculated by use of the Death Benefit Amortization Schedule so that in the event of death the Entrance Fee shall be reduced at a rate of 4.17% per month from the date of occupancy up until and including the month in which the resident dies. In the event the resident death occurs at any time after two years of occupancy, the Entrance Fee shall be immediately amortized and earned in full by the Provider and no part of the Entrance Fee shall be subject to a refund.

Death Occurs Within Ninety (90) Days of Termination for any Reason. If the Agreement is terminated within the first two (2) years of occupancy for any reason, other than death, but death occurs within ninety (90) days of such termination, then the Death Benefit Amortization Schedule shall be used to calculate the amount of any refund due to the Resident. If this Agreement is terminated any time after two (2) years from the date of occupancy, any applicable refund upon termination, regardless of the time of the Resident's subsequent death, shall be paid in accordance with the Amortization Schedule presented under the Standard Entrance Fee Option, above.

Time for Payment of Refunds – Prior to occupancy any refund will be paid within ninety (90) days of the resident's request. After occupancy, all applicable refunds will be paid after the residential unit, in question, has been occupied by a successor resident. In no case will the refund be paid later than 180 days from the termination of the Agreement.

**CORPORATE RECORDS**

**ARTICLES OF INCORPORATION**

During the period covered by this examination, there were no amendments made to the Provider's Articles of Incorporation.

**BY-LAWS**

During the period covered by this examination, there were no amendments made to the Provider's By-Laws.

**MANAGEMENT AND CONTROL**

**BOARD OF DIRECTORS**

The Board of Directors was comprised of the following members as of June 30, 2008.

<b>Name and Address</b>	<b>Principal Occupation</b>
Robert W. Aungst, Jr. Lancaster, PA	Retired
Scott Brubaker Lancaster, PA	Funeral Director
Eric G. Crichton Lancaster, PA	Retired
Keith E. Heller. Lancaster, PA	Retired
Clifford K. Hurter Lancaster, PA	Executive Director Calvary Fellowship Homes
John "Tim" James Lancaster, PA	Retired
Robert A. Kepiro Smoketown, PA	Salesman WDAC Radio

## CALVARY FELLOWSHIP HOMES

- 6 -

<b>Name and Address</b>	<b>Principal Occupation</b>
Michael Littlefield Littleton, CO	Director of Personnel Overseas Missionary Fellowship
Bernice McConnell Lancaster, PA	Retired
Kenneth G. Miller Millersville, PA	Retired
Paul Nelson Lancaster, PA	Retired
Michael L. Price York, PA	Engineer RJE Telecom
W. Lee Troup Strasburg, PA	Retired
L. James Weaver Lancaster, PA	Owner Brookshire Printing

### OFFICERS

The following Officers were elected and serving as of June 30, 2009:

<b>Name</b>	<b>Title</b>
Dr. Eric G. Crichton	Chairman
Robert A. Kepiro	Vice- Chairman
Tim James	Treasurer
Bernice McConnell	Secretary

### ANNUAL DISCLOSURE STATEMENT

A review of the 2009 Annual Disclosure Statement for compliance with 40 P.S. § 3207, required information for the Disclosure Statement and 40 P.S. § (a) – (f), which 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 for compliance with 40 P.S. § 3214, required information in the Resident's Agreement and 31 Pa. Code § 151.8 (a)-(g), the distribution of a copy to the Resident. The Provider was in compliance.

## PENDING LITIGATION

There were no known pending legal actions or any known potential legal actions that 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, 2009, and the results of its operations for the last two years under examination are reflected in the following financial statements, as prepared by Parente Beard, LLC.

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.

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CALVARY FELLOWSHIP HOMES

- 8 -

Comparative Balance Sheet  
as of June 30,

	2009	2008
<b>Current Assets</b>		
Cash and cash equivalents	\$ 168,892	\$ 8,466
Resident trust funds	6,244	8,292
Accounts receivable, net of allowance for doubtful accounts	299,863	545,426
Prepaid expenses and other current assets	220,086	149,135
Total Current Assets	<u>695,085</u>	<u>711,319</u>
<b>Assets whose use is limited</b>		
Benevolent care	1,359,528	1,252,495
Funded depreciation	354,011	66,045
Other assets whose use is limited	205,744	232,029
Property and equipment, net	19,119,226	18,038,443
Deferred financing costs, net	15,850	19,810
Other non-current assets	21,889	21,889
Total Non-Current Assets	<u>21,076,248</u>	<u>19,630,711</u>
Total Assets	<u>\$ 21,771,333</u>	<u>\$ 20,342,030</u>
<b>Current Liabilities</b>		
Demand line of credit	\$ 224,927	\$ 172,215
Current portion of long-term debt	245,176	320,448
Bank overdraft	0	180,953
Accounts payable: - trade	224,161	166,232
Accrued expenses	383,901	343,931
Split-interest obligations	52,985	60,311
Resident trust funds	6,244	8,292
Total Current Liabilities	<u>1,137,394</u>	<u>1,252,382</u>
<b>Non-Current Liabilities</b>		
Long-term debt, less current portion above	5,576,953	5,753,019
Deposits from prospective residents	28,963	33,150
Refundable entrance fees	180,480	202,605
Deferred entrance fee revenue	12,277,755	11,297,562
Split-interest obligations	256,226	245,074
Other non-current obligations	27,196	44,027
Total Non-Current Liabilities	<u>19,484,967</u>	<u>18,827,819</u>
Total liabilities	<u>19,484,967</u>	<u>18,827,819</u>
<b>NET ASSETS:</b>		
Unrestricted	2,286,366	1,514,211
Totals Liabilities and Net Assets	<u>\$ 21,771,333</u>	<u>\$ 20,342,030</u>

CALVARY FELLOWSHIP HOMES

- 9 -

Comparative Statement of Operations  
for the Year Ended June 30,

	2009	2008
<b>Changes in Unrestricted Net Asstes</b>		
<b>Unrestricted Revenues</b>		
Net resident services revenues, including amortization of entrance fees	\$ 8,874,529	\$ 8,590,298
Other revenues	51,565	45,072
Investment loss	(173,930)	(10,648)
Unrestricted contributions	835,088	262,636
Total unrestricted revenues	<u>9,587,252</u>	<u>8,887,358</u>
<b>Expenses:</b>		
Nursing services	2,234,307	2,272,780
Personal care	1,025,625	988,601
Dietary services	958,383	921,391
Housekeeping and laundry	395,069	355,115
Social services and activities	282,671	232,402
Plant operations and maintenance	1,415,181	1,350,594
General and administrative	1,091,507	1,165,365
Depreciation	1,014,861	915,833
Amortization	3,960	3,960
Interest	397,768	434,254
Total expenses	<u>8,819,332</u>	<u>8,640,295</u>
Operating income	767,920	247,063
Net assets released from restriction used for purchase of property and equipment	<u>4,235</u>	<u>25,545</u>
Increase in unrestricted net assets	<u>772,155</u>	<u>272,608</u>
<b>Change in Temporarily Restricted Net Assets</b>		
Contributions	4,235	25,545
Net assets released from restriction s	<u>(4,235)</u>	<u>(25,545)</u>
Change in temporarily restricted net assets	<u>0</u>	<u>0</u>
Increase in Net Assets, as restated for 2008	<u>772,155</u>	<u>272,608</u>
Net Assets Beginning of Year, as previously reported	1,514,211	1,325,832
Restatement	<u>0</u>	<u>(84,229)</u>
Net Assets Beginning of Year, as restated	<u>1,514,211</u>	<u>1,241,603</u>
Net Assets End of Year	<u>\$ 2,286,366</u>	<u>\$ 1,514,211</u>

CALVARY FELLOWSHIP HOMES

- 10 -

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

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in Net Assets	\$ 772,155	\$ 272,608
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	1,018,821	919,793
Provision for doubtful accounts	14,098	59,505
Change in the value of split-interest obligations	52,104	(14,251)
Net realized and unrealized loss on investments	204,542	49,351
Proceeds from entrance fees	1,469,791	1,226,138
Amortization of entrance fees	(1,541,785)	(1,484,359)
Contributions restricted for long-term purposes	(4,235)	(25,545)
Changes in assets and liabilities:		
Accounts receivable, residents	231,465	(163,553)
Prepaid expenses and other current assets	(70,951)	21,015
Accounts payable, trade	57,929	103,600
Accrued expenses	39,970	46,205
Other liabilities	(16,831)	(1,768)
Net cash provided by operating activities	<u>2,227,073</u>	<u>1,008,739</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (purchases) sales of investments	(573,256)	77,137
Purchases of property and equipment	(1,047,644)	(1,030,882)
Net cash used in investing activities	<u>(1,620,900)</u>	<u>(953,745)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Proceeds from (repayments of) demand line of credit	52,712	(413,831)
Repayment of long-term debt	(251,338)	(620,304)
(Decrease) increase in bank overdraft	(180,953)	56,861
Proceeds from entrance fees and deposits - new units	0	861,000
Refunds of entrance fees	(22,125)	0
Net (repayments of) proceeds from split-interest obligations	(48,278)	37,024
Contributions restricted for long-term purposes	4,235	25,545
Net cash used in financing activities	<u>(445,747)</u>	<u>(53,705)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	160,426	1,289
Cash and Cash Equivalents, Beginning	<u>8,466</u>	<u>7,177</u>
Cash and Cash Equivalents, Ending	<u>\$ 168,892</u>	<u>\$ 8,466</u>

NOTES TO THE FINANCIAL STATEMENTS

**STATUTORY MINIMUM LIQUID RESERVE** **\$793,000**

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 \$413,400 and number (2) is \$793,000 as of June 30, 2009. The Provider's has set aside assets to meet the statutory requirement of \$793,000.

**RECOMMENDATIONS**

**PREVIOUS RECOMMENDATIONS**

No recommendations were made as a result of this examination.

**CURRENT RECOMMENDATIONS**

No recommendations were made as a result of this examination.

**CONCLUSION**

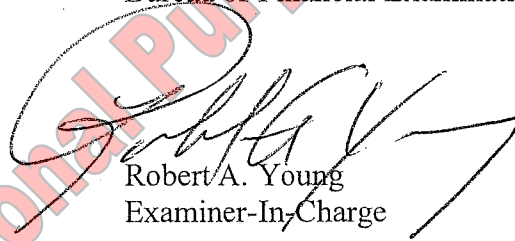
The examination of Calvary Fellowship Homes, made as of June 30, 2009, has determined that they appear to be in compliance with all applicable Pennsylvania laws and regulations as they pertain to Continuing Care Retirement Communities.

This examination was conducted by Robert A. Young.

Respectfully submitted,



David R. Evans  
Examination Manager  
Bureau of Financial Examinations



Robert A. Young  
Examiner-In-Charge

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