

EXAMINATION WARRANT # 08-CP-541

REPORT OF EXAMINATION

OF THE

CATHEDRAL VILLAGE  
PHILADELPHIA, PENNSYLVANIA

AS OF

JUNE 30, 2008

For Informational Purposes Only

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Harrisburg, Pennsylvania  
June 19, 2009

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 08-CP-541 dated January 15, 2009, 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

### **CATHEDRAL VILLAGE**

a continuing care non-profit Provider, hereafter referred to as the "Provider" or "Facility". This examination was conducted at the administrative home of the Provider located at 500 Cathedral Road, Philadelphia, Pennsylvania 19128.

The report of this examination is hereby respectfully submitted.

### **SCOPE OF EXAMINATION**

The Provider was last examined as of June 30, 2003. This examination covered the five-year period from July 1, 2003 through June 30, 2008, 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").

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.

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The Certified Public Accounting, "CPA", firm of Ernst & Young, provided an unqualified opinion on the Provider's financial statement for the entire period under examination based on generally accepted accounting principles. The annual work papers prepared by the CPA were reviewed during the examination and incorporated into the examination work papers.

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.

## HISTORY

The Facility was incorporated on June 14, 1976, and opened as a continuing care community on October 17, 1977.

The sole member of the Facility is the Episcopal Diocese of Pennsylvania (Diocese). The Diocese is not responsible for the financial or contractual obligations of the Facility.

The Provider received a Certificate of Authority from the Department on May 29, 1986, to transact business as a continuing care retirement community.

The Facility accreditation by the Continuing Care Accreditation Commission of the American Association of Homes for the Aging, Washington DC, was renewed in September 2003. The accreditation has been granted through September 2008.

The Provider is a Pennsylvania non-profit corporation, which is exempt from Federal Income Taxation under Section 501 (c) (3) of the internal revenue code of 1986, as amended.

## DESCRIPTION OF FACILITY

The Facility is situated on a 40-acre of land in the City of Philadelphia, more specifically, in the northwest corner of Philadelphia County. As of the examination date, the Facility contained 293 residential apartments (twelve different apartment styles) for independent and assisted living. Apartments are connected by covered walkways to Houston Commons, a central building housing Cathedral Hall Auditorium, four dining rooms, Presser Lounge, a lobby and main reception desk.

The Provider also has a Skilled Nursing Facility named Bishop White Lodge. Bishop White Lodge is a 148-bed facility providing long-term skilled or intermediate care in a Special Care/Alzheimer's Unit or short-term rehabilitation care.

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**FEES AND SERVICES**

The following fees and services were in effect as of examination date:

<b>TYPE OF UNIT</b>		<b>ENTRANCE FEES</b>	
<b>APARTMENT SIZE</b>	<b>Single Occupancy</b>		<b>MONTHLY FEE</b>
Studio	\$59,000 - \$95,000		\$2,190 - \$2,700
One Bedroom	\$141,000 - \$150,000		\$3,175 - \$3,290
Two Bedroom	\$225,000 - \$255,000		\$4,300 - \$4,575
TownHouse	\$284,000 - \$295,000		\$4,980 - \$5,140
Country	\$300,000		\$5,190
<b>APARTMENT SIZE</b>	<b>Double Occupancy</b>		<b>MONTHLY FEE</b>
One Bedroom	\$176,000 - \$184,000		\$5,325 - \$5,440
Two Bedroom	\$251,000 - \$291,000		\$6,495 - \$6,770
TownHouse	\$321,000 - \$332,000		\$7,197 - \$7,355
Country	\$337,000		\$7,410

**Services Included In The Monthly Fee**

There are numerous services being offered by the Provider as part of the monthly fee and these are outlined in the Provider's sales literature.

**REFUND POLICY**

**PRIOR TO OCCUPANCY**

The Provider will refund the entire entrance fee paid by the resident if, prior to occupancy if either (1) the resident requests in writing for such a refund, and notice of intention to terminate the agreement is received by the community or (2) the resident is precluded from such occupancy by reason of illness, injury or incapacity.

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#### **TERMINATION DUE TO DEATH OF RESIDENT**

In the event of death of the Resident prior to occupancy date, a full refund of the entrance fee shall be made. For a single occupancy situation, in event of death of the Resident during the first year (which included the first three months of the residence call the "Probationary Period") following the Occupancy Date, (hereinafter called the "First year of Occupancy"), a refund of one-half of the entrance fee shall be made. In the event of death of the Resident after the First Year of Occupancy, there is no refund of the entrance fee.

For a double occupancy situation, there is no refund of the Entrance Fee upon the death of the first resident to die. There is only a refund of the one-quarter of the Entrance Fee in the event of the surviving Resident's death during the First Year of Occupancy. In the event the death of the surviving Resident after the first Year of Occupancy, there is no refund of any portion of the Entrance Fee.

#### **TERMINATION DUE TO ELECTION by the RESIDENT or the PROVIDER**

For a single occupancy situation, if the Resident or the Provider terminates the Agreement after the Probationary Period, for a reason other than death of the Resident, a refund shall be made to the Resident of the full Entrance Fee, less an amount equal to 2% of the amount of the entrance fee for each month between the occupancy date, up to and including the month in which the refund is payable (called the "Amortized Reduction Amount").

For a double occupancy situation, if the Residents or the Provider terminates the Agreement after the Probationary Period, for a reason other than death of either or both Residents, a refund shall be made to the Residents in each case of the full Entrance Fee, less the Amortized Reduction Amount. If only one of the Residents survives and such Resident or the Provider terminates the Agreement after the Probationary Period for a reason other than death of such Resident, a refund will be made to such Resident of 50% of the entrance Fee less an amount equal to 2% of the 50% of the Entrance Fee for each month between the Occupancy Date up to and including the month in which the refund is payable.

#### **UPON PERMANENT TRANSFER OF RESIDENT**

Should the transfer of the Resident to the Bishop White Lodge or the other facility authorized under the agreement be or become permanent, in the sole opinion of the Provider, no refund of such Resident's entrance fee shall be made to the Resident or the Resident's estate thereafter.

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## 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, 2008:

<b>NAME AND ADDRESS</b>	<b>PRINCIPAL OCCUPATION</b>
John A. Bower, Jr. Philadelphia, PA	Principal Bower Lewis Thrower
Mrs. Robert W. Bulmer Berwyn, PA	Retired
Weld Coxe Block Island, RI	Retired
Eleanor M. Dezzi Philadelphia, PA	President Dezzi Group
Mrs. Robert W. Driscoll Plymouth Meeting, PA	Retired
Mrs. Grant F. Evans Lower Gwynedd, PA	Retired
Karl A. Fritton, Esq. Philadelphia, PA	Attorney and Partner Reed Smith LLP
Richard W. Hartmann, Esq. Philadelphia, PA	Attorney and Partner Montgomery, McCracken, Walker & Rhoads LLP
Judith A. Hernan, RN, MSN Philadelphia, PA	Retired
Philip C. Howse Phoenixville, PA	Retired
Joan E. Hurlock, M.D. Philadelphia, PA	Staff Doctor Roxborough Hospital
Edward H. McGehee, MD Philadelphia, PA	Retired

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Reverend Cicely A. Murray Philadelphia, PA	Retired
Edward W. Warwick Philadelphia, PA	Retired
Helen L. W. White Philadelphia, PA	Retired
Peter Wilmerding Haverford, PA	Independent Consultant

### OFFICERS

The following Officers were elected and serving as of June 30, 2008:

<b>NAME</b>	<b>TITLE</b>
William P. Scott, Esq.	Chairman
William A. Cobb, Jr.	Vice Chair
Edwin S. Sheffield	Secretary
Alexis Thielen	Treasurer
William Owens	President and CEO
Catherine Chan-Ng	Executive Vice President

### CORPORATE RECORDS

### ARTICLES OF INCORPORATION

There were no amendments to the Provider's Articles of Incorporation for the period under examination.

### BY-LAWS

Effective May 10, 2008, the amended the following section of its by-laws:

The following sections of Article V were amended to clarify/further specify the duties/responsibilities of the respective officers.

- a) Section 4 (Chairman)
- b) Section 6 (President)
- c) Section 7 (Secretary)
- d) Section 8 (Treasurer)

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The following sentences (first and third) of Article VI, Section 1 and 3 were amended to read as follow, respectively:

1. The standing committees of the Board of Directors shall be an Executive Committee and an Finance and Audit Committee.
2. The Chairman of the each committee shall be appointed by the Chairman of the Board.

### **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, 40 P.S. §3207(a), required information for the Disclosure Statement and 40 P.S. §3207(c), which requires the delivery of the Annual Disclosure Statement to the Residents. The Provider was in compliance with the Act.

### **RESIDENT AGREEMENT**

The Resident Agreement was reviewed and found to be in compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. § 3214(a) – (f), required information in the Resident's Agreement and 31 Pa. Code § 151.8(a)-(g), the distribution of a copy to the Resident. It appeared the Provider was in compliance with the necessary legal provisions.

### **FINANCIAL STATEMENTS**

The financial condition of the Provider, as of June 30, 2008, and the results of its operations were reviewed for the five-year period under examination and the results of 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 Provider's financial statements as a result of this examination.

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**Comparative Balance Sheet  
as of June 30,**

	<u>2008</u>	<u>2007</u>
<b>Current Assets</b>		
Cash	\$ 1,298,571	\$ 1,078,122
Operating investments	689,014	1,667,992
Assets limited as to use	763,356	774,321
Accounts Receivables, net of allowance for doubtful accounts	1,925,894	1,544,743
Prepaid Expenses and Other Current Assets	418,279	670,000
Total Current Assets	<u>5,095,114</u>	<u>5,735,178</u>
Assets limited as to use	8,888,540	10,063,392
Investments	7,412,181	7,734,219
Property and Equipment, net	32,963,998	33,380,675
Deferred Financing Cost	767,485	834,359
Beneficial interest in perpetual trust	2,271,825	2,491,911
Total Assets	<u>\$ 57,399,143</u>	<u>\$ 60,239,734</u>
<b>Current Liabilities</b>		
Current Maturity on Long-term debt	\$ 1,522,954	\$ 1,421,999
Accounts payable and accrued expenses	3,813,148	2,980,779
Refundable deposits from prospective tenants	446,000	832,050
Total Current Liabilities	<u>5,782,102</u>	<u>5,234,828</u>
Long-Term Portion of Long-Term Debt	20,035,046	21,085,000
Other long-term liabilities	164,360	155,470
Deferred Revenue from advance fees	21,421,267	23,049,700
Total Liabilities	<u>47,402,775</u>	<u>49,524,998</u>
<b>Net Assets</b>		
Unrestricted	94,937	231,789
Temporarily restricted	7,629,606	7,991,036
Permanently restricted	2,271,825	2,491,911
Total net assets	<u>9,996,368</u>	<u>10,714,736</u>
Totals liabilities and net assets	<u>\$ 57,399,143</u>	<u>\$ 60,239,734</u>

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

	<u>2008</u>	<u>2007</u>
<b>Unrestricted net assets</b>		
Revenue, gains and Other Support:		
Resident Service	\$ 16,006,310	\$ 15,853,103
Nonresident services	5,715,357	5,080,290
Amortization of advance fees	4,565,634	4,045,239
Contributions	46,851	2,680
Net assets released from restriction	143,167	152,797
Investment income	377,253	485,680
Other	352,433	338,814
Total underwriting deductions	<u>27,207,005</u>	<u>25,958,603</u>
Expenses:		
Salaries and benefits	13,542,850	12,692,717
Supplies and other	5,919,862	5,448,975
Utilities, property insurance, and taxes	2,319,017	1,964,385
Depreciation and amortization	3,581,212	3,399,818
Interest	1,243,612	1,365,623
Total Expenses	<u>26,606,553</u>	<u>24,871,518</u>
Operating Losses	600,452	1,087,085
Non-operating gains:		
Net realized gain on investments	123,714	62,497
Other-than-temporary decline in market value of investments	(288,000)	0
Increase (Decrease) in Unrestricted Net Assets	<u>436,166</u>	<u>1,149,582</u>
Other changes in unrestricted net assets:		
Change in net unrealized (losses) gains on investments	(573,018)	834,119
Net assets released from restriction-purchase of equipment	0	3,547
Increase (Decrease) in Unrestricted Net Assets	<u>(136,852)</u>	<u>1,987,248</u>
<b>Temporarily restricted net assets</b>		
Contributions	166,096	273,335
Net realized and unrealized (losses) gain on investments	(590,986)	959,402
Interest and dividends	206,627	145,390
Net assets released from restriction - used for operations	(143,167)	(152,797)
Net assets released from restriction - purchase of equipment	0	(3,547)
Increase (decrease) in Temporarily Restricted Net Assets	<u>(361,430)</u>	<u>1,221,783</u>
<b>Permanently restricted net assets</b>		
(Decrease) increase in beneficial interest of perpetual trust	<u>(220,086)</u>	<u>221,287</u>
(Decrease) increase in permanently restricted net assets	<u>(220,086)</u>	<u>221,287</u>
Increase (Decrease) in Net Assets	(718,368)	3,430,318
Net Assets - Beginning of Year	10,714,736	7,284,418
Net assets - End of Year	<u>\$ 9,996,368</u>	<u>\$ 10,714,736</u>

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

	<u>2008</u>	<u>2007</u>
<b>Cash from Operating Activities</b>		
Increase (decrease) in Net Assets	\$ (718,368)	\$ 3,430,318
Adjustments to reconcile decrease in Net Assets to net Cash used in Operating Activities:		
Amortization of advance fees	(4,565,634)	(4,045,239)
Depreciation and amortization	3,581,212	3,399,818
Provision for bad debts	135,380	71,171
Decrease (increase) in beneficial interest in perpetual trust	220,086	(221,287)
Realized and unrealized losses (gain), net	1,328,290	(1,856,018)
Restricted contributions and investment income received	(372,723)	(418,725)
Advance fees and deposits received	2,620,701	4,560,000
Refunds of advance fees and deposits	(69,550)	(133,000)
Changes in operating assets and liabilities:		
Increase in account receivable, net	(516,531)	(783,264)
Decrease (increase) in prepaid expenses and other current assets	251,721	(12,833)
Increase (decrease) in accounts payable and accrued expenses	863,279	(221,499)
Increase in other long-term liabilities	8,936	78,572
Net cash provided by operating activities	<u>2,766,799</u>	<u>3,848,014</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(3,097,662)	(2,771,165)
Proceeds from sale of investments	4,982,475	2,140,779
Purchase of investments	<u>(3,823,932)</u>	<u>(2,465,584)</u>
Net cash used in investing activities	<u>(1,939,119)</u>	<u>(3,095,970)</u>
<b>Cash from Financing Activities</b>		
Additions to long-term debt	473,000	0
Payment of long-term debt	(1,452,954)	(1,352,739)
Proceeds from restricted contribution and restricted investment income	<u>372,723</u>	<u>418,725</u>
Net cash used for financing	<u>(607,231)</u>	<u>(934,014)</u>
Net change in cash and short-term investments	220,449	(181,970)
<b>Reconciliation of cash and short-term investments:</b>		
Beginning of the year	<u>1,078,122</u>	<u>1,260,092</u>
End of the year	<u>\$ 1,298,571</u>	<u>\$ 1,078,122</u>

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## NOTES TO THE FINANCIAL STATEMENTS

### STATUTORY MINIMUM LIQUID RESERVE

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 \$2,779,000 and number (2) is \$2,408,000 as of December 31, 2004. The Provider's reserve of \$9,694,514 satisfies the statutory requirement.

### RECOMMENDATIONS

#### PRIOR RECOMMENDATIONS

There were no recommendations made as a result of the prior examination.

#### CURRENT RECOMMENDATIONS

No recommendations were made as a result of this examination.

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**CONCLUSION**

The examination of Cathedral Village, made as of June 30, 2008, 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 Bernard Mingo.

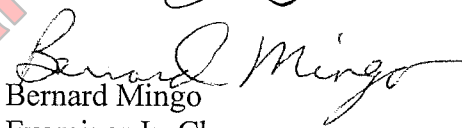
Respectfully submitted,



David G. DelBiondo, CPA  
Director  
Bureau of Financial Examinations



John P. Leddy,  
Examination Manager



Bernard Mingo  
Examiner-In-Charge

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