

EXAMINATION WARRANT # 13-231610270-CP

REPORT OF EXAMINATION

OF THE

**CATHOLIC SENIOR HOUSING AND HEALTH CARE SERVICES, INC.
d/b/a HOLY FAMILY SENIOR COMMUNITY
BETHLEHEM, PENNSYLVANIA**

AS OF

DECEMBER 31, 2013

For Informational Purposes Only

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Harrisburg, Pennsylvania
June 25, 2015

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 13-231610270-CP dated September 10, 2014, 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

**CATHOLIC SENIOR HOUSING AND HEALTH CARE SERVICES, INC.
d/b/a HOLY FAMILY SENIOR 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 1200 Spring Street, Bethlehem, Pennsylvania 18018.

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 January 1, 2010 through December 31, 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 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.

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 2010 through 2013, the financial statements were audited by the Certified Public Accounting ("CPA") firm of ParenteBeard, LLC. The firm issued unmodified opinions on the Provider's financial statements for the years 2010 through 2013 based on generally accepted accounting principles.

HISTORY

The Provider was incorporated on December 14, 1983 under the name of Holy Family Manor, Inc. On September 24, 2004, the Provider changed its name from Holy Family Manor, Inc. to its current name. On October 12, 2004, the Provider filed for the fictitious name of Holy Family Manor with the Department of State.

On August 30, 2006, the Provider filed for the fictitious name of Holy Family Senior Community with the Department of State.

On September 12, 2006, the Provider filed for the fictitious names of Grace Mansion; Trexler Pavilion; and Holy Family Personal Care Home at Saint Francis Center Senior Community for each of its assisted living buildings with the Department of State.

On February 1, 2007, the Provider received a Certificate of Authority from the Department to operate as a continuing care retirement community. The Provider's only continuing care resident established residency in February 2007.

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

DESCRIPTION OF FACILITY

The Provider's continuing care community consists of six independent living homes and is located on approximately nineteen acres of land in the city of Bethlehem, Lehigh County. The Provider also owns and operates a 208-bed skilled nursing facility and a 51-bed personal care facility on the same campus as the continuing care retirement community. The skilled nursing facility does business as "Holy Family Manor", and the personal care facility does business as "Grace Mansion" and "Trexler Pavilion."

FEES AND SERVICES

As of December 31, 2013, entrance fees ranged from \$15,000 for a one-bedroom carriage house to \$28,800 for a three bedroom semi-detached home. The monthly service fee at December 31, 2013 ranged from \$531 for a one-bedroom carriage house to \$975 for a three bedroom semi-detached home. There are no additional entrance fees or monthly service fees for a second occupant.

Some of the services that continuing care residents are entitled to include utilities, cable television, maintenance and repairs of property, landscaping including lawn care and snow removal, social and community activities including chaplain services, real estate taxes, and scheduled transportation.

REFUND POLICY

During the examination period there were no refunds made as there were no terminations. The following describes the Provider's refund policy which complies with 40 P.S. §3214.

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, less any expense incurred by the Provider at the resident's specific request for custom improvements to the residence as stated as an addendum to the agreement and 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 the designated occupancy date, if a resident is precluded from occupying a unit due to death, illness, or incapacity, 100% of their entrance fee will be refunded. If the resident terminates the agreement while not precluded from occupying the unit due to death, illness or incapacity, 85% of the resident's entrance fee would be refunded, without interest, less any expense incurred by the Provider as described above.

Refund After Occupancy

The entrance fee is amortized at a rate of 1% per month for 25 months from the date of occupancy. If termination occurs during the amortization period, the resident will be entitled to a refund of 75% of the entrance fee plus the unamortized portion. After the lapse of the amortization period, the resident is entitled to a refund of 75% of the entrance fee less any expense incurred by the Provider.

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.

When Refund is Paid

Prior to occupancy, the Provider will pay the refund to which the resident is entitled under the agreement within thirty (30) days of termination of the agreement. After occupancy, the Provider will pay the refund to which the resident is entitled under the agreement upon reassignment of the residence and the receipt of the new entrance fee for the residence.

MANAGEMENT AND CONTROL

Members of the Corporation

The Members of this corporation shall be the Bishop of the Diocese of Allentown, the Vicar General and the Secretary of Clergy.

The following powers are reserved exclusively to the Members of the Corporation:

1. To amend, revise or otherwise modify the By-Laws and Articles of Incorporation of the Corporation;
2. To purchase, sell, lease, mortgage, transfer and/or encumber all buildings and real estate the Corporation has equitable or legal title,
3. To consolidate, affiliate, merge, liquidate or dissolve the Corporation and in the event of liquidation or dissolution, to distribute the assets remaining after all debts and expenses have been paid or provided for, to one or more organizations qualifying for the exemption afforded by Section 501(c)(3) of the Internal Revenue Code as the Members shall determine;
4. To borrow and/or lend money;
5. To approve or disapprove recommendation of the members of the Board of Directors and officers of the Corporation and to remove the members of the Board of Directors and officers for any reason or for no reason;
6. To appoint the Nursing Home Administrator for Holy Family Manor and to remove the Nursing Home Administrator for Holy Family Manor for any reason or for no reason;
7. In the event of a dispute, litigation and/or arbitration concerning the interpretation of these By-Laws; the Articles of Incorporation or the management and/or governance of the Corporation, the sole and exclusive authority to interpret, resolve, decide and/or settle the same shall be vested in the members of the Corporation.

Board Of Directors

With the exception of the powers reserved for the Members, the business and affairs of the Provider is managed by its Board of Directors which consisted of the following members as of December 31, 2013:

Name and Address	Principal Occupation
Judee Bavaria Lafayette Hill, PA	President Presby's Inspired Life
Rev. Msgr. John J. Martin, M. Div Coplay, PA	Pastor St. Peter's Church
Michael Melnic Allentown, PA	President Pocono Springs
Pamela Russo Allentown, PA	Secretary of Secretariat Catholic Human Services of the Diocese of Allentown
William J. Scharle Allentown PA	Retired
James Fronheiser Allentown, PA	President Bradley Pulverizer
Frank Godino Bethlehem, PA	Representative ESSA Bank
Raymond C. Hittinger Bethlehem, PA	Pastor (semi-retired) Rosemont Lutheran Church
R. James Polaski Lafayette Hill, PA	Vice President Presbys' Inspired Life
David H. Rattigan, Esq. Pottsville, PA	Attorney
Jared Markowitz Macungie, PA	Retired
Daniel Puchyr Allentown, PA	President Bracy Contracting

Officers

The following Officers were serving as of December 31, 2013:

Name	Title
Judee Bavaria	President
Rev. Msgr. John J. Martin	Vice President
Helen P. Kelleher	Secretary
Michael Melnic	Treasurer

CORPORATE RECORDS

Articles of Incorporation

There were changes made to the Provider's Articles of Incorporation during the period of the examination. At February 12, 2013, the articles were amended and restated in its entirety as a nonprofit corporation and amendments were technical in nature.

By-Laws

There were changes made to the Provider's By-Laws during the period of the examination. The changes to the By-Laws include increasing the minimum number of board members from five to seven members but not less than fifteen and the appointment and removal of the executive director.

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 ("Act"), 40 P.S. §3207 and the Pennsylvania Insurance Regulations ("Regulations"), 31 Pa. Code § 151.7 and § 151.9. The 2013 disclosure statement was found to contain all information required by the Act and the Regulations.

RESIDENT AGREEMENT

A review was made of the Provider's resident agreement for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act ("Act"), 40 P.S. §3214 and Pennsylvania Insurance Regulations ("the Regulations"), 31 Pa. Code § 151.8, and 31 Pa. Code § 151.9. 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 date of this examination report.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of December 31, 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 and;
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 December 31,**

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,004,160	\$ 1,011,225
Deposits held by affiliates	144,631	377,969
Resident security deposits	63,229	73,862
Accounts receivable:		
Resident, net	3,446,902	3,667,776
Other	986,281	960,351
Inventories	50,311	50,366
Prepaid expenses and other current assets	247,173	256,274
Total current assets	6,942,687	6,397,823
Deposits Held By Affiliate	201,724	1,232,791
Statutory Minimum Liquid Reserve	6,500	6,700
Assets Whose Use Is Limited	3,178,686	2,938,537
Property and Equipment, Net	20,107,942	21,034,842
Deferred Financing Costs, Net	696,164	723,279
Total Assets	\$ 31,133,703	\$ 32,333,972
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current Maturities of long-term debt	332,318	316,279
Line of credit payable	-	300,000
Accounts payable	874,087	1,080,929
Accrued expenses	1,303,644	1,341,817
Other current liabilities	716,324	845,371
Total current liabilities	3,226,373	3,884,396
Long Term, Net	15,361,040	15,693,235
Interest Rate Swap Agreement	84,442	119,122
Resident Security Deposits	79,733	79,339
Other Liabilities	144	118
Deferred Revenue From Entrance Fees	9,102	9,938
Total liabilities	18,760,834	19,786,148
Net Assets		
Unrestricted	4,039,806	4,010,324
Temporarily restricted	8,333,063	8,517,500
Total net assets	12,372,869	12,527,824
Total Liabilities and Net Assets	\$ 31,133,703	\$ 32,313,972

**Comparative Statement of Operations
for the Year Ended December 31,**

	<u>2013</u>	<u>2012</u>
UNRESTRICTED REVENUES AND GAINS:		
Net resident service revenues	\$ 24,503,815	\$ 24,457,116
Unrestricted contributions	258,616	130,934
Investment income	40,786	103,456
Catholic Charities Campaign	214,000	176,000
Other revenues	72,893	282,445
Total unrestricted revenues, gains, and other support	<u>25,090,110</u>	<u>25,149,951</u>
EXPENSES:		
Salaries and wages	11,196,822	11,177,443
Payroll taxes employee benefits	3,450,461	3,430,302
Pennsylvania Nursing Home Assessment	512,187	487,694
Professional fees	772,725	826,689
Medical supplies and materials	1,053,072	1,067,327
General supplies and materials	1,358,448	1,374,897
Purchased services	2,286,284	2,242,392
Operations, utilities, and taxes	969,525	1,046,311
General and administrative	889,949	971,712
Depreciation and amortization	1,569,362	1,641,863
Interest	931,607	1,019,653
Provision for doubtful collections	513,817	363,354
Total expenses	<u>25,504,259</u>	<u>25,649,637</u>
Unrestricted revenues, gains, and other support less expenses	(414,149)	(499,686)
Net Assets Released From Restrictions - Operations	28,129	-
Unrealized Gain (Loss) on Interest Rate Swap Agreement	34,680	13,374
Operating Loss	<u>(351,340)</u>	<u>(486,312)</u>
Changes in Net Unrealized Gains on Investments - Other Than Trading Securities	122,651	32,221
Net Assets Released From Restrictions - Capital	258,171	222,729
Other	-	10,923
Change In Unrestricted Net Assets	<u>29,482</u>	<u>(220,439)</u>
Temporarily Restricted Contributions Received	101,863	16,000
Release of Temporary Restrictions	(286,300)	(222,729)
Change In Temporarily Restricted Net Assets	<u>(184,437)</u>	<u>(206,729)</u>
Change In Net Assets	(154,955)	(427,168)
Net Assets, Beginning	12,527,824	12,954,992
Net Assets, Ending	<u>\$ 12,372,869</u>	<u>\$ 12,527,824</u>

**Comparative Statement of Cash Flows
For the Year Ended December 31,**

	<u>2013</u>	<u>2012</u>
<u>Cash Flows from Operating Activities</u>		
Change in net assets	\$ (154,955)	\$ (427,168)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,569,362	1,641,863
Provision for doubtful collections	513,817	363,354
(Gain) loss on disposal of property and equipment	1,754	(31,241)
Amortization of entrance fees	(836)	(847)
Unrealized gain (loss) on interest rate swap agreement	(34,680)	(13,374)
Changes in net unrealized gains investments other than trading securities	(122,651)	(32,221)
Contributions received for property and equipment	(88,775)	(16,000)
Changes in assets and liabilities:		
Accounts receivable, residents	(292,943)	(1,720,311)
Accounts receivable, other	(45,930)	431,266
Inventories	55	4,935
Prepaid expenses and other current assets	9,101	(24,778)
Accounts payable	(206,842)	(122,661)
Accrued expenses	(38,173)	99,660
Other current liabilities	(129,047)	(88,452)
Resident security deposits	11,027	(2,402)
Other liabilities	26	10,047
Net cash provided by operating activities	<u>\$ 990,310</u>	<u>\$ 71,670</u>
<u>Cash Flows From Investing Activities</u>		
Purchase of property and equipment	(617,101)	(583,348)
Increase (Decrease) in deposits held by affiliate	1,264,405	(129,024)
Net sales (purchases) of assets whose use is limited	(117,298)	65,382
Net cash provided by (used in) investing activities	<u>\$ 530,006</u>	<u>\$ (646,990)</u>
<u>Cash Flows From Financing Activities</u>		
Proceeds from line of credit	(300,000)	300,000
Repayment of long-term debt	(316,156)	(300,336)
Payment of deferred financing costs	-	(10,842)
Grants received for property and equipment	88,775	16,000
Net cash provided by (used in) financing activities	<u>\$ (527,381)</u>	<u>\$ 4,822</u>
Net Increase (Decrease) In Cash and Cash Equivalents	992,935	(570,498)
Cash and Cash Equivalents, Beginning of Year	1,011,225	1,581,723
Cash and Cash Equivalents, End of Year	<u>\$ 2,004,160</u>	<u>\$ 1,011,225</u>

NOTES TO THE FINANCIAL STATEMENTS

Statutory Minimum Liquid Reserve **\$6,500**

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 \$800 and number (2) is \$6,500 as of December 31, 2013. The Provider established and reported a reserve of \$6,500 as of December 31, 2013 in order to satisfy this requirement.

ESCROW ACCOUNT REQUIREMENTS

The Provider has established an escrow account as required by 40 P.S. § 3212. The Provider did not hold any resident deposits in the account as of December 31, 2013.

SUBSEQUENT EVENTS

The examiner was not made aware of any events that would have had a material effect on the solvency of the Provider as of the date of this examination report.

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 Catholic Senior Housing and Health Care Services, Inc., d/b/a Holy Family Senior Community, is in compliance with all applicable Pennsylvania laws and regulations as pertaining to continuing care retirement communities, as of December 31, 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



-cdd

Barbara Kowalski
Examiner-In-Charge

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