EXAMINATION WARRANT # 10-CP-303

REPORT OF EXAMINATION

OF

CHRIST THE KING MANOR, INC.
DUBOIS, PENNSYLVANIA

AS OF

JUNE 30, 2010

CHRIST THE KING MANOR, INC.

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Harrisburg, Pennsylvania
November 30, 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 10-CP-303 dated September 22, 2010, 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

CHRIST THE KING MANOR, INC.

a Continuing Care Retirement Community ("CCRC") hereafter referred to as "Provider." This examination was conducted at the administrative office of the Provider located at 1100 West Long Avenue, DuBois, Pennsylvania 15801.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Provider was last examined as of June 30, 2005.

This examination covered the five-year period from July 1, 2005 through June 30, 2010, 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.

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 each year during the period under examination, the Certified Public Accounting ("CPA") firm of Clyde, Ferraro & Co. LLP, Dubois, Pennsylvania has provided an unqualified opinion on the Provider's audited financial statements in accordance with Generally Accepted Accounting Principles ("GAAP"). Relevant work performed by the CPA during the audit of the Provider has been utilized during the examination and incorporated into the examination workpapers.

HISTORY

The Provider's existing operations consist of a facility located on a 67 acre site with 160 licensed nursing and 60 licensed personal care beds at 1100 West Long Avenue, DuBois, Pennsylvania. It is developing a new independent living addition to its campus, which is located across the street from the existing operations. The Independent Living development encompasses approximately 40 acres. The development is known as The Cottages at Christ the King Manor.

The Provider is a Pennsylvania non-profit corporation and is exempt from the payment of Federal Income Tax under section 501 (c) (3) of the Internal Revenue Code. The Provider is related to the Roman Catholic Church of the Diocese of Erie. Neither the Diocese nor the other agencies of the Diocese are responsible for the debts or other obligations of the Provider.

The Administrator of the Provider will have full time, on-site, operational and management responsibility. The Administrator of the Provider is Samuel Zaffuto. Mr. Zaffuto is a licensed nursing home administrator in Pennsylvania and has over 20 years of experience in long-term care.

DESCRIPTION OF FACILITY

The first phase ("Phase I") of the Cottages ("Cottages") at Christ the King Manor consisted of 30 independent living cottages. Three subsequent phases of 15 Cottages are planned to include a total of 45 additional independent living cottages. Construction of the Cottages, Phase I began in the year 2000. The first two units were occupied in November 2001. The start of construction for Phase I1 began in the fiscal year ended June 30, 2006.

FEES AND SERVICES

Residents pay a onetime Entrance Fee and a recurring Monthly Service Fee. Upon reservation of a cottage and execution of the Resident Agreement, the resident pays ten (10) percent of the Entrance Fee (less the $1,000 Priority reservation Deposit). The remainder is due upon occupancy. A portion of the Entrance fee is refundable depending upon the payment plan chosen and the length of residency.

These are examples of the plans, used by the Cottages, which returns a refund over a five-year period. After that, no refund is due, but the resident(s) can stay in their home as long as they continue to pay the Monthly Service Fee.

	Laurel Standard Plan	Oakmont Standard Plan	Bayhill Standard Plan	Augusta Standard Plan	Mayfield Standard Plan
Entrance Fee	$ 110,000	$ 120,000	$ 130,000	$ 140,000	$ 150,000
Refund after the first year	$ 79,200	$ 86,400	$ 93,600	$ 100,800	$ 108,000
Refund after the second year	$ 59,400	$ 64,800	$ 70,200	$ 75,600	$ 81,000
Refund after the third year	$ 39,600	$ 43,200	$ 46,800	$ 50,400	$ 54,000
Refund after the fourth year	$ 19,800	$ 21,600	$ 23,400	$ 25,200	$ 27,000
Refund after the fifth year	$0	$0	$0	$0	$0

Five different cottage models are offered: the Laurel has one bedroom, one bath, and a den; the Oakmont has two bedrooms and two baths; the Bayhill, the Mayfield, and the Augusta all have two bedrooms, two baths, and a den. Each cottage includes: wall-to-wall carpeting; quality vinyl flooring in kitchens and baths; storage space; washer and dryer; individual temperature control; single car garage; emergency call device; and a patio. Services provided without additional charge include: grounds keeping, snow and trash removal; maintenance of the cottages; scheduled local transportation; 24 hour emergency response; and social and recreational activities. Meals and utility charges are the responsibility of the resident(s).

REFUND POLICY

The resident is entitled to a refund of all or a portion of their Entrance Fee after the termination of this agreement, under the following circumstances:

A. Refund during Seven (7) Day Recession Period.

If the resident terminates this agreement during the seven (7) days following the execution of this agreement, the resident will receive a refund of the Entrance Fee paid, without interest, less any expenses actually incurred by the Cottages at the resident specific request for custom improvements to the resident, living unit as stated in an addendum to this agreement.

B. Refund Prior to Payment of the First Monthly Service Fee.

1. Voluntary Termination. If the resident terminates this agreement after the seven (7) day recession period, but prior to payment of the first monthly service fee, the resident will receive a refund of the entrance fee, without interest, less:

a. A cancellation fee equal to two (2%) percent of the entrance fee; and
b. Any expenses incurred for custom improvements to the residence.

2. Illness, Injury, Incapacity or Death. If the resident is precluded from becoming a resident of the Cottages because of documented illness, injury or incapacity or if the resident dies prior to the date the residence is available, for occupancy, this agreement shall be rescinded and the resident will receive a refund of the entrance fee paid without interest, less those expenses

actually incurred by the Cottages at the resident specific request for custom improvements to the residence.

C. Refund after Payment of the First Monthly Service Fee.

If this agreement is terminated after payment of the first monthly service fee, for any reason, including death, the resident will be entitled to a refund of:

Plan "A" An amount equal to ninety percent (90%) of the entrance fee paid, without interest, minus: 1.5 percent (1.5%) of the entrance fee paid for each full or partial month of occupancy of the residence (the period between the date the residence was available for occupancy by the resident and the date the resident vacate the residence) to a minimum of zero percent (0.0%) remaining of the Entrance Fee paid: and minus any amount charged against the refund in accordance with the agreement; and any payments made by the Cottages.

Plan "B" In amount equal to ninety percent (90%) of the entrance fee paid, without interest, minus: two percent (2%) of the entrance fee paid for each full or partial month of occupancy of the residence (the period between the date the residence was available for occupancy by the resident and the date you vacate the residence) to a minimum of fifty percent (50%) remaining of the Entrance Fee paid: and minus: any amount charged against the refund in accordance with the agreement: and any payments made by the Cottages.

Plan "C" An amount equal to ninety percent (90%) of the Entrance Fee paid, without interest, minus: two percent (2%) of the Entrance Fee paid for each full or partial month of occupancy of the residence (the period between the date the residence was available for occupancy by the resident and the date the resident vacate the residence) to a minimum of seventy-five-percent (75%) remaining of the Entrance Fee paid; and minus any amount charged against the refund in accordance with the agreement; and any payments made by the Cottages.

D. Refund Where Two Residents Occupy a Residence.

Where two residents occupy a residence (whether or not they are married), the entire Entrance Fee will be available to cover the charges described in the agreement, whether incurred by either or both residents. Upon termination of the survivor's residency, the Entrance Fee refund shall be paid as provided by the agreement and shall be divided equally between the two residents or their personal representatives, unless other arrangements have been set forth in an addendum to the agreement.

E. When Refund is Paid.

With the exception of refunds due, a provided for in the agreement, the Cottages will pay any refund to which the resident is entitled under the agreement after the residence has been vacated and a new resident has signed an agreement and paid an Entrance Fee for the residence being vacated. If the resident is survived by a spouse or other resident who remains in the residence after the resident's death, the refund will be paid only after the surviving spouse or other resident has terminated his or her residency. Refunds, due pursuant to the agreement, will be paid promptly upon receipt of the notice of recession or termination.

In the event the resident transfers permanently to the Christ the King Manor Personal Care Facility or Nursing Care Facility, the agreement will be deemed to be terminated and any refundable Entrance Fee due to the resident will be transferred to an interest-bearing account with the Provider. It may be drawn upon as may be necessary for payment of the resident's personal care or nursing care charges to the extent the resident other financial resources are not adequate to cover such charges.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The Board of Directors of Christ the King Manor is vested with the authority to govern and manage the affairs of the community. The Officers and Directors serve on a voluntary basis and receive no remuneration for their activities as a Director or Officer. The Board of Directors consisted of the following members as of June 30, 2010:

Name and Address	Principal Occupation
Kelly Grube DuBois, Pennsylvania	Manager of Staff Development DuBois Regional Medical Center
Steven A. Brazinski Ridgway, Pennsylvania	President and Chief Executive Officer Anderson & Kime Employees Benefits, Inc.
Pauline Chaplin DuBois, Pennsylvania	Registered Nurse Retired
Todd Miller DuBois, Pennsylvania	Vice President S&T Bank
Jeff Baronick DuBois, Pennsylvania	Owner Goble Baronick Funeral Home
Francis Caracciolo DuBois, Pennsylvania	Retired
Raymond Donati DuBois, Pennsylvania	President and Chief Executive Officer Good Will Industries
Donald Fleming St. Marys, Pennsylvania	Owner B & R Electric Co.
Scott Foradora DuBois, Pennsylvania	President Foradora Insurance
Reverend David Foradori DuBois, Pennsylvania	Pastor Saint Michael the Archangel Parish
George Heigel DuBois, Pennsylvania	President Swift Kennedy & Company
Rita Kartavich, RSM DuBois, Pennsylvania	Retired
Lisa LaBue DuBois, Pennsylvania	Program Coordinator Pennsylvania State University

Mary Maxwell Erie, Pennsylvania	Executive Director Catholic Charities
Ed Nasuti DuBois, Pennsylvania	President Lee Simpson Associates, Inc.
George Reilly, Sr. DuBois, Pennsylvania	Retired
Francis J. Rosana, Sr. Reynoldsville, Pennsylvania	General Manager First Media Radio, LLC
Ronald Stojek Reynoldsville, Pennsylvania	Sales/Marketing Star Iron Works, Inc.
Joyce Taylor DuBois, Pennsylvania	Director of Development DuBois Area Catholic School
Fr. Richard Tomasone DuBois, Pennsylvania	President DuBois Area Catholic School
Samual J. Zaffuto Sykesville, Pennsylvania	Administrator/CEO Christ the King Manor

OFFICERS

The following Officers were serving as of June 30, 2010:

Name	Title
Samual J. Zaffuto	President
Pauline Chaplin	Secretary
Todd Miller	Treasurer
Kelly Grube	Chairman
Steven A. Brazinski	Vice Chairman

CORPORATE RECORDS

ARTICLES OF INCORPORATION

There were no amendments made to the Provider's Articles of Incorporation during the period covered by this examination.

BY-LAWS

There were no amendments made to the Provider's By-Laws during the period covered by this examination.

ANNUAL DISCLOSURE STATEMENT

A review of the 2010 Annual Disclosure Statement revealed that the Provider was in compliance with 40 P.S. §3207 and 31 Pa. Code § 151.7, but not with all of the provisions of § 151.9. Contrary to 31 Pa. Code § 151.9 (f) the 2010 Annual Disclosure Statement did not have attached a separate page notifying prospective residents of their right to rescind the resident's agreement. It is recommended that the Provider's Disclosure Statement be amended to conform to 31 Pa. Code § 151.9 (f).

RESIDENT AGREEMENT

A review of the Resident Agreement currently offered by the Provider revealed that it was in compliance with 31 Pa. Code § 151.8 but not with all of the provisions of 40 P.S. § 3214. Contrary to 40 P.S. § 3214 (b) the current Resident Agreement did not contain a clause allowing a resident the right to rescind a continuing-care agreement, without penalty or forfeiture, within seven days after making an initial deposit or executing the agreement. And further a resident shall not be required to move into the facility designated in the agreement before the expiration of the seven-day period. It is recommended that the Provider's Resident Agreement be amended to conform to 40 P.S. § 3214 (b).

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, 2010, 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.

Comparative Balance Sheet
as of June 30,

	2010	2009
Assets		
Current Assets		
Cash	$ 1,464,492	$ 1,020,231
Accounts receivable (less allowance of $69,504, $94,976, and $54,022, respectively)	1,121,604	1,677,803
Other current assets	409,501	279,278
Total Current Assets	2,995,597	2,977,312
Net Property, Building and Equipment	16,492,985	16,483,051
Other Assets		
Deferred loan fees, net	63,124	66,475
Investments	5,378,540	5,012,377
Total Other Assets	5,441,664	5,078,852
Total Assets	$ 24,930,246	$ 24,539,215
Liabilities and Net Assets		
Current Liabilities		
Line of credit	$ 0	$ 0
Notes payable-current portion	353,248	338,002
Accounts payable, trade	226,800	478,840
Other current liabilities	733,918	586,530
Total Current Liabilities	1,313,966	1,403,372
Long-Term Liabilities		
Long-term debt - less current portion	6,097,633	6,469,000
Refundable fees	727,848	727,848
Deferred revenue from entrance fees	2,238,111	2,129,267
Total Long-Term Liabilities	9,063,592	9,326,115
Total Liabilities	10,377,558	10,729,487
Net Assets		
Unrestricted	14,552,688	13,809,728
Total Liabilities And Net Assets	$ 24,930,246	$ 24,539,215

Comparative Statement of Operations
for the Year Ended June 30,

	2010	2009
Revenues	$ 13,603,741	$ 13,983,638
Less: Operating Expenses	13,185,876	12,707,579
Operating Income	417,865	1,276,059
Other income (Expense)	325,095	192,723
Change in Net Asset	742,960	1,468,782
Net Assets - Beginning of Year	13,809,728	12,340,946
Net Assets - End of Year	$ 14,552,688	$ 13,809,728

Comparative Statement of Cash Flows for the Year Ended June 3,

	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	$ 742,960	$ 1,468,782
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	831,505	774,854
(Gain) loss on sale of assets/investments	17,197	6,816
Unrealized (gain) loss on investments	(179,373)	(20,599)
(Increase) decrease in current assets		
Accounts receivable	556,199	1,242,848
Other currents assets	(130,223)	46,676
Increase (decrease) in current liabilities		
Accounts payable	(252,040)	1,486
Other current liabilities	147,388	(25,478)
Total adjustments	990,653	2,026,603
Net Cash Provided by Operating Activities	1,733,613	3,495,385
Cash Flows From Investing Activities		
Additions to fixed assets	(842,899)	(1,528,990)
Proceeds from sale of assets	345	1,000
Proceeds from the redemption of securities	786,242	1,776,163
Purchase of investments	(985,763)	(2,375,883)
Net Cash Used in Investing Activities	(1,042,075)	(2,127,710)
Cash Flows from Financing Activities:		
Net borrowings on line of credit	0	(949,462)
Decrease in refundable fees	0	(117,149)
Increase (decrease) in deferred revenue from entrance fees	108,844	(79,144)
Proceeds from long-term debt	0	290,196
Principal payments on long-term debt	(356,121)	(230,805)
Net Cash Provided by (Used in) Financing Activities	(247,277)	(1,086,364)
Net Increase In Cash and Cash Equivalents	444,261	281,311
Cash and Cash Equivalents - Beginning of Year	1,020,231	738,920
Cash and Cash Equivalents - End of Year	$ 1,464,492	$ 1,020,231

NOTES TO THE FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE $84,793

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 $84,793 and number (2) is $24,623 as of June 30, 2010. The Provider's reserve of $489,478 complies with this requirement.

LONG TERM DEBT $6,450,881

At June 30, 2010, long-term debt consisted of: $4,814,309 - Clearfield County Industrial Development Authority - payable in monthly installments of $33,172, interest at 4.99%, final payment due April 2029, secured by first mortgage on all land and buildings of the Provider; $1,134,360 - First Commonwealth Bank - payable in monthly installments of $14,998, interest at 4.36%, final payment due December 2017, secured by a second mortgage on the real estate of the Provider; and $502,212 - six individual loans from S & T Bank with various terms and interest rates, secured by a vehicle and investment securities.

Repayment of long-term debt during the succeeding five years for the Fiscal Years ending June 30 and thereafter is as follows:

2011	$ 353,248
2012	365,376
2013	384,162
2014	403,941
2015	424,764
2016 and thereafter	4,519,390
	$ 6,450,881

RECOMMENDATIONS

PRIOR RECOMMENDATIONS

As a result of the prior examination, there were no recommendations made.

CURRENT RECOMMENDATIONS

As a result of the current examination, the following recommendation will be made:

1. It is recommended that the Provider's Disclosure Statement be amended to conform to 31 Pa. Code § 151.9 (f). (See "Annual Disclosure Statement" page 7.)
2. It is recommended that the Provider's Resident Agreement be amended to conform to 40 P.S. § 3214 (b). (See "Resident Agreement" page 7.)

CONCLUSION

The examination of Christ the King Manor, Inc., made as of June 30, 2010, has determined that it is in compliance with all applicable Pennsylvania laws and regulations as pertaining to Continuing Care Retirement Communities with the exceptions noted under "Current Recommendations."

This examination was conducted by Joseph P. Monaco.

Respectfully submitted,

Dennis A. Mavrich

Dennis A. Mavrich, CFE
Examination Manager
Bureau of Financial Examinations

Joseph P. Monaco cdd

Joseph P. Monaco
Examiner-In-Charge