

Examination Warrant Number 18-231627627-CP-2

**Report of Examination of
Garvey Manor Nursing Home Inc.
Hollidaysburg, Pennsylvania**

As of December 31, 2018

For Informational Purposes Only

Garvey Manor Nursing Home Inc.

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For Informational Purposes Only

Harrisburg, Pennsylvania
February 13, 2020

Honorable Joseph DiMemmo, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 18-231627627-CP-2, dated August 23, 2019, and in accordance with provisions of the Pennsylvania Continuing Care Provider Registration and Disclosure Act (the "Act") as cited in 40 P.S. § 3207, an examination was made of

Garvey Manor Nursing Home Inc.

a Pennsylvania domiciled continuing-care retirement community ("CCRC") hereinafter referred to as "Garvey Manor" or the "Provider." The examination was conducted at the Provider's home office, located at 1037 South Logan Blvd., Hollidaysburg, Pennsylvania 16648.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

This is the second examination of the Provider. The Pennsylvania Insurance Department ("Department") last performed an examination of the Provider as of December 31, 2013. This examination covered from January 1, 2014 through December 31, 2018 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 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 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 and 31 Pa. Code § 151 ("the Regulations").

For each year during the period under examination, the certified public accounting firm of Reilly, Creppage & Co, Inc. ("CPA") of Altoona, Pennsylvania provided an unmodified audit opinion on the Provider's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Provider, was reviewed during the examination and incorporated into the examination workpapers.

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HISTORY

Garvey Manor originally opened in 1965 as a licensed 150 bed skilled nursing facility. Garvey Manor is a non-profit corporation jointly sponsored by the Diocese of Altoona-Johnstown and the Carmelite Sisters for the Aged and Infirm.

In 2003, the original nursing home structure was vacated, and a newly constructed facility was completed on the same site. The original structure was demolished with the exception of a storage area and chapel which remains attached to the 1906 mansion.

The current structure is a modern, expansive facility which houses the nursing care and personal care components of the facility. The mission-oriented operation of the facility seeks to provide personal and professional quality services in a community setting with emphasis on dignity, individuality and security. Garvey Manor is currently licensed as a 132-bed skilled nursing facility.

The facility has transitioned from being solely a skilled nursing facility to also offering personal care services and independent living. In October 2009, Garvey Manor converted four personal care units into two independent living apartments. The independent living apartments are located on the second floor of Our Lady of the Alleghenies Residence. The Provider was granted a Certificate of Authority on November 5, 2009 to operate as a CCRC and the first CCRC residents were admitted that same November.

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

DESCRIPTION OF FACILITY

The Provider's campus is located on nine acres of property that is owned by Garvey Manor, just outside the Borough of Hollidaysburg, Blair County, Pennsylvania. The campus consists of two main buildings, the first of which is a 100-year old mansion used primarily as a residence for the Carmelite Sisters who serve in ministry at the Provider's facilities. The second structure is an expansive 165,000 sq. ft., interconnected three story structure, which houses the nursing facility known as Garvey Manor Nursing Home and the personal care facility known as Our Lady of the Alleghenies Residence. Both the nursing facility and personal care facility are owned and operated by Garvey Manor. This building was newly constructed and first occupied in 2003.

In October 2009, Garvey Manor converted four personal care units into two independent living apartments which make up the CCRC. The independent living apartments are located on the second floor of Our Lady of the Alleghenies Residence.

FEES AND SERVICES

As of December 31, 2018, the entrance fee was \$30,000 for single occupancy and \$36,000 for double occupancy, and the monthly service fee for single occupancy is \$2,500 and \$3,000 for double occupancy. The entrance fee is amortized monthly for each full or partial

month for 24 months. After 24 months, the entrance fee has been fully earned and the resident is not entitled to a refund.

In consideration of the entrance fee and monthly fee, CCRC residents receive the use of a designated apartment and the furnishings in the apartment, utilities, maintenance and repair of equipment, and maintenance of the grounds. The residents are also entitled to three meals each day in the community dining room, light housekeeping services, and certain routine transportation services.

REFUND POLICY

Refund during the rescission period

Any entrance fee payments will be refunded in full if the agreement is rescinded within seven days in accordance with the notice of the right to rescind.

Refund after the rescission period but prior to occupancy

In the event of termination of the resident agreement prior to the designated or actual occupancy date, whichever is earlier, due to the death of the applicant, or because the applicant is precluded from taking occupancy because of illness, injury, or incapacity, the Provider will make a full refund of any entrance fee less any amounts deducted to cover expenses incurred by the Provider at the specific written request of the applicant.

Where two individuals have signed the resident agreement for double occupancy, the death of one co-resident does not constitute termination of the agreement and no refund is due. In the event of the termination of the agreement by the Provider before the designated occupancy date or actual date of occupancy, whichever is earlier, the Provider will make a full refund of any entrance fee payments.

Refund after occupancy

In the event of termination during the amortization period, the resident is entitled to a refund of the unamortized portion of the entrance fee, less deductions for any financial assistance provided by the Provider and or any amounts necessary to cover costs incurred to refurbish, restore or repair the apartment in the event of unreasonable wear and tear, and or costs incurred at the resident's specific request, and or any unpaid charges. All refunds shall be paid in accordance with conditions and due date for refund payments. After the lapse of the amortization period, the resident is not entitled to a refund of any portion of the entrance fee.

Refund where two residents execute the agreement

Refunds are only to be made in accordance with conditions and due date for refund payments after the last surviving co-resident vacates and surrenders the apartment. In situations of double occupancy where one co-resident is transferred to the nursing facility and becomes eligible for medical assistance, no potential future refund shall be available to pay for routine nursing care services.

If, however, Department of Human Services (formerly the Department of Public Welfare) construes any potential future refund as an available resource, or if any court, administrative agency, or other appropriate tribunal having jurisdiction determines that conditions and due date for refund payments is contrary to law or medical assistance eligibility requirement, then the Provider will make available the amount determined by the Department of Human Services, or other appropriate tribunal as an available resource as a refund, and apply such refund to the payment of routine nursing care services for the particular co-resident.

Conditions and due date for refund payments

Prior to occupancy, any applicable refund will be made within thirty days of the termination of the agreement. After occupancy, any applicable refund will be made only after the following have been completed: (a) the apartment has been vacated and surrendered; (b) keys to the apartment and to buildings have been returned to the Provider; (c) all personal furniture and belongings have been removed from the apartment and locked storage area; (d) the termination of this agreement; (e) the Provider has accepted and entered into a continuing care agreement with a new resident for the apartment and the seven day rescission period has expired; (f) the replacement entrance fee has been paid in full; and (g) such new resident has taken occupancy. Any applicable refund will be paid only after all of the above conditions have been completed. Upon completion of all of the aforementioned conditions, any applicable refund shall be paid within thirty days thereafter. In situations of double occupancy, there will be no refund, partial or otherwise, upon the death, permanent transfer, or voluntary departure from the community of only one co-resident.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

Management of the Provider is vested in its Board of Directors which was comprised of the following members as of the examination date December 31, 2018:

Name and Address	Principal Occupation
Sister Diane Marie Mack, O.Carm. Fort Thomas, KY	Carmelite Sister for the Aged & Infirm
Mr. Richard Karcher Hollidaysburg, PA	Retired Architect McKissick Association
Mrs. Cynthia Karcher Hollidaysburg, PA	Financial Advisor Merrill Lynch
Sister Patricia Margaret Rawdon, O. Carm Germantown, NY	Carmelite Sister for the Aged & Infirm
Monsignor Robert J. Saly, Jr. Duncansville, PA	Roman Catholic Priest
Sister Jeanne Francis Haley Germantown, NY	Carmelite Sister for the Aged & Infirm

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Mr. Blaise Michaels Portage, PA	Construction Consultant Self employed
Miss Mary Ann Bell Altoona, PA	Retired
Mr. Gerald Murray Altoona, PA	President UPMC Altoona
Mr. Matthew Stever Hollidaysburg, PA	CFO Diocese of Altoona-Johnstown
Sister Barbara Maloy, O. Carm. Wilkes-Barre, PA	Carmelite Sister for the Aged & Infirm
Sister Pauline Ross, O. Carm. Ft. Thomas, KY	Carmelite Sister for the Aged & Infirm
Fr. Ronald V. Osinski Altoona, PA	Roman Catholic Priest
Mr. David Andrews Cresson, PA	Attorney Mount Aloysius College
Fr. Alan Thomas Bellwood, PA	Roman Catholic Priest

OFFICERS

As of the examination date the following officers were appointed and serving in accordance with the Provider's By-laws:

Name	Title
Sister Joachim Anne Ferenchak, O. Carm	Chief Executive Officer / Administrator
Steven Dale	Chief Financial Officer
Rebecca Wilson	Director of Nursing
Linda Sell	Director of Our Lady of the Alleghenies / Garvey Manor

CORPORATE RECORDS

ARTICLES OF INCORPORATION

There were no amendments made to the Provider's Articles of Incorporations during the period under examination.

BY-LAWS

There were no amendments made to the Provider's By-laws during the period under examination.

ANNUAL DISCLOSURE STATEMENT

The Provider's 2018 Annual Disclosure Statement was reviewed for compliance with the Act and Regulations, specifically § 151.7 and § 151.9. The Examiner found that the 2018 Annual Disclosure Statement was in compliance with all information required by the Act and the Regulations.

RESIDENT AGREEMENT

A review was made of the Provider's 2018 Resident Agreement for compliance with the Act, 40 P.S. § 3214, and the Regulations, specifically 31 Pa. Code § 151.8 and § 151.9. The 2018 Resident Agreement was not in compliance with all information required by the Act and the Regulations as described below.

The Resident Agreement does not include language required by the Act as regards limitations on charges for care.

It is recommended that the Provider amend its resident agreement to include the verbiage of the Act in 40 P.S. § 3214(a)(11), provide that charges for care paid in one lump sum shall not be increased or changed during the duration of the agreed upon care, except for changes required by State or Federal assistance programs.

The Resident Agreement does not include language required by the Regulations as regards health care provider services.

It is recommended that the Provider amend its resident agreement to include the verbiage of the Regulations in 31 Pa. Code § 151.8(d) which states: Each resident's agreement shall contain a provision whereby the provider agrees that the resident shall not be liable to a health care provider for services rendered under a resident's agreement. In the event a health care provider seeks payment from the resident, the continuing care provider shall assume liability for payment of the health care services rendered, if the health care services rendered are services which a provider agreed to furnish to a resident in consideration of the resident's payment of entrance and periodic fees. Health care providers shall include persons rendering services to a resident as employees of the provider or facility, on a fee-for-service basis, or otherwise.

PENDING LITIGATION

There are no known pending or potential legal actions that could have a materially adverse effect on the Provider's financial condition as of the examination date.

FINANCIAL STATEMENTS

The following financial statements were provided to the Department by the Provider, as of December 31, 2018*:

Comparative Balance Sheet;
Comparative Statement of Operations; and
Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

For Informational Purposes Only

Comparative Balance Sheet For the Year Ended December 31, 2018

Assets	2018	2017
Current Assets		
Cash	\$ 897,493	\$ 101,805
Cash-residents' funds	68,535	59,042
Cash and investments - security deposits	-	-
Resident and other accounts receivable	796,127	1,071,259
Estimated third party payor settlements	-	335,355
Prepaid expenses	<u>187,308</u>	<u>189,390</u>
Total Current Assets	<u>1,949,463</u>	<u>1,756,851</u>
Assets Whose Use is Limited		
By Board for capital improvements	3,874,081	5,054,104
CCRC statutory liquid minimum reserves	<u>34,932</u>	<u>27,261</u>
Total assets whose use is limited	<u>3,909,013</u>	<u>5,081,365</u>
Property and Equipment		
Land	2,250,412	2,250,412
Land improvements	792,039	785,589
Buildings	19,945,587	19,945,587
Furniture, fixtures and equipment	5,506,428	5,447,820
Other fixed assets	<u>272,337</u>	<u>118,819</u>
Total property and equipment	28,766,803	28,548,227
Less: accumulated depreciation	<u>(12,892,828)</u>	<u>(12,200,485)</u>
Property and equipment, net	<u>15,873,975</u>	<u>16,347,742</u>
Deferred Financing Costs	<u>65,310</u>	<u>65,310</u>
Total Assets	<u>21,797,761</u>	<u>23,251,268</u>
Liabilities and net assets		
Current Liabilities		
Accounts payable	\$ 122,632	\$ 195,991
Accrued expenses	386,668	366,309
Residents' funds	68,535	59,042
Security deposits	175,770	155,400
Line of credit	-	320,401
Estimated third party payor settlements	60,141	-
Liability for pension benefits	-	641,734
Notes payable - current portion	<u>578,838</u>	<u>557,884</u>
Total current liabilities	<u>1,392,584</u>	<u>2,296,761</u>
Noncurrent Liabilities		
Fair value of interest rate swaps	41,343	182,785
Deferred entrance fee - residential living	19,685	26,244
Long term debt, net of current portion and debt issuance costs	9,711,114	10,271,271
Liability for pension benefits	-	-
Total noncurrent liabilities	<u>9,772,142</u>	<u>10,480,300</u>
Total liabilities	<u>11,164,726</u>	<u>12,777,061</u>
Net Assets		
Unrestricted	<u>10,633,035</u>	<u>10,474,207</u>
Total net assets	<u>10,633,035</u>	<u>10,474,207</u>
Total liabilities and net assets	<u>\$ 21,797,761</u>	<u>\$ 23,251,268</u>

**Comparative Statement of Operations
For the Year Ended December 31, 2018**

	2018	2017
Revenues		
Net patient service revenue- nursing home	\$ 11,949,898	\$ 11,574,719
Net patient service revenue- personal care	2,697,860	2,676,277
Residential living	136,065	102,413
State imposed nursing home assessment	641,145	775,906
Other revenue	160,839	156,006
Total Revenue	<u>15,585,807</u>	<u>15,285,321</u>
Expenses		
Salaries and wages	8,887,185	8,676,778
Payroll taxes	635,186	619,974
Employee benefits	1,466,293	1,411,252
Settlement - pension plan	1,627,705	554,599
Supplies	1,420,480	1,454,104
Utilities	496,363	505,732
State imposed nursing home assessment	344,507	365,376
Insurance	229,127	230,577
Interest	358,316	382,036
Depreciation	692,343	747,470
Purchased services	542,118	641,481
Repairs and maintenance	250,697	219,691
General and operating	245,967	278,088
Amortization of debt issuance costs	18,681	19,705
Total operating expenses	<u>17,214,968</u>	<u>16,106,863</u>
Operating income (Loss)	(1,629,161)	(821,542)
Other Income		
Donations, fundraising, and grants	185,019	117,891
Less: direct funding expenses	<u>(23,528)</u>	<u>(21,635)</u>
Net donations and fundraising	161,491	96,256
Investment income	<u>479,559</u>	<u>251,915</u>
Total other income	<u>641,050</u>	<u>348,171</u>
Excess (deficit) of revenue over expenses	(988,111)	(473,371)
Other changes in unrestricted net assets		
Change in fair market value of interest rate swaps	141,442	(35,508)
Change in net unrealized gains on other than trading securities	(579,741)	170,594
Change in items not yet recognized in net periodic pension cost:		
Amortization of net loss	<u>1,585,238</u>	<u>1,155,858</u>
Total other changes in unrestricted net assets	<u>1,146,939</u>	<u>1,290,944</u>
Increase (decrease) in unrestricted net assets	158,828	817,573
Net assets, beginning of year	<u>10,474,207</u>	<u>9,656,634</u>
Net assets, end of year	<u>\$ 10,633,035</u>	<u>\$ 10,474,207</u>

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

	2018	2017
Cash flows from operating activities:		
Cash received from residents and third-party payors, net	\$ 15,764,900	\$ 14,599,281
Cash received from donations and fund raising, net	161,491	96,256
Cash received from others	160,839	156,006
Cash paid to employees and for payroll taxes and employee benefits	(11,652,506)	(11,136,064)
Cash paid to suppliers	(3,262,659)	(3,297,873)
Cash paid for interest	<u>(358,316)</u>	<u>(382,036)</u>
Net cash provided or (used) by operating activities	813,749	35,570
Cash flows from investing activities:		
Purchases of property and equipment	(218,576)	(175,825)
Cash received from or (deposited into) investments	-	-
Cash received from or (deposited into) assets whose use is limited by board for capital improvements	<u>1,078,800</u>	<u>500,893</u>
Net cash provided or (used) by investing activities	<u>860,224</u>	<u>325,068</u>
Cash flows from financing activities:		
Deferred-financing costs	-	(18,100)
Debt issuance costs	-	(25,000)
Line of credit	(320,401)	195,401
Repayment of long-term debt	<u>(557,884)</u>	<u>(539,174)</u>
Net cash provided (used) by financing activities	<u>(878,285)</u>	<u>(386,873)</u>
Net increase (decrease) in cash	795,688	(26,235)
Cash at beginning of year	101,805	128,040
Cash at end of year	<u>\$ 897,493</u>	<u>\$ 101,805</u>
Reconciliation of change in net assets to net cash provided or (used) by operating activities:		
Change in net assets	\$ 158,828	\$ 817,573
Adjustments to reconcile change in net assets to net cash provided or (used) by operating activities:		
Change in net unrealized (gains) or losses on assets whose use is limited by board for capital improvements	579,741	(170,594)
Depreciation amortization	711,024	767,175
Investment (income) or loss from assets whose use is limited by board for capital improvements	(478,518)	(253,633)
(Increase) decrease in:		
Accounts receivable	275,132	(19,019)
Estimated third-party settlements	395,496	(122,981)
Prepaid expenses	2,082	(21,558)
CCRC statutory minimum liquid reserves	(7,671)	(1,722)
Increase (decrease) in:		
Accounts payable	(73,359)	56,798
Accrued expenses	20,359	28,130
Security deposits	20,370	(26,250)
Deferred entrance fees	(6,559)	3,592
Fair market value of interest rate swaps	(141,442)	35,508
Liability for pension benefits	<u>(641,734)</u>	<u>(1,057,449)</u>
Net cash provided or (used) by operating activities	<u>\$ 813,749</u>	<u>\$ 35,570</u>
Supplemental disclosure and non-cash financing activities:		
Interest paid	\$ 358,316	\$ 382,036
Disposal of property and equipment other than by sale	\$ -	\$ 144,859

NOTES TO FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE

\$34,932

In accordance with 40 P.S. § 3209, the Provider must 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, the value of (1) is \$ 20,731 and the value of (2) is \$34,932. As of December 31, 2018, the Provider had established and reported a reserve of \$34,932 for this purpose.

ESCROW ACCOUNT REQUIREMENTS

The Provider does not accept deposits from CCRC residents prior to occupancy of any unit, and therefore maintains no escrow account. Should the Provider begin to accept entrance fee deposits from CCRC residents prior to the residents' right to take occupancy of the designated unit, the Provider must then establish an escrow account with a bank as required by 40 P.S. § 3212.

SUBSEQUENT EVENTS

The examiner was not aware of any events subsequent to December 31, 2018 through the date of the examination report that would have had a material effect on the solvency of the Provider.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. *It is recommended the Provider distribute a copy of the current Disclosure Statement to each of the current CCRC residents annually as required by 40 P.S. § 3207(c).*

The Provider has complied with this recommendation.

CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. *It is recommended that the Provider amend its resident agreement to include the verbiage of the Act in 40 P.S. § 3214(a)(11), provide that charges for care paid in one lump sum shall not be increased or changed during the duration of the agreed upon care, except for changes required by State or Federal assistance programs. (See Resident Agreement page 6)*
2. *It is recommended that the Provider amend its resident agreement to include the verbiage of the Regulations in 31 Pa. Code § 151.8(d) which states: Each resident's agreement shall contain a provision whereby the provider agrees that the resident shall not be liable to a health care provider for services rendered under a resident's agreement. In the event a health care provider seeks payment from the resident, the continuing care provider shall assume liability for payment of the health care services rendered, if the health care services rendered are services which a provider agreed to furnish to a resident in consideration of the resident's payment of entrance and periodic fees. Health care providers shall include persons rendering services to a resident as employees of the provider or facility, on a fee-for-service basis, or otherwise. (See Resident Agreement page 6)*

CONCLUSION

The examination of Garvey Manor Nursing Home Inc., as of December 31, 2018, was determined to be not be in compliance with all applicable Pennsylvania laws and regulations pertaining to CCRCs.

This examination was conducted by Ellie Durant.

Respectfully,

Melissa Greiner

Melissa L. Greiner
Director
Bureau of Financial Examinations

William M. Fedak

William Fedak, CFE
Examination Manager

Ellie Durant

Ellie Durant
Examiner-in-Charge