

EXAMINATION WARRANT # 14-231356232-CP

REPORT OF EXAMINATION

OF THE

**THE ODD FELLOWS HOME OF PENNSYLVANIA
D/B/A WEST VIEW TERRACE AT THE MIDDLETOWN HOME
MIDDLETOWN, PENNSYLVANIA**

AS OF

December 31, 2014

For Informational Purposes Only

The Odd Fellows Home Of Pennsylvania

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Harrisburg, Pennsylvania
August 31, 2016

Honorable Joseph DiMemmo, 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 14-231356232-CP dated March 3, 2015, and in accordance with provisions of the Pennsylvania Continuing-Care Provider Registration and Disclosure Act (“the Act”), as cited in 40 P.S. § 3219, an examination was conducted of the records and affairs of

THE ODD FELLOWS HOME OF PENNSYLVANIA

a continuing-care retirement community hereafter referred to as the “Provider.” This examination was conducted at the Provider’s facility located at 999 West Harrisburg Pike, Middletown, PA 17057.

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, 2014, 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 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 the Act and 31 Pa. Code (“the Regulations”).

For the calendar year ending December 31, 2014, the certified public accounting firm Padden, Guerrini and Associates, P.C., of Camp Hill, Pennsylvania issued an unmodified opinion on the Provider's financial statements based on generally accepted accounting principles. The certified public accounting firm of Smith Elliott Kearns & Company, LLC, of Camp Hill, Pennsylvania issued unmodified opinions on the Provider's financial statements for the years ending December 31, 2010 through 2013, based on generally accepted accounting principles.

HISTORY

The Provider was issued a Certificate of Authority, to operate as a continuing-care retirement community on September 30, 2005. The facility welcomed its first CCRC residents in March, 2006. All of the independent apartments are dedicated for CCRC use only. On October 1, 2014, an old meeting room was converted into another independent living apartment bringing a total of 17 continuing-care units. The minimum age requirement for residency at the facility is age 60.

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

DESCRIPTION OF FACILITY

The facility, known as the West View Terrace at the Middletown Home, is located in a suburban environment near Middletown, Pennsylvania, on approximately 100 acres of land, of which approximately 66 acres are leased for farming purposes.

The improvements to the property consist of a one-story, brick 102-bed nursing facility known as The Middletown Home, a four-story brick 64-bed assisted living facility, and a three-story brick 17-unit independent living apartment facility known as West View Terrace at the Middletown Home.

FEES AND SERVICES

As of December 31, 2014, the Provider's disclosure statement listed the entrance fee as \$75 per square foot for an independent living apartment. The disclosure statement did not include the square footage for any of its 17 apartments. Other regular periodic charges also are based on square footage, but the disclosure statement did not describe the amounts charged per square footage. As a result, the amount of the entrance fees, as well as the amount of the regular periodic monthly charges, cannot be determined from the disclosure statement.

According to 40 P.S. § 3207(a)(7) the disclosure statement must contain "a description of all fees required of resident, including the entrance fee and periodic charges, if any."

One resident agreement that was reviewed included an entrance fee of \$20,000 and regular monthly periodic charges of \$1,747. The sum of the periodic charges was \$20,964 for a year.

According to 40 P.S. § 3203, “a fee which is less than the sum of the regular periodic charges for one year of residency will not be considered to be an entrance fee for the purposes of this act.”

It is recommended that the Provider establish a fee structure in which the entrance fees are greater than the sum of the regular period charges for one year of residency in accordance with 40 P.S. § 3203.

It is also recommended that the Provider’s annual disclosure statement include the entrance fees and periodic payments so that current and prospective residents can determine what the fees are, as required by 40 P.S. § 3207(a)(7).

The entrance fee is amortized at a rate of 4% per month for 25 months. After 25 months, the entrance fee is earned in full by the Provider and the resident is not entitled to a refund of any portion of the entrance fee. The Provider also charges a non-refundable application fee of \$250 and a reservation deposit of \$500. The application fee and reservation deposit both are applied to the entrance fee charged to the resident.

REFUND POLICY

During the examination period, there were 19 terminations of continuing-care agreements. We tested five of these terminations, and in all instances the entrance fee was fully earned by the Provider and the residents were not entitled to a refund. The Provider’s refund policy that follows complies with 40 P.S. § 3214.

Termination Before Occupancy

The entrance fee and reservation deposit will be refunded to the resident in full if the resident rescinds the agreement within seven days in accordance with the Notice of the Right to Rescind, which is attached to the resident agreement. The \$250 non-refundable application fee will not be refunded.

In the event the resident is precluded from taking occupancy because of death, illness, injury, or incapacity prior to the designated occupancy date or actual date of occupancy, whichever is earlier; then the Provider will make a full refund of all entrance fee payments and the reservation deposit less any amounts deducted to cover expenses incurred at the resident’s specific written request.

In the event of termination of the resident agreement prior to occupancy, which is not due to the prospective resident’s death, incapacity, illness, or injury, the Provider will refund the entrance fee in full, less the reservation deposit and any amounts deducted to cover expenses incurred at the resident’s specific written request.

Where two or more individuals have signed the residency agreement for double occupancy, the death of one prospective resident shall not constitute termination of the agreement, and no refund shall be due.

Termination After Occupancy

If a resident terminates the agreement for any reason during the amortization period, the resident or resident's estate shall be entitled to a refund of the unamortized portion of the entrance fee, if any, less the amount of any financial assistance subsidy provided to resident by the Provider, less any amounts deducted to cover costs incurred by the Provider to refurbish, restore, or repair the apartment in the event of unreasonable wear and tear, and less costs incurred at a resident's specific request, and/or less any unpaid charges. After the lapse of the amortization period, the resident or resident's estate is not be entitled to a refund of any portion of the entrance fee.

Conditions and Timing for Refunds

Prior to occupancy, all applicable refunds will be paid within 30 days of termination. After occupancy, all applicable refunds will be paid after the unit has been surrendered.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The management of the Provider is vested in its Board of Directors ("Board"), which was composed of the following members as of the examination date, December 31, 2014:

<u>Name and Address</u>	<u>Principal Occupation</u>
Yvonne Calhoon Hummelstown, PA	Public Service Assistant
Charles Danihel Laverock, PA	Building Manager
Jane Danihel Laverock, PA	Health Assessment Coordinator
Douglas Eaby Kirkwood, PA	Retired
Mae Haussler Herndon, PA	Retired
Paul E. Miller Tamaqua, PA	Retired
Russell Pettyjohn Lititz, PA	Retired

The Odd Fellows Home Of Pennsylvania

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Laudine Stamm
Shillington, PA

Housewife

Neil B. Thomas
Reading, PA

Retired

OFFICERS

As of the examination date, December 31, 2014, the following officers were appointed and serving in accordance with the Provider's by-laws:

<u>Name</u>	<u>Title</u>
Leon S. Stamm	President
William Purcell	1st Vice President
Timothy Hahn	2nd Vice President
Nevin W. Adams	Secretary /Treasurer

CORPORATE RECORDS

Articles of Incorporation

There were no amendments to the Articles of Incorporation during the period of examination.

By-Laws

There were no changes to the by-laws during the period of examination.

ANNUAL DISCLOSURE STATEMENT

The 2014 annual disclosure statement was reviewed for compliance with 40 P.S. § 3207 and 31 Pa. Code §§ 151.7 and 151.9. The 2014 disclosure statement did not adequately disclose the entrance fees and monthly fee as discussed on page 3 under "Fees and Services."

RESIDENT AGREEMENT

The 2014 resident agreement was reviewed for compliance with 40 P.S. § 3214 and 31 Pa. Code §§ 151.8 and 151.9. The resident agreement included all required information.

PENDING LITIGATION

There was no known pending legal action or any known potential legal action which could have a materially adverse effect 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, 2014, 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
Comparative Statement of Cash Flows

The financial information used to compile the following financial statements was presented in the audited financial statements as of December 31, 2014. There were no changes made to the financial statements as a result of this examination.

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

ASSETS	<u>2014</u>	<u>2013</u>
Current Assets		
Cash	\$ 439,972	\$ 285,098
Investments	2,414,642	2,191,688
Resident accounts receivable, net	1,292,033	1,844,458
Employee loan receivable	3,435	5,935
Inventories	46,451	44,170
Prepaid expenses	171,063	186,926
Total Current Assets	<u>4,367,596</u>	<u>4,558,275</u>
Assets Whose Use is Limited:		
Reserve for continuing care liabilities	118,000	145,000
Workers' compensation reserve account	-	75,381
Benevolent fund	735,647	984,714
Total Assets Whose Use is Limited	<u>853,647</u>	<u>1,205,095</u>
Property, Plant and Equipment		
Land	25,000	25,000
Land improvements	440,775	440,775
Building and improvements	13,909,092	13,447,059
Equipment, furniture and fixtures	3,044,125	2,959,202
Motor vehicles	170,166	203,842
Total Property, Plant and Equipment	<u>17,589,158</u>	<u>17,075,878</u>
Less accumulated depreciation	<u>(10,197,006)</u>	<u>(9,628,008)</u>
Net Property, Plant and Equipment	7,392,152	7,447,870
Other Assets		
Perpetual third party trusts	416,602	436,698
TOTAL ASSETS	<u>\$ 13,029,997</u>	<u>\$ 13,647,938</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Notes payable - line of credit	808,242	808,242
Current maturities of long-term debt	65,562	62,839
Accounts payable and payroll withholdings	626,245	656,970
Accounts payable - construction		13,080
Accrued expenses	344,905	350,411
Resident funds	84,303	46,580
Deferred income - Current	49,480	36,799
Total Current Liabilities	<u>1,978,737</u>	<u>1,974,921</u>
Liabilities		
Long-term debt, net of current maturities	371,884	437,161
Deferred income - Long Term	150,288	95,362
Total Long-Term Liabilities	<u>522,172</u>	<u>532,523</u>
Total Liabilities	<u>2,500,909</u>	<u>2,507,444</u>
Net Assets		
Unrestricted	10,112,486	10,703,796
Permanently restricted	416,602	436,698
Total Net Assets	<u>10,529,088</u>	<u>11,140,494</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,029,997</u>	<u>\$ 13,647,938</u>

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

	<u>2014</u>	<u>2013</u>
Revenue, Gains and Other Support		
Net resident service revenues	\$ 10,089,778	\$ 9,455,885
Other resident service revenues	1,435,534	1,455,529
Other revenues:		
Investment income	128,701	127,170
Donations, bequests and legacies	45,868	31,820
Rental income	19,174	19,174
Gain on sale of investments	144,064	160,325
Other	6,761	5,078
Total Revenue, Gains and Other Supports	<u>11,869,880</u>	<u>11,254,981</u>
Operating Expenses		
Resident service expenses	6,873,302	6,638,668
Dietary	1,298,601	1,315,652
Laundry and linen	101,616	142,270
Housekeeping	379,092	406,872
Plant operations and maintenance	943,852	1,021,055
General and administrative	1,677,658	1,726,097
Depreciation	603,272	569,044
Bad debt expense	343,358	118,574
Interest expense	44,904	34,408
Total Operating Expenses	<u>12,265,655</u>	<u>11,972,640</u>
Loss from Operations	<u>(395,775)</u>	<u>(717,659)</u>
Change in Net Unrealized Gains (Losses) Other Than Trading Securities	<u>(195,535)</u>	<u>173,486</u>
Decrease in Unrestricted Net Assets	<u>(591,310)</u>	<u>(544,173)</u>
Permanently Restricted Net Assets		
Change in value of perpetual trust	<u>(20,096)</u>	<u>35,160</u>
Increase (Decrease) in Permanently Restricted Net Assets	<u>(20,096)</u>	<u>35,160</u>
Decrease in Net Assets	<u>(611,406)</u>	<u>(509,013)</u>
Net Assets, Beginning of Period	<u>11,140,494</u>	<u>11,649,507</u>
Net Assets, End of Period	<u>\$ 10,529,088</u>	<u>\$ 11,140,494</u>

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

	<u>2014</u>	<u>2013</u>
<u>Cash Flows From Operating Activities</u>		
Change in net assets	\$ (611,406)	\$ (509,013)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	603,272	569,044
Bad debts	343,358	118,574
Amortization of entrance fees	(49,093)	(47,267)
Realized and unrealized (gains) losses on investments	71,567	(368,971)
(Increase) decrease in:		
Receivables - residents	209,067	(546,312)
Employee loan receivable	2,500	(5,935)
Inventories	(2,281)	(15,737)
Prepaid expenses	15,863	157,375
Increase (decrease) in:		
Accounts payable and payroll withholdings	(43,805)	265,887
Accrued expenses	(5,506)	(23,323)
Resident funds	37,723	(52,181)
Net Cash Provided by (Used in) Operating Activities	<u>571,259</u>	<u>(457,859)</u>
<u>Cash Flows From Investing Activities</u>		
Purchase of property and equipment	(547,554)	(619,145)
Purchases of investments	(1,426,299)	(1,874,679)
Proceeds from sale of investments	1,503,322	1,844,754
Net Cash Used in Investing Activities	<u>(470,531)</u>	<u>(649,070)</u>
<u>Cash Flows From Financing Activities</u>		
Borrowings from notes payable -	-	2,138,242
Payments on notes payable	(62,554)	(1,000,000)
Entrance fees received	116,700	40,000
Net Cash Provided by Financing Activities	<u>54,146</u>	<u>1,178,242</u>
Net Increase in Cash and Cash Equivalents	154,874	71,313
Cash and Cash Equivalents, Beginning of Period	285,098	213,785
Cash and Cash Equivalents, End of Period	<u>\$ 439,972</u>	<u>\$ 285,098</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>44,904</u>	<u>34,408</u>
Supplemental Disclosure of Non-Cash Investing and		
Financing Activities: Fixed Asset Purchased on Credit	<u>-</u>	<u>13,080</u>

NOTES TO THE FINANCIAL STATEMENTS

Statutory Minimum Liquid Reserves

\$118,000

In accordance with 40 P.S. § 3209, the Provider must establish and maintain a 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 \$118,029 and number (2) is \$8,959. As of December 31, 2014, the Provider had established and reported a reserve of \$118,000 for this purpose. The Provider rounded the reserve amount to the nearest \$100. The amount reserved was accepted as reported because the difference was immaterial to the overall calculated requirement.

ESCROW ACCOUNT REQUIREMENTS

The Provider does not accept deposits from continuing-care residents and therefore maintains no escrow account. Should the Provider begin to accept entrance fee deposits from continuing-care 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 examination team was not made aware of any events that could have a significant effect on the solvency of the Provider as of the date of examination and through the date of this examination report.

RECOMMENDATIONS

This is the second examination of the Provider. There were no recommendations made as a result of the prior examination. The following recommendations are being made as a result of this examination:

It is recommended that the Provider establish a fee structure in which the entrance fees are greater than the sum of the regular period charges for one year of residency, in accordance with 40 P.S. § 3203.

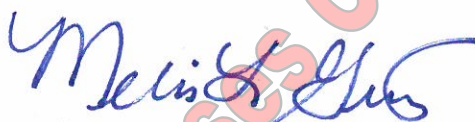
It is also recommended that the Provider's annual disclosure statement include the entrance fees and periodic payments so that current and prospective residents can determine what the fees are, as required by 40 P.S. § 3207(a)(7).

CONCLUSION

As a result of our examination, we conclude that The Odd Fellows Home of Pennsylvania is in compliance with the applicable Pennsylvania laws and regulations as they pertain to continuing-care retirement communities as of December 31, 2014 except as noted in the Recommendations on page 10.

This examination was conducted by Cornelius B. McConville.

Respectfully submitted,



Melissa L. Greiner
Director
Bureau of Financial Examinations



James Minder, CPA
Examination Manager
Bureau of Financial Examinations



Cornelius B. McConville
Examiner-In-Charge
Bureau of Financial Examinations

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