

REPORT ON EXAMINATION

OF

EPISCOPAL CHURCH HOME AND AFFILIATES LIFE CARE COMMUNITY,

INC.

d/b/a CANTERBURY WOODS

AS OF

DECEMBER 31, 2006

DATE OF REPORT

FEBRUARY 15, 2008

EXAMINER

KENNETH I. MERRITT

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

Eliot Spitzer
Governor

Eric R. Dinallo
Superintendent

February 15, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the provisions of the New York Insurance Law and the New York Public Health Law and acting in accordance with the instructions contained in Appointment Number 22656, dated January 3, 2008 annexed hereto, I have made an examination into the condition and affairs of the Episcopal Church Home and Affiliates Life Care Community, Inc d/b/a Canterbury Woods, a not-for-profit Continuing Care Retirement Community authorized pursuant to the provisions of Article 46 of the New York State Public Health Law.

Wherever the designations, "the Community" or "the CCRC" appear herein, without qualification, it should be understood to indicate the Episcopal Church Home and Affiliates Life Care Community, Inc. d/b/a Canterbury Woods. The examination took place at the site of the Community at 705 Renaissance Drive, Williamsville, NY.

The Community's required actuarial surplus as determined using generally accepted actuarial standards and applying statutory requirements, was impaired by the amount of \$3,431,372 as of December 31, 2005. The Community is currently operating under a Plan of Restoration that was accepted by the New York Insurance Department on August 7, 2006.

1. SCOPE OF THE EXAMINATION

The Community was formed on December 26, 1995 and began operating on June 1, 1999. This examination covered the period from January 1, 2004 through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

Representatives of the New York Insurance Department and the New York Department of Health conducted a site survey of the Community's facility on June 28, 2007 pursuant to Section 4610 of the New York Public Health Law.

The examination comprised a verification of the assets and liabilities of the Community as of December 31, 2006 in accordance with Generally Accepted Accounting Principles (GAAP), as modified by the New York Insurance Department pursuant to New York Insurance Department Regulation 140 (11 NYCRR 350), a review of income and disbursements deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Community's independent certified public accountants and independent actuary. It is noted however that the balance sheet as included herein was reported as of December 31, 2005 on a statutory actuarial basis pursuant to New York Insurance Department Regulation 140 (11 NYCRR 350). A review was also made of the following items:

- Community documents
- Growth of the Community
- Financial documents
- Board of Directors' minutes of meetings

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. EXECUTIVE SUMMARY

The Community's required actuarial surplus as determined using generally accepted actuarial standards and applying statutory requirements, was impaired by the amount of \$3,431,372 as of December 31, 2005. The Community is currently operating under a Plan of Restoration that was accepted by the New York Insurance Department on August 7, 2006. The Plan of Restoration provides for certain occupancy levels and establishes future fee increases over a period of time in order for the Community to resolve its actuarial surplus impairment. The projected date for the removal of the impairment under the current Plan was calendar year 2006.

Additional examination findings are described in the body of the report.

3. DESCRIPTION OF THE COMMUNITY

Canterbury Woods is a Continuing Care Retirement Community as defined under Article 46 of the New York State Public Health Law, and has received a Certificate of Authority from the New York State Continuing Care Retirement Community Council. The Community is a New York not-for-profit organization which was formed to build, own and operate a continuing care retirement community which currently consists of two hundred forty three (243) independent living units and an eighty (80) bed health center consisting of thirty-two (32) enriched housing units and forty-eight (48) skilled nursing beds. Within the 243 independent living units, there are forty (40) individual cottage-style homes called Lexington Village. The Community is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

The Community provides residents with a continuum of services including independent living, enriched housing and skilled nursing home care. As a condition precedent to providing these services, the Community enters into a life care contract with each prospective resident that sets forth the responsibilities of both parties. For the right to occupy and use the living accommodations and utilize the services of the Community,

each resident is required to pay an entrance fee and monthly service fee based on the size and type of living unit and the number of occupants

Entrance fees are due in two installments. Ten percent of the entrance fee is due when the life care contract is signed, while the remainder is to be paid upon the earlier of (1) the date the resident occupies the facility or (2) 60 days from the date the contract is executed.

Entrance fees include a residential component and a life care component. During the first 90 days after the resident pays the entrance fee in full, all amounts collected by the Community are fully refundable if the resident terminates the contract for any reason. At the end of the 90-day period, the entrance fee refund will be reduced by a 4% processing fee. For each of the next three months, the refund will be reduced by 2% per month. At the end of these three months, the remaining 90% of the residential component of the entrance fee will be refundable for the duration of the contract term. The refund of the life care component will be further reduced by 2% per month for each additional month of residency until the 51st month, after which there will be no refund.

A. Management

Pursuant to the Community's Articles of Incorporation ("Articles") and bylaws, management of the Community is vested in a board of directors that consists of at least three (3) and no more than twenty-one (21) directors. As of the examination date, the board was comprised of six (6) directors. The board is required, at a minimum, to meet four times per year. An Annual Meeting is to be held every April and at least three other regular meetings throughout the year. The Annual Meeting is open to all residents. The Community may hold other special meetings as deemed necessary. The board of directors consisted of the following individuals as of December 31, 2006:

<u>Name</u>	<u>Principal Business Affiliation</u>
Howard F. Gondree Buffalo, NY	Director of Finance, Episcopal Diocese of WNY
Reid R. Heffner, Jr., M.D Buffalo, NY.	Physician/Professor
Thomas D. Lunt Orchard Park, NY	Financial Consultant, Smith Barney
Steven W. McGanka Buffalo, NY	Retired
H. Ernst Montgomery, II Buffalo, NY	President, HEM Enterprises
Anthony J. Renaldo Williamsville, NY	Senior Partner, Renaldo, Myers and Palumbo

Article II, Paragraph 2 of the Community's by-laws states the following:

“The annual meeting of the sole member of the corporation for the election of directors and for the transaction of such other business as may properly come before the meeting, shall be held at such place, date and time as ECH &A (Episcopal Church Home and Affiliates, Inc.) may determine, in November of each year or on such other day to be determined by ECH&A.”.

Article II, Paragraph 7 of the Community's by-laws states the following:

“Whenever the sole member is required or permitted to take any action by vote, such action may be taken without a meeting on unanimous written consent, setting forth the action so taken”.

The Community failed to provide documentation within the minutes of the meetings of the board of directors of ECH&A by means of a signed written consent in lieu of the meeting of the sole member relative to the annual election of the Community's board of directors by ECH&A during the years under examination.

It is recommended that the Community ensure that directors serving on Canterbury Woods' board of directors are elected annually by the sole member in compliance with Article II, paragraph 2 of the Community's by-laws.

It is recommended that the Community maintain copies of the minutes of the annual meetings of the sole member relative to the election of the Community's board of directors. If no such meetings were held by the sole member, the Community should maintain copies of signed consents by ECH & A evidencing the sole member's approval and election of the Community's board of directors pursuant to Article II, paragraph 7 of the Community's bylaws.

The board of directors is required to hold an annual meeting each April pursuant to Paragraph 1 of Article IV of the by-laws. A review of the minutes revealed that the board held meetings January 2004 and March in each of 2005 and 2006. Therefore, since there were no April meetings or description in the minutes as to the type of meetings held, it cannot be determined whether the above mentioned meetings were either annual, special or regular meetings by the board.

It is recommended that the Community's board of directors hold its annual meeting during the month of April as stipulated in its by-laws. If the annual meeting is held in a different month, the minutes of the board of directors should clearly indicate that such meeting has been designated as the Community's annual meeting.

The Community reported in its filed 2006 annual statement, a former board member who had actually resigned from the Community's board of directors in 2006.

It is recommended that the Community report in its filed annual statements only those board members who are actually on the board of directors as of the filing date of the annual statement.

A review of the minutes of the meetings by the board of directors during the examination period revealed that the meetings were generally well attended by the members except for three directors. Each of the three directors failed to attend at least one-half of the eligible meetings held during the examination period. The same three directors were also cited in the prior report examination for their poor attendance at the board meetings.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the Community. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria.

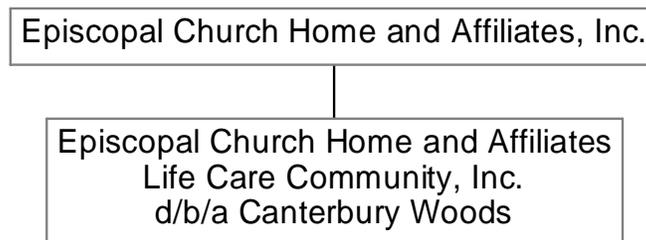
It is again recommended that the members of the board of directors attend at least one-half of the regular board meetings. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

The principal officers of the Community, as of December 31, 2006 were as follows:

<u>Name</u>	<u>Title</u>
H. Ernst Montgomery II	Chairman of the Board of Directors
Edward C. Weeks	Chief Executive Officer
James Juliano	Chief Financial Officer

B. Holding Company System

The structure of the Holding Company, as of the examination date, is as follows:



The Community is a Type B corporation as defined by Sections 201 and 601 (a) of the Not-for-Profit Corporation Law. The sole member of the Community is Episcopal Church Home and Affiliates, Inc. (ECH&A). The Community is controlled by ECH&A through bylaw requirements. ECH&A must approve any amendments to the bylaws or articles of incorporation.

Based upon a previous management agreement which was entered into effective April 6, 1999 between the Community and Episcopal Community Health Care, Inc. (Manager), the Community appointed the Manager to provide oversight and management services. In May 2001, the Parent replaced Episcopal Community Health Care, Inc. as the new Manager to the Community without the parties ever amending the agreement to

reflect the changeover. The Parent is currently providing the Community with the following oversight and management services without the existence of a written agreement between the parties:

1. Oversight Services:

- a Operations/Administration – provide oversight of Community operations including attendance at Board of Directors’ meetings, policy and procedures manuals, and advise and assist in the evaluation and acquisition of technology.
- b Continuous Quality Improvement (CQI)– review and approve all activities and information related to the CQI process, counsel and participate in quality improvement programs as frequently as possible.
- c Human Resources – assist in the recruitment process for department managers, provide technical expertise with respect to developing wage and salary grade scales and formulate staff benefit plans.
- d Finance and Accounting – review and approve all budgets and long range financial projections, coordinate the annual independent financial audit, provide Management Information Systems oversight and on-site staff training.
- e Marketing and Public Relations – review and approve all marketing plans and public relations initiatives.

2 Management Services:

- a Operations/Administration – enforce all policies and rules that were established regarding the operation of the Community, meet with the Residents’ Association on a regular basis to hear ideas, update residents, discuss operating and/or policy changes and respond to suggestions.
- b Continuous Quality Improvement – provide CQI training to all employees of the Community.
- c Human Resources – responsible for the recruitment, hiring, training, supervision and termination of all personnel necessary for the efficient operation of the Community. Also, recommend and institute appropriate employee benefits.
- d Finance and Accounting – prepare and deliver monthly unaudited financial statements containing a balance sheet, statement of cash flows, a statement of revenues and expenses, together with variance analyses and departmental reports, all within thirty (30) days after the close of each calendar month. Prepare all financial reports, statements of affairs or records required by any federal, state or local government. Prepare a financial projection for a ten (10) year period, accompanied by assumptions upon which the projection is based.

2 Management Services:

- e Marketing and Public Relations – develop marketing objectives and plans to maintain satisfactory levels of occupancy, and establish marketing policies and procedures to be followed by the staff of the marketing department.
- f Health Center, Assisted Living and Wellness Program – develop forms, systems and programs to exceed state and federal requirements and seek innovative methods to continually improve the level of clinical care.
- g Dining Services – review all dining budgets, policies and procedures. Provide periodic inspections and reviews on environmental and sanitation factors as well as culinary quality and presentation.
- h Laundry, Housekeeping, Maintenance and Security – supervise a program of regular maintenance and repair in accordance with state and local codes, including, but not limited to, cleaning, painting, decorating, plumbing, carpentry, grounds care and such other maintenance and repair work as may be necessary.
- i Cultural Arts and Community Programs – maintain a recreation and cultural arts program for residents of the Community.
- j Capital Expenditures – recommend capital improvements, additions or expenditures to be undertaken by the Community.
- k Insurance – arrange for appropriate types, categories and amounts of insurance including, but not limited to, insurance required by the Erie County Industrial Development Agency Bonds.
- l Purchasing – establish purchasing standards for supplies and food necessary for the operation of the Community.

The prior report on examination included the recommendation for the Community to secure in writing its management agreement with its provider of services.

It is again recommended that the Community implement a written management agreement with its provider of services, Episcopal Church Home and Affiliates, Inc. (its parent).

The Community incurred the following annual fees in connection with the aforementioned management services agreement during the period under examination:

<u>Year</u>	<u>Amount</u>
2004	\$384,000
2005	\$488,500
2006	\$548,889

It was noted that the Community failed to report the management fees within Report No. 2 of its filed 2004 and 2005 annual statements.

It is recommended that the Community report its incurred management fees in Report # 2 of its filed annual statements.

C. Occupancy rates

The following reflects the occupancy rates at each year-end from 2004 to 2006 for each of the facilities within the Community:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Independent Living Units	96.6%	94.7%	84.8%
Enriched Housing/Adult Care Units	90.6%	62.5%	90.6%
Skilled Nursing Facility	89.6%	93.8%	97.9%

The 62.5% occupancy rate for 2005 for the Enriched Housing/Adult Care Units was attributable to there being fewer permanent continuing care residents in the Enriched Housing center in 2005 compared to 2004 and 2006.

The independent living occupancy rate declined in 2006 relative to the prior two years due to an additional forty (40) new cottage style homes pursuant to the additional homes constructed and marketed within the CCRC's Lexington Village section.

D. Investments

The Community does not maintain custodial agreements for the safeguarding of its investments that are held in the depository accounts of the banking institutions. The Department is cognizant of the fact that certain of the Company's investments are held with an existing bank trustee already approved pursuant to Canterbury Woods bond indenture issued the Industrial Development Agency ("Agency"). Therefore, the Community is limited in its ability to retroactively amend the bank trustee documents that were set up under the initial bond financing arrangement with the Agency. However, for its other investments that are not held in bank trustee accounts established pursuant to the bond indenture and where the Community's investment are held via regular depository agreement directly with the banks, the community does not have the same restrictions as with the bank trustee accounts. Therefore, relative to the Community's non bank trustee accounts, the Department regards the following protective covenants and provisions as indicative of prudent business practices:

1. The bank shall have in force, for its own protection, Bankers Blanket Bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance. The bank will give the Community 60 days written notice of any material change in the form or amount of such insurance or termination of this coverage.
2. The bank will at all times give the securities held by the bank thereunder the same care the bank gives its own property of a similar nature.
3. The bank shall furnish the Community (at least quarterly) with a list of such securities showing a complete description of each issue, which shall include the number of shares or par value of bonds so held at the end of each quarter.
4. The bank shall maintain records sufficient to verify information the Community is required to report in the Annual Statement blanks of the Insurance Department.

5. The bank shall furnish the Community with the appropriate affidavits in an acceptable form in order for the securities referred to in such affidavits to be recognized as admitted assets of the Community.
6. Access shall be during the bank's regular hours. Those persons who shall be entitled to examine, on the bank's premises, securities held by the bank and the bank's records related to those securities, shall be specified. An authorized officer shall furnish the bank with written instructions to that effect.
7. Written instructions hereunder shall be signed by any two of the Community's authorized officers specified in a separate list for this purpose which will be furnished
8. to the bank from time to time signed by the treasurer or an equivalent officer and certified under the corporate seal by the secretary or an assistant secretary.
9. In connection with any situation involving registration of securities in the name of a nominee of a bank custodian, the custodian agreement should empower the bank to take such action.
10. opportunity to secure the most recent report on the review of the custodian's system of internal control, pertaining to custodial record keeping, issued by internal or independent auditors.

It is recommended that, with regard to the Community's investments that are not held pursuant to a bond indenture with the Industrial Development Agency, the Community establish custodial agreements with the financial institutions that safeguard its investments and include the enumerated protective covenants and provisions in those agreements.

This recommendation was included within the previous report on examination.

E. Disaster Recovery/Business Continuity Plan

The Community maintains a disaster recovery plan which provides for the essential maintenance of continuity of services to the Community's residents in the event of a disaster. Also, the Community maintains a business continuity plan which is

essential to the maintenance of continuity of services to the Community's residents in the event of a disaster.

4. ACCOUNTS AND RECORDS

The following findings were noted in connection with the examiner's review of the Community's account and records:

(A) Petty Cash Account

The Community reported a negative year-end balance to the petty cash account as of December 31, 2006 which was attributable to a loss of funds during 2006. This petty cash account was not the cash on hand in the office in the usual sense but actually consisted of cash available via a leased ATM cash machine located in the lobby area of the CCRC's main business building. Such ATM machine was utilized for the convenience of the Community's residents. Management indicated the negative balance stemmed from the over withdrawals of cash that occurred with the ATM machine. During the inquiry by the examiner, the Community indicated it did not know specifically what caused the ATM machine to lose the cash and when asked whether the problem involved a mechanical malfunction to the machine, human error or intentional malfeasance, management could not pinpoint the problem.

The Community is reminded of the importance to protect and safeguard its assets and also to respond more proactively to fully investigate the causes associated with the losses occurring relative to the CCRC's assets and property.

Subsequent to the Department's on-site review and at the Department's request, the Community made an investigation of the above petty cash credit balance of \$5,052 and the involvement of the CCRC's ATM machine with regard to such credit balance.

The Community, in a letter to the Department dated January 22, 2008, indicated the above credit balance resulted from incorrect posting entries made between the CCRC and its parent during the period prior to May, 2005. It was noted in the letter that the

ATM was installed within the Community in 1999. However, according to the Community's correspondence, it has been "unable to pinpoint the exact details". The CCRC indicated in its letter to the Department, that such credit indicated that the ATM cash balance did not reconcile to the Community's general ledger.

The Community indicated that it no longer operates an ATM on premises and has made appropriate adjusting entries to clear such credit from its Petty Cash general ledger account balance. In addition, the CCRC has indicated that it has placed limitations on the balance (\$500) and charge limitations have been placed at \$50.

It is recommended that the Community fully investigate and provide details to this Department regarding the credit balance reported at December 31, 2006 within its petty cash fund including the amount of funds held within the ATM which was not reflected within the Community's general ledger and the resultant disposition of such funds.

(B). Reconciliation of Reported Account Balances

The Community did not maintain supporting work papers that reconcile several financial accounts between the annual statement and its general ledger trial balance. Such work papers are particularly useful in the case where the annual statement accounts are comprised of multiple general ledger accounts and/or have manual adjustments applied (i.e. non general ledger account adjustments). The annual statement accounts which the Community did not maintain adequate reconciling support documentation compared to the trial balance included the cash and short-term investments account, long term investments accounts, monthly maintenance fees, other revenues from residents, and patients' revenues from nonresidents.

It is recommended that the Community maintain and have available upon request supporting work papers that reconcile the account balances reported in the Community's filed Annual Statement to its trial balance.

(C). **Reconciliation of CPA Audited Financial Statement and Filed Annual Statement Blank**

The Community does not maintain the accounting details support to reconcile the 2006 year-end balances to several expense accounts reported in Canterbury Woods' CPA audited financial statement. Such expense accounts included salaries and wages, employee benefits, contract labor supplies, supplies, purchased and contracted services and utilities and rentals. These accounts did not reconcile to the Community's trial balance and/or annual statement accounts.

It is recommended that the Community maintain accounting documentation that will provide a reconciliation of the account items reported in its CPA audited financial statement to the account items included in the Community's trial balance and annual statement.

5. FINANCIAL STATEMENTS

A. Balance sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 2005. It is the same as the actuarial balance sheet reported by the Community presented on a statutory actuarial basis pursuant to New York Insurance Department Regulation 140 (11 NYCRR 350).

Assets

Cash and invested assets	\$33,645,511
Accounts receivable and prepaid expenses	827,377
Land	4,223,927
Building	49,579,682
Fixture, fixtures and equipment	13,834,846
Deferred financing costs	1,912,080
Deferred marketing costs	<u>949,055</u>
 Total assets	 <u>\$104,972,478</u>

Liabilities

IDA Bonds	\$ 42,090,000
Financial Institutions	6,240,627
Actuarial reserve	<u>60,073,223</u>
Total liabilities	108,403,850
 Total Net Surplus	 \$(3,431,372)
 Total Liabilities and Net Surplus	 <u>\$104,972,478</u>
 Ratio of Net Surplus to Total Liabilities	 <u>(3.2)%</u>

It should be noted that the asset values herein are reported on a statutory actuarial basis. As such, the values differ from the certified financial statements prepared by the Community's Certified Public Accountants.

The Community's required actuarial surplus, as determined using generally accepted actuarial standards and applying statutory requirements, was impaired in the amount of \$3,431,372.

B. Statement of revenue, expenses and surplus

The statement of revenue and expenses is presented on a GAAP basis for the period, January 1, 2004 through December 31, 2005.

Revenues,

Monthly Maintenance Fess	\$ 14,592,599
Other Revenues from Residents	645,749
Earned Entrance Fees (net of refunds)	2,392,560
Patient Revenues from Nonresidents	6,766,781
Interest and Dividend Income	1,981,624
Aggregate Write-ins for Other Operating Revenues	<u>461,639</u>
Total Revenue	<u>\$ 26,840,952</u>

Operating Expenses

Interest Expense	\$ 5,000,434
Facility and Dining Expenses	8,056,297
Health Expenses	4,829,739
Administration Expenses	3,962,444
Depreciation and Amortization	6,815,939
Real Estate Taxes	1,192,485
NYS Health Facilities Assessment	306,868
Aggregate Write-ins for Other Operating Expenses	<u>48,055</u>
Total Expenses	<u>30,212,261</u>
Net Loss	<u>\$ (3,371,309)</u>

C. Change in actuarial surplus

Surplus increased \$2,913,267 during the examination period, January 1, 2004 through December 31, 2005, detailed as follows:

	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Surplus per report on examination as of December 31, 2003			\$ (6,344,639)
GAAP basis Net Income (Loss)			\$ (3,371,309)
Change in Actuarial Surplus	<u>6,284,576</u>	
Net gain in surplus			<u>\$ 2,913,267</u>
Surplus per report on examination as of December 31, 2005			<u>\$ (3,431,372)</u>

6. MARKET CONDUCT REVIEW

The examination included a market conduct review focusing on the following major areas:

- a) Sales and advertising,
- b) Disclosure statement,
- c) Residency agreement, and
- d) Residents' handbook.

No problem areas were noted during the review.

7. CONCLUSION

As of December 31, 2005, the Community's minimum surplus requirement, as determined using generally accepted actuarial standards and applying statutory requirements was impaired in the amount of \$3,431,372.

The Community is currently operating under a Plan of Restoration that was prepared as of June 15, 2006 to resolve its surplus impairment. The Plan was accepted by the New York Insurance Department on August 7, 2006.

It is recommended that the Community continue to operate under its Plan of Restoration, as approved by the New York Insurance Department on August 7, 2006, in order to bring its surplus to the minimum required level.

**8. SUMMARY OF PRIOR EXAMINATION COMMENTS AND
RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Community comply with Article IV, paragraph 1 of its by-laws and hold the appropriate number of board meetings each year.	6
The Community has complied with this recommendation.	
ii. It is recommended that the Community comply with Article IV, paragraph 3 of its by-laws and require a quorum for all board meetings.	6
The Community has complied with this recommendation.	
iii. It is recommended that the Community comply with Article III, paragraph 7 of its by-laws and remove those directors who fail to attend three consecutive meetings.	6
The Community has not complied with this recommendation.	
iv. It is recommended that the members of the board of directors attend at least one-half of the regular board meetings. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	7
The Community has not complied with this recommendation. It is noted that a similar recommendation was made in the previous report on examination.	

<u>ITEM</u>	<u>PAGE NO.</u>
v. It is recommended that the Community maintain a minimum of \$300,000 in fidelity insurance coverage covering officer or employee dishonesty. The Community has complied with this recommendation.	7
B. <u>Holding company system</u>	
i. It is recommended that the Community maintain a signed agreement with its provider of management services. The Community has not complied with this recommendation.	10
C. <u>Investments</u>	
i. It is recommended that the Community's boards of directors approve and set forth its investment policy in a formal document. The Community has complied with this recommendation.	11
ii. It is recommended that the Community establish custodial agreements with the financial institutions that safeguard its investments and include the enumerated protective covenants and provisions in those agreements. The Community has not complied with this recommendation. It is noted that a similar recommendation was made in the previous report on examination.	12
D. <u>Information systems</u>	
i. It is recommended that the Community establish and implement a formal schedule to update its computer software security programs. The Community has complied with this recommendation.	12

ITEMPAGE NO.E. Required actuarial surplus

- i. It is recommended that the Community continue to operate under its Plan of Restoration as required by New York Insurance Department Regulation 140 (11 NYCRR 350.8(a)). 16

The Community is complying with this recommendation.

F. Residency Agreement

- i. It is recommended that the Community require residents to comply with the Residency Agreement and submit annual proof of Medicare A and B or equivalent health care coverage. 17

The Company has complied with this recommendation.

9. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. The Community's required actuarial surplus as determined using generally accepted actuarial standards and applying statutory requirements, was impaired by the amount of \$3,431,372 as of December 31, 2005. The Community is currently operating under a Plan of Restoration (Plan) that was accepted by the New York Insurance Department on August 7, 2006.</p> <p>It is recommended that the Community continue to operate under its Plan of Restoration, as approved by the New York Insurance Department on August 7, 2006, in order to bring its surplus to the minimum required level.</p>	<p><u>1,3,17,20</u></p>
<p>B. <u>Management</u></p>	
<p>i. It is recommended that the Community ensure that directors serving on Canterbury Woods' board of directors are elected annually by the sole member in compliance with Article II, paragraph 2 of the Community's by-laws.</p>	<p>6</p>
<p>ii. It is recommended that the Community maintain copies of the minutes of the annual meetings of the sole member relative to the election of the Community's board of directors. If no such meetings were held by the sole member, the Community should maintain copies of signed consents by ECH & A evidencing the sole member's approval and election of the Community's board of directors pursuant to Article II, paragraph 7 of the Community's bylaws.</p>	<p>6</p>
<p>iii. It is recommended that the Community's board of directors hold its annual meeting during the month of April as stipulated in its by-laws. If the annual meeting is held in a different month, the minutes of the board of directors should clearly indicate that such meeting has been designated as the Community's annual meeting.</p> <p>.</p>	<p>6</p>
<p>iv. It is recommended that the Community report in its filed annual statement only those board members who are actually on the board of directors as of the filing date of the annual statement.</p>	<p>7</p>

<u>ITEM</u>	<u>PAGE NO.</u>
v. It is again recommended that the members of the board of directors attend at least one-half of the regular board meetings. Board members who are unable or unwilling to attend meetings consistently, should resign or be replaced.	7
C. <u>Holding Company System</u>	
i. It is again recommended that the Community implement a written management agreement with its provider of services, Episcopal Church Home and Affiliates, Inc. (its parent).	10
ii. It is recommended that the Community report its incurred management fees in Report # 2 of its filed annual statements.	11
D. <u>Bank Custodial Agreements</u>	
i. It is recommended that, with regard to the Community's investments which are not held pursuant to a bond indenture with the Industrial Development Agency, the Community establish custodial agreements with the financial institutions that safeguard its investments and include the enumerated protective covenants and provisions in those agreements.	13
E. <u>Accounts and Records</u>	
i. It is recommended that the Community fully investigate and provide details to this Department relative to the credit balance reported at December, 31, 2006 within its petty cash fund including the amount of funds held within the ATM which was not reflected within the Community's general ledger and the resultant disposition of such funds.	15
ii. It is recommended that the Community maintain and have available upon request supporting work papers that reconcile the account balances reported in the Community's filed Annual Statement to its trial balance.	15
iii. It is recommended that the Community maintain accounting documentation that reconcile the account items reported in its CPA audited financial statement to the trial balance and annual statement accounts.	16

Appointment No. 22656

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

I, **Eric R. Dinallo**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Kenneth Merritt

as a proper person to examine into the affairs of the

**The Episcopal Church Home & Affiliates Life Care Community, Inc.
d/b/a Canterbury Woods**

and to make a report to me in writing of the said

Continuing Care Retirement Community

with such information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York.

this 3rd day of January 2008



Eric R. Dinallo
Superintendent of Insurance

