



Government of the District of Columbia
Department of Insurance, Securities and Banking

Stephen C. Taylor
Commissioner

BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA

Re: Report on Examination – **The Army Distaff Foundation, Inc.** as of December 31, 2015

ORDER

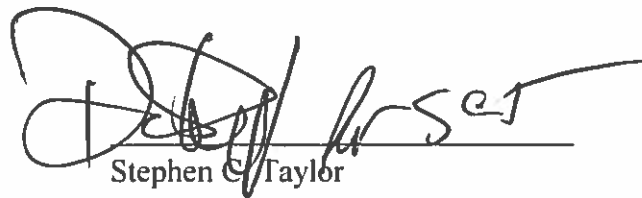
An Examination of **The Army Distaff Foundation, Inc.** as of December 31, 2015 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 14th day of July, 2017, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.



Stephen C. Taylor
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

THE ARMY DISTAFF FOUNDATION, INC.

AS OF

DECEMBER 31, 2015

The Army Distaff Foundation, Inc.

Report on Examination

December 31, 2015

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The Army Distaff Foundation, Inc.

Report on Examination

December 31, 2015

Washington, D.C.

April 30, 2017

Honorable Stephen C. Taylor
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Commissioner:

In accordance with Section 44-151.13 of the District of Columbia Official Code, we have examined the financial condition and activities of

The Army Distaff Foundation, Inc.

(Hereinafter called the “Facility”) at its home office located at 6200 Oregon Avenue, N.W. Washington, DC 20015, and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

This examination, covering the period from April 5, 2005 (the effective date of the adoption of the Continuing Care Retirement Communities Act) to December 31, 2015, including any material transactions and/or events noted occurring subsequent to December 31, 2015, was conducted by examiners of the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

There were no prior examinations of the Facility.

Our examination was conducted in accordance with examination policies and standards established by the Department and accordingly included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

Our examination included a review of the business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities of the Facility. In addition, our examination included tests to provide reasonable assurance that the Facility was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Army Distaff Foundation, Inc.

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The Facility is audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the financial statements of the Facility for calendar years 2011 through 2015. We placed substantial reliance on the audited financial statements for calendar years 2011 through 2014, and consequently performed only minimal testing for that period. We concentrated our examination efforts on the year ended December 31, 2015. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2015, and directed our efforts to the extent practical to those areas not covered by the firm's audit.

HISTORY

General:

In 1959, the Army Distaff Foundation was founded to provide impoverished widows of Army Officers with affordable housing. In 1962, eligibility for housing and services was extended to other female relatives of retired Army officers. In 1989, the residential campus was named Knollwood, and eligibility was further extended to retired military officers of all services and to their female relatives. In 2013, eligibility and admissions expanded to include the male relatives of retired officers. The Facility is exempt from federal income taxes under 501(c) (3) of the Internal Revenue Code.

Description of Facility and Services:

The Facility owns and manages Knollwood, a fee for service Continuing Care Retirement Community of 164 independent living apartments, 42 assisted living apartments and 73 licensed nursing home beds in facilities on 16 acres in Northwest Washington, D.C. Currently, approximately 300 residents reside in the community. The Facility/Knollwood community provides retirement housing and health care services to retired career officers of all uniformed services and their female relatives. The Facility provides services for independent living, assisted living, skilled nursing care and memory care.

Independent living residents are approximately 200 residents who live in apartments and are provided with home maintenance, cleaning, meal preparation.

The assisted living service is comprised of 42 apartments for residents who need assistance with activities of daily living such as; bathing, dressing, and medication management. Licensed nursing professionals are used to help residents maintain their independence.

Skilled nursing care provides 24-hour care for individuals in need of long-term care, rehabilitation and skilled nursing. The center caters to residents who need full care, but may not require cognitive therapies offered at the Special care center.

The Special Care Center at Knollwood provides for the physical, emotional, and social needs of persons suffering from Alzheimer's and other forms of memory impairment.

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Management:

The Management Agreement was entered into as of the October 1, 2014, by and between The Facility and The Wood Company, a Pennsylvania corporation and wholly-owned indirect subsidiary of Sodexo Operations, LLC (hereafter “Sodexo”).

This agreement sets forth the terms and conditions upon which the Facility provides Sodexo the exclusive right to manage and operate the services for Facility residents, employees, visitors and guest at the premises. The term of this agreement is ten (10) years (“Initial Term”). Commencing on October 1, 2014 and continuing through September 30, 2024.

The Bylaws of the Facility provide that the responsibility for the control and management of the affairs, property and interest of the Facility is vested in the Board of Directors (BOD). The Bylaws state that the Facility shall be managed by a BOD composed of up to twenty-five (25) persons, of whom at least 30% shall be women. No person who is or who becomes a permanent resident of Knollwood shall be eligible to serve as a director; provided further that the duly elected President of the Knollwood Residents’ Association shall be a full and regular member of the BOD. Each director shall hold office for three year terms for which he/she is elected or until his/her successor is elected and qualified unless a special exception to this time frame has been made by the Chairman and approved by the BOD. Directors having served two consecutive three year terms must have at least a one-year leave from the Board before being eligible to be elected to another three year term, unless a special exception to this time frame has been made by the Chairman and approved by the BOD. To maintain continuity, the goal is to elect one third of the BOD each year of election. Board members may be removed by the affirmative vote of at least two-thirds of all Directors.

In accordance with D.C. Code §29-406.08 (c) directors may be removed in the following situations:

- The directors has been declared of unsound mind by a final order of court;
- The director has been convicted of felony;
- The director has been found by a final order of the court to have breached a duty as director under the D.C. Code;
- The director has missed the number of board meetings specified in the Articles or Bylaws, if the Articles of Incorporation or Bylaws specified at the beginning of the director’s term that a director may be removed for missing the specified number of meetings.
- The director does not satisfy any of the qualifications for directors set in the Articles of Incorporation or beginning of the director’s current term. The decision that the director fails to satisfy a qualification must be made by vote of a majority of directors who meet all the required qualifications.

According to the Bylaws, at any meeting of the BOD, ten percent (10%) of the total number of members present in person or by proxy shall constitute a quorum. If less than a quorum is present at any meeting, a majority of those present may adjourn and reschedule the meeting from time to time without further notice; provided that the Secretary shall notify any absent members of the time and place of such adjourned and rescheduled meeting.

The minutes of all meetings held during the period under statutory examination indicated that a quorum was obtained to all meetings of the BOD during the period under examination.

The Army Distaff Foundation, Inc.

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Board of Directors:

Directors duly elected and serving as of December 31, 2015 were as follows:

John (Jack) M. Keane, Chairman
Washington, DC

Donna F. Barbisch Vice Chairman, Trusteeship & Governance
Washington, DC

William Roberti, Vice Chairman Finance
New York, NY

John J. Lombardi, Secretary
Warrenton, VA

Stephen T. Rippe, President and CEO
Washington, DC

Barbara D'Agostino, Vice President and COO & Asst. Secretary (Non-voting)
Gaithersburg, MD

Enrico Santos, Treasurer (Non-voting)
Leesburg, VA

Howard Bushman, Esq., General Counsel

Mary Popper, President, Knollwood Residents' Association
Washington, DC

Steward J. Brown
Alexandria, VA

Judy Caldwell
Springfield, VA

Joseph DeFrancisco
Rockville, MD

Thomas Fitzpatrick
Arlington, VA

Trish Hughes
Montgomery Village, MD

John (Jack) Kelly
Washington, DC

Anne Lennox
Alexandria, VA

Susan Morrison
Richmond, VA

Frederick E. Parker
Centreville, VA

Amy Roberti
Washington, DC

The Army Distaff Foundation, Inc.

Report on Examination

December 31, 2015

Amy Roberti
Washington, DC

Guy C. Swan, III
Arlington, VA

John Ward
Washington, DC

The composition of the Board of Directors at December 31, 2015 was in compliance with the By-laws of the association.

Officers: (Key Personnel)

The following were Officers of the Facility and serving as of December 31, 2015:

Stephen T. Rippe	President/Chief Executive Officer
Barbara D'Agostino	Chief Operating Officer
Debra K. Schrag	Director of Marketing and Admissions
Jim Branham	Hall and Facilities Administrator
Gerri Flowers	Assisted Living Administrator
Felicia Anthony	Health Services Administrator

Committees:

The following are the committees of the Board of Directors at December 31, 2015:

Finance Committee
Compensation and Benefits Sub Committee
Audit Committee
Trusteeship & Governance Committee
Strategic Planning Committee
Fund Development Committee
Admissions Committee
House Operational Committees - There were five Operational Committees at December 31, 2015, namely: House, Buildings and Grounds, Fine Arts, Dining Services and Health Services.

Corporate Records:

We reviewed the minutes of the meetings of the Board of Director for the period under examination. Based on our review, it appeared that the minutes documented the Facility's significant transactions and events, and the directors approved those transaction.

ANNUAL DISCLOSURE STATEMENT

D.C. Code § 44-151.07(a) requires "Within 150 days following the end of each year fiscal year, the provider shall file with the Commissioner a revised disclosure statement setting forth current information required." A review of the 2015 Disclosure Statement found that the Facility was in compliance with this section of the Code.

CONTRACT FOR CONTINUING CARE; SPECIFICS (RESIDENCY AGREEMENT)

The residency agreement was reviewed for compliance with D.C. Code § 44-151.06 which requires the residency agreement contain certain information and requires that the Facility distribute copies of the agreement to residents. The agreement was found to be in compliance with the Code.

OPERATING RESERVES

D.C. Code § 44-151.08(a) requires that “All continuing care facilities shall maintain after opening, operating reserves equal to 20% of the total operating costs projected for the 12-month period following the period covered by the most recent annual disclosure statement filed.” D.C. Code § 44-151.08(d) further stipulates that “The notes to the annual audited financial statements shall state whether or not the reserve requirements have been met.” The Facility was not in compliance with either section of the Code as of December 31, 2015. For further discussion see the “Comments and Recommendations” section of this Report under the caption “Annual Operating Reserves.”

ESCROW, COLLECTION OF DEPOSITS

D.C. Code §44-151.09(a) requires that “all continuing care facilities both prior to and after opening shall maintain escrow accounts for the total amount of any entrance fee, or any other fee or deposit that may be applied toward the entrance fee in the following instances:

1. The amounts received if an applicant for residence in a continuing care facility or their guardian provide a deposit with their application prior to the applicant taking up residence in the continuing care facility;
2. If an applicant for residence in a continuing care facility or their guardian provide a deposit with their application prior to the construction or occupancy of the facility; and
3. If a revocation order for the provider’s license as a continuing care facility is under appeal.”

A review was performed of the Facility’s escrow and collection of deposits practices. For further discussion see the “Comments and Recommendations” section of this Report under the caption “Escrow, Collection of Deposits”.

DEFINED CONTRIBUTION RETIREMENT PLAN

The Foundation provides a retirement annuity plan for all employees who meet minimum service and age requirements. The plan provides the employee the opportunity to open a retirement account with annual employer contributions equal to 5% of the employee’s annual earnings, less overtime payments. Employees are immediately fully vested. Employees have the option to make additional contributions to the plan by payroll deduction.

The Pension expense related to the plan was \$333,905 at the year-end December 31, 2015.

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ACCOUNTS AND RECORDS

The Facility's general accounting records consisted of an automated general ledger and subsidiary ledgers designed for the Health Care Industry. Our review did not disclose any significant deficiencies in these records.

FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Facility as of December 31, 2015, as determined by this examination:

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The accompanying "Notes to Financial Statements" are an integral part of these financial statements.

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BALANCE SHEET
ASSETS

	Amounts per Annual Statement	Examination Adjustments	Amounts per Examination
ASSETS			
Cash and cash Equivalents	\$ 5,318,120	\$ 0	\$ 5,318,120
Accounts Receivable - net	1,448,609		1,448,609
Accrued interest receivable	6,311		6,311
Current portion of pledge receivable	284,581		284,581
Prepaid Expense and other current assets	<u>105,280</u>		<u>105,280</u>
Total Current Assets	7,162,901	0	7,162,901
PROPERTY AND EQUIPMENT - NET			
	<u>33,606,661</u>		<u>33,606,661</u>
OTHER ASSETS			
Pledge receivable, net of current portion	486,352		486,352
Investments	10,786,473		10,786,473
Deferred financing costs – net	367,838		387,838
Deposits	<u>53,000</u>		<u>53,000</u>
Total Other Assets	11,693,663		11,693,663
Total Assets	<u>\$ 52,463,225</u>	0	<u>\$ 52,463,225</u>

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Balance Sheet
Liabilities and Net Assets

	Amounts per		Amounts per
	Annual	Examination	Examination
CURRENT LIABILITIES	Statement	Adjustments	Examination
Accounts payable	\$ 1,066,258	\$ 0	\$ 1,066,258
Accrued Expenses	973,578		973,578
Current portion of annuities payable	52,590		52,590
Current portions of bonds payable	780,154		780,154
Current portion of loan payable	120,000		120,000
Unearned contract fees	1,098,720		1,098,720
	4,091,300	0	4,091,300
Total Current Liabilities			
LONG –TERM LIABILITIES			
Obligation to provide future services (NOTE 1)	0		0
Annuities payable, net of current portion	170,707		170,707
Bonds payable, net of current (NOTE 2)	18,530,003		18,530,003
Refundable admission fees (NOTE 3)	11,564,835		11,564,835
Deferred admission fees – net (NOTE 4)	6,222,422		6,222,422
Application fees	1,049,058		1,049,058
Loan payable, net of current portion	2,670,000		2,670,000
Derivative financial instruments	4,099,248		4,099,248
	44,306,273		44,306,273
Total Long –Term Liabilities			
TOTAL LIABILITIES	\$ 48,397,573	0	\$ 48,397,573
NET ASSETS			
Unrestricted:			
Undesignated	1,734,337		1,734,337
Board Designated Funds	1,411,204	0	1,411,204
Net Assets	3,145,541		3,145,541
Temporarily restricted	920,111		920,111
TOTAL NET ASSETS	4,065,652		4,065,652
TOTAL LIABILITIES AND NET ASSETS	\$ 52,463,225		\$ 52,463,225

The Army Distaff Foundation, Inc.

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Statement of Activities and Changes in Net Assets

Revenue and Gains	Unrestricted	Temporarily Restricted	Total
Revenue from admission fees	\$ 2,241,298	\$	\$ 2,241,298
Independent living housing and services	6,809,057		6,809,057
Assisted living housing and services	3,129,444		3,129,444
Health services	7,263,181		7,263,181
Contributions and fundraising	1,398,798	39,700	1,438,498
Investment return, net of investment expense	148,373		148,373
Miscellaneous revenue	130,535		130,535
Net assets released from restrictions	340,317	(340,317)	0
Total Revenues and Gains	<u>21,461,003</u>	<u>(300,617)</u>	<u>21,160,386</u>
Expenses and losses			
Payroll and related expenses	9,573,509		9,573,509
Employee benefits	1,211,877		1,211,877
Operations	2,113,606		2,113,606
Utilities	1,107,014		1,107,014
Contract services	4,611,157		4,611,157
Repairs and maintenance	788,416		788,416
Insurance	504,957		504,957
Nursing provider tax	384,209		384,209
Investment losses, net	763,610		763,610
Interest	1,059,310		1,059,310
Depreciation and amortization	3,260,731		3,260,731
Total Expenses and losses	<u>25,378,396</u>		<u>25,378,396</u>
CHANGE IN NET ASSETS	(3,917,393)	(300,617)	(4,218,010)
Net Assets, Beginning of year	7,062,934	1,220,728	8,283,662
Net Assets, End of Year	\$ <u>3,145,541</u>	\$ <u>920,111</u>	\$ <u>4,065,552</u>

The Army Distaff Foundation, Inc.

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NET ASSETS ACCOUNT

Unrestricted Net Assets as of December 31, 2011	\$	3,768,381
Change in Net Asset, 2012		696,738
Unrestricted Net Assets as of December 2012		4,465,119
Change in Net Assets, 2013		3,063,707
Unrestricted Net Assets as of December 2013		7,528,826
Change in Net Assets, 2014		(3,058,312)
Unrestricted Net Assets as of December 2014		4,470,514
Board Designated Funds		2,592,716 ¹
Change in Net Assets, 2015		(3,917,393)
Unreconciled Difference		(296)
Unrestricted Net Assets as of December 31, 2015		3,145,541

¹ For the 2014 reporting year the Facility retroactively reclassified certain temporarily restricted funds to a newly created Board Designated Assets account which are unrestricted but designated for specific purposes.

The Army Distaff Foundation, Inc.

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ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

Net Asset as relates to the Financial Statement of the Facility at December 31, 2015	\$ 3,145,541
Examination Adjustments	<u> \$ 0</u>
Asset as of December 31, 2015	<u>\$ 3,145,541</u>

The Army Distaff Foundation, Inc.

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COMPERATIVE FINANCIAL POSITION OF THE FACILITY

The comparative financial position of The Facility for the five-year period ended December 31, 2015, is as follows:

	2011	2012	2013	2014	2015
Assets	\$ 59,362,180	\$ 58,432,242	\$ 57,332,563	\$ 58,820,739	\$ 52,463,225
Liabilities	51,153,792	50,795,468	46,710,101	50,537,077	48,397,573
Unrestricted Assets	3,768,381	4,465,119	7,528,826	4,470,514	3,145,541
Total Revenues	18,754,923	21,745,399	25,010,481	21,463,143	21,461,003
Net Gain/(loss)	(4,198,935)	696,738	3,063,707	(3,058,312)	(3,917,393)

The Army Distaff Foundation, Inc.
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NOTES TO FINANCIAL STATEMENTS

Note 1. Obligation to Provide Future Services.

A continuing care retirement facility expects to provide services and the use of facilities to individuals over their remaining lives under continuing-care contract agreements. If the advance fees and periodic fees charged are insufficient to meet the costs of providing future services and the use of facilities, the continuing care retirement facility should record a liability based on actuarial assumptions (such as mortality and morbidity rates), on estimates of future costs and revenues, and on the specific facility's historical experience and statistical data. The liability related to continuing-care contracts should be the present value of future net cash flows, minus the balance of unamortized deferred revenue, plus depreciation of facilities to be charged related to the contract, plus unamortized costs of acquiring the related initial continuing-care contracts, if applicable. There was no actuarial estimate at December 31, 2015 of the Facility's obligation to provide future services to current residents.

Note 2. Bonds Payable, Net of Current Portion

The Facility obtained tax-exempt bond financing of \$24,655,000 through the District of Columbia. Under the terms of the agreement, the District of Columbia issued Health Facility Refunding Revenue Bonds Series 2006 and loaned the proceeds from the bond issuance to the Facility in exchange for a promissory note. The loan proceeds were to be used to refinance existing debt and to finance and reimburse costs of a project to construct a special care unit on the property of the Facility. The bonds are secured by a security interest in the revenues, receipts, and real and personal property owned or to be owned by the Facility. Under the terms of the loan agreement, the Facility is required to make monthly payments of principal and interest at a variable rate of 75% of LIBOR plus 1.4% (1.58% at December 31, 2015) through maturity on January 1, 2036. The Facility is required to satisfy certain measures of financial performance and comply with specific covenants as outlined in the loan agreement. The assets that are covered in the bond covenant includes escrow funds (see Comment titled Escrow, Collections of Deposits).

Note 3. Refundable Admission Fees.

Application fees are required to be paid by potential residents prior to residency. These fees are refundable up until the time of residency at which time they are recognized as revenue. An Application fee is required at the time of the contract signing. This fee is refundable until the applicant has resided in the facility for a period of six months, at which time it is recognized as revenue. The portion of these fees that has not yet been recognized as revenue is included in this Report's balance sheet as application fees.

The Facility charges various levels of admission fees. These admission fees are paid up front and are refundable on a graduated percentage up to 50 months of residency. There are also 45% and 90% refund options for applicants who elect to increase the standard fees by 50% and 100%, respectively.

The Army Distaff Foundation, Inc.
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Note 4. Deferred Admission Fees – net.

Admission fees are placed in the escrow fund until the applicant has resided in the facility for a period of six months. At that time, the fees are transferred to the deferred admission fund and revenue is recognized as the total deferred admission amount is amortized over future periods based on the estimated stay by the residents. The portion of admission fees that are non-refundable but not yet recognized as revenue are recorded in the balance sheet as deferred admission fees.

Note 5. Other Commitments

On January 1, 2012, the Facility signed a construction contract for the renovation of its skilled care facilities with the terms of the contract stating that construction was to be substantially completed no later than April 2013 and the cost of the construction not to exceed \$3,129,479.

On January 24, 2013, the Facility signed a contract for the installation of fire protection systems for its skilled care and assisted living facilities. The cost of the installation was not to exceed \$4,113,300.

COMMENTS AND RECOMMENDATIONS

Annual Operating Reserve:

Pursuant to D.C. Code § 44-151.08(a), continuing care facilities must maintain operating reserves of a minimum of 20% of projected operating costs less depreciation and amortization plus debt service. The operating reserves must be funded by cash, commercial paper or by investment grade securities. D.C. Code § 44-141.08(d) requires that the Facility's audited financial statements shall state whether or not the reserve requirement has been met. The Facility did not account for, and the audited financial statements do not contain the required Operating Reserve disclosure for audit years of 2015 and prior.

Going forward, the Facility must maintain an operating reserve for continuing care residents and must ensure that the appropriate audited financial statements disclosures have been met. Further, the Facility shall provide documentation to the Department within 30 days of the adoption of this report that corrective measures have been taken to properly account for, and disclose, the Operating Reserve.

Escrow, Collection of Deposits

Pursuant to D.C. Code § 44-151.09(a), all continuing care facilities both prior to and after opening shall maintain escrow accounts for the total amount of any entrance fee, or any other fee or deposit that may be applied toward the entrance fee. It was noted that as part of the bond covenants described in Note 2 of this Report, the escrow funds are being used as security for the bond, along with other property, under the terms of the loan agreement.

It is recommended that the Facility segregate escrow funds from assets included as security for the revenue bond as the escrow funds are to be safeguarded for individual residents. Within 30 days of the adoption date of this report, the Facility shall submit a corrective plan to the Department that segregates the escrow funds from the assets securing the bond.

The Army Distaff Foundation, Inc.
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CONCLUSION

Our examination disclosed that as of December 31, 2015, the Facility had:

Total Assets	<u>\$ 52,463,226</u>
Total Liabilities	<u>48,397,573</u>
NET ASSETS	
Unrestricted:	
Undesignated	1,734,337
Board designated Funds	<u>1,411,204</u>
	3,145,541
Temporarily restricted	<u>920,111</u>
TOTAL NET ASSETS	<u>4,065,652</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 52,463,225</u></u>

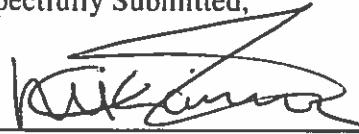
Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Facility as of December 31, 2015, and the accompanying statement of income properly presents, in material aspects, the statutory results of operations for the period then ended.

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SIGNATURES

In addition to the undersigned, Frank Ryan, CFE, CPA, participated in this examination.

Respectfully Submitted,



Chidinma N. Ukairo
Examiner-In-Charge



Nathaniel Kevin Brown, CPA, CFE
Chief Examiner

District of Columbia Department of
Insurance, Securities and Banking