

REPORT OF EXAMINATION

OF

**CARING HEART REHABILITATION AND NURSING CENTER, INC.
PHILADELPHIA, PENNSYLVANIA**

AS OF

JUNE 30, 2014

For Informational Purposes Only

CARING HEART REHABILITATION AND NURSING CENTER, INC.

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For Informational Purposes Only

Harrisburg, Pennsylvania
October 26, 2015

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 14-264320480-CP dated August 13, 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

CARING HEART REHABILITATION AND NURSING CENTER, INC.

a continuing care retirement community ("CCRC") hereafter referred to as the "Provider." This examination was conducted off-site at the Norristown State Hospital at 1001 Sterigere Street, Norristown, Pennsylvania 19401.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

This is the first examination of the Provider. This examination covered the period from May 21, 2010 through June 30, 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 § 151 ("the Regulations").

For the years ending June 30, 2010 through June 30, 2014, the certified public accounting ("CPA") firm of Mayer Hoffman McCann, P.C. issued unqualified audit opinions on the financial statements of the Provider.

HISTORY

On January 23, 2009, the Provider was incorporated in the state of Pennsylvania.

On May 21, 2010, the Provider received its Certificate of Authority to operate as a continuing care provider.

On June 1, 2009, the Provider entered into a lease agreement with the 6445 Germantown Ave, LLC to lease its current facility.

On December 31, 2012, the Provider completed the purchase of the 6445 Germantown Ave property.

On July 1, 2014, the Provider entered into two one-year lease agreements with Penn Wynn, Inc. to lease two apartments for continuing care residents.

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

DESCRIPTION OF FACILITY

The Provider's facility is situated on 1.4 acres of land in an urban setting at 6445 Germantown Avenue, Philadelphia, Pennsylvania. The skilled nursing facility is a five-story brick structure. The skilled nursing facility consists of 249 licensed skilled nursing beds.

The Provider's continuing care operation is conducted at a separate unaffiliated facility. The Provider has entered into lease agreements with the Penn Wynn, Inc. to lease two apartments. The Penn Wynn House is located in an urban setting at 2201 Bryn Mawr Avenue in Philadelphia, Pennsylvania.

FEES AND SERVICES

As of June 30, 2014, the entrance fee for a one-bedroom apartment is \$13,500. There is no additional entrance fee for a second occupant. The monthly service fee as of June 30, 2014 is \$650 for an individual. There is an additional monthly service fee of \$50 for a second occupant. The Penn Wynn House provides some basic services for living in an apartment complex, which include lawn care, snow removal, basic cable service, heat, etc.

REFUND POLICY

The following describes the Provider's refund policy which complies with the Act.

Refund during the Rescission Period

The resident may terminate the agreement within seven days of its execution (rescission period) and receive a full refund of the entrance fee paid, without interest, less any expense

incurred by the Provider at the resident's specific request for custom improvements to a residence as stated as an addendum to the agreement and the cost of removing the same, if needed.

Refund after Rescission Period But Prior to Occupancy

After the rescission period, an applicant will receive a 100% refund if he/she is precluded (i.e., sickness, etc.) from occupying a unit. If an applicant is not precluded from occupying a unit due to illness, incapacity, etc., the entrance fee will be refunded less four percent within sixty days.

Refund after Occupancy

The entrance fee will be amortized at a rate of 20% per year. If the resident terminates the agreement for any reason other than the death of the resident during the five year amortization period, the unamortized portion of the entrance fee, less any amounts necessary to cover excessive wear and use, will be refunded to the resident, less any amounts deducted to cover expenses incurred by the Provider at the resident's specific written request.

Terms and Condition of Refunds

If the agreement is terminated before occupancy, the Provider will pay any refund within sixty days of termination. After occupancy, all applicable refunds will be made after the surrender of the residence and only after the unit has been re-occupied by another resident from whom the Provider has received a full entrance fee payment.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The Provider's business and affairs are managed by its Board of Directors which consisted of the following members as of June 30, 2014:

<u>Name and Address</u>	<u>Principal Occupation</u>
Rabbi Mordechai Suchard Morsey, NY	President Gateways Org
Arnold Heinemann Morsey, NY	General Contractor Self Employed
Jonathan E. Gross, Esquire Highland Park, NJ	Assistant General Counsel The Trump Corporation

OFFICERS

The following officers were serving as of June 30, 2014:

<u>Name</u>	<u>Title</u>
Rabbi Mordechai Suchard	President
Arnold Heinemann	V.P., Secretary, and Treasurer

CORPORATE RECORDS

ARTICLES OF INCORPORATION

There were no changes to the Provider's Articles of Incorporation during the period of examination.

BY-LAWS

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

ANNUAL DISCLOSURE STATEMENT

The Provider's 2014 annual disclosure statement was reviewed for compliance with the Act, 40 P.S. § 3207 and the Regulations, 31 Pa. Code § 151.7 and § 151.9. The 2014 disclosure statement was found to contain all information required by the Act and the Regulations.

RESIDENT AGREEMENT

The Provider's 2014 resident agreement was reviewed for compliance with the Act, 40 P.S. § 3214 and the Regulations, 31 Pa. Code § 151.8 and § 151.9. The 2014 resident agreement was found to contain all information required by the Act and the Regulations.

PENDING LITIGATION

The examiner was not made aware of any 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 the examination report.

FINANCIAL STATEMENTS

The examiner was presented with the combined audited financial statements of the Provider. Accordingly, the combined financial statements of the Provider as of June 30, 2014, and the results of its operations for the last two years are presented in the following statements:

Comparative Balance Sheets
Comparative Statement of Operations
Statement of Changes in Net Assets
Comparative Statement of Cash Flows

There were no changes made to the financial statements as a result of this examination.

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

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 256,680	\$ 396,398
Restricted cash - resident funds	157,905	180,085
Restricted cash - statutory liquid reserve	7,915	9,438
Accounts receivable, net	4,514,815	5,079,142
Estimated third-party payor settlements	433,363	581,630
Prepaid expenses and other current assets	665,168	586,841
Total Current Assets	<u>6,035,846</u>	<u>6,833,534</u>
 PROPERTY AND EQUIPMENT, NET	 29,818,671	 31,117,918
Other Assets		
Deferred financing fees, net	85,588	4,000
Other Assets	7,128,830	7,128,830
Total Other Assets	<u>7,214,418</u>	<u>7,132,830</u>
 Total Assets	 <u>43,068,935</u>	 <u>45,084,282</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of Long-term Debt	\$ 512,082	\$ 191,263
Accounts Payable	2,615,389	3,126,651
Resident escrow fund liability	157,905	180,085
Accrued expenses and other current liabilities	1,501,359	1,277,969
Total Current Liabilities	<u>4,786,735</u>	<u>4,775,968</u>
 LONG-TERM LIABILITIES	 33,955,656	 34,467,055
 NET ASSETS	 <u>4,326,544</u>	 <u>5,841,259</u>
Total Liabilities and Net Assets	<u>\$ 43,068,935</u>	<u>\$ 45,084,282</u>

**Statements of Operations
for the Years Ended June 30,**

REVENUES

Net resident service revenues	\$32,983,094	\$39,049,030
Other Operating Revenues	<u>4,021</u>	<u>21,885</u>
Total Operating Revenues	32,987,115	39,070,915

EXPENSES

Reisent care services	13,600,597	15,599,147
Ancillary services	4,742,362	6,172,158
Food services	2,146,375	2,307,560
General services	3,706,210	4,099,056
Administrative services	3,677,789	4,048,360
Lease Expenses	645,208	3,093,680
Property taxes	423,979	691,702
Interest Expense	3,043,364	1,530,421
Depreciation and Amortization	1,253,761	758,386
Bad debt expense	<u>558,920</u>	<u>389,169</u>
Total Expenses	33,798,565	38,689,639

Excess (deficiency) of revenues over expenses and increase (decrease) in net assets	(811,450)	381,276
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Net Assets, Beginning of the Year	5,841,259	5,459,983
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Transfer of Equity	<u>(703,265)</u>	<u>0</u>
Net Assets, End of Year	<u>\$ 4,326,544</u>	<u>\$ 5,841,259</u>

**Statements of Cash Flows
for the Years Ended June 30,**

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in Net Assets	\$ (811,450)	\$ 381,276
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,253,761	758,386
Changes in allowance for doubtful accounts	119,765	(269,129)
Decrease (increase) in operating assets:		
Restricted Cash - resident funds	(50,131)	(14,940)
Restricted Cash - statutory liquid reserve	1,523	887
Accounts receivable	444,562	(611,075)
Estimated third-party payor settlements	148,267	(119,522)
Prepaid expenses and other recurrent assets	(78,330)	317,700
Increase (decrease) in operating liabilities:		
Accounts payable	(511,262)	479,361
Resident escrow fund liability	50,131	25,939
Accrued expenses and other current liabilities	486,459	(112,039)
Net Cash Provided by Operating Activities	<u>1,053,295</u>	<u>836,844</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property and Equipment	(920,845)	(1,594,606)
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CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of note payable	(190,580)	(91,682)
Payment of deferred financing fees	<u>(81,588)</u>	<u>(4,000)</u>
Net Cash Used by Financing Activities	(272,168)	(95,682)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(139,718)	(853,444)
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Cash and Cash Equivalents - Beginning of Year	<u>396,398</u>	<u>1,249,842</u>
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CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 256,680</u>	<u>\$ 396,398</u>
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NOTES TO THE FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE

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.

The minimum reserve was not calculated as the Provider did not have any residents with continuing care agreements in force at June 30, 2014.

ESCROW REQUIREMENTS

The Provider does not accept entrance fee payments from CCRC residents prior to the resident's right take occupancy; and therefore, maintains no escrow account. Should the Provider begin to accept entrance fee deposits from CCRC residents prior to the resident's 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 examiners were not made aware of any events subsequent to the examination field work, which could have a significant adverse effect on the Provider's financial position as of the date of this examination report.

RECOMMENDATIONS

This is the first examination of this Provider, so there were no prior examination recommendations. There are no recommendations being made as a result of this examination.

CONCLUSION

As a result of our examination, we conclude that Caring Heart Rehabilitation and Nursing Center, Inc. is in compliance with all applicable Pennsylvania laws and regulations as they pertain to continuing care retirement communities as of June 30, 2014.

This examination was conducted by Bernard Mingo.

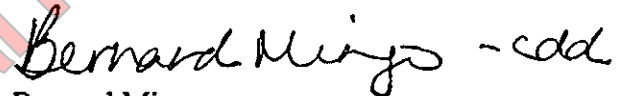
Respectfully submitted,



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