

Examination Warrant Number 16-453731358-CP-1

**Report of Examination of  
Centennial Healthcare, LLC d/b/a Centennial Healthcare and  
Rehabilitation Center  
Philadelphia, Pennsylvania**

**As of December 31, 2016**

For Informational Purposes Only

**Centennial Healthcare, LLC d/b/a Centennial Healthcare and Rehabilitation Center**

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For Informational Purposes Only

Harrisburg, Pennsylvania  
May 2, 2019

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

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 16-453731358-CP-1, dated November 15, 2018, 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 made of

**Centennial Healthcare, LLC d/b/a Centennial Healthcare and Rehabilitation Center**

a Pennsylvania domiciled continuing-care retirement community ("CCRC"), hereinafter referred to as the "Provider." The examination was conducted at the Provider's administrative office, located at 4400 West Girard Avenue, Philadelphia, Pennsylvania 19104.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Pennsylvania Insurance Department ("Department") has performed an examination of the Provider. This examination covered the period from September 20, 2012 through December 31, 2016.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department.

The format of this report is consistent with the current practices of the Department and is limited to a description of the Provider, a discussion of key financial items that are specific regulatory concern, and a disclosure of other significant regulatory information.

The objective of this examination was to determine the extent of the Provider's compliance with the Act and 31 Pa. Code § 151 ("the Regulations").

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

The CPA engagement agreement between the Provider and the CPA firm contains an indemnification clause, which is in violation of 31 Pa. Code § 147.6(b)(4).

*It is recommended that the engagement agreement between the Provider and the CPA firm not contain an indemnification clause pursuant to the requirements of 31 Pa. Code § 147.6(b)(4).*

## HISTORY

The Provider was organized as a limited liability company in the Commonwealth Pennsylvania on October 31, 2011 and is doing business under the fictitious name of Centennial Healthcare and Rehabilitation Center. The Provider commenced operations of a 180-bed nursing facility in Philadelphia, Pennsylvania on January 1, 2012, and was authorized to operate as a CCRC effective September 20, 2012. The Provider admitted their first CCRC resident in 2013 and currently has one CCRC resident.

## DESCRIPTION OF FACILITY

The Provider's facility consists of a four-story masonry building, of approximately 70,000 square feet, on a city lot in the urban setting of Philadelphia. The combined independent living and personal care facility is an 89-unit facility in a three-story building in the urban setting of Philadelphia. Of the 89 units, 44 units are for lease as part of Provider's continuing care campus. The other 45 units are for the Provider's sister facility, Oakwood Residence, LLC.

## FEES AND SERVICES

As of December 31, 2016, the Entrance Fee is \$12,600 for either the single or double occupancy units. The Monthly Maintenance Fee was \$1,000 for single occupancy and \$1,050 for double occupancy.

There is a \$250 daily room and board rate for the skilled nursing facility at the health center. The personal care fees are as follows:

Type of Accommodation	Rate per Month
Private Room	\$ 3,200
Semi Private Shared 2 Bed	\$ 2,100
Semi Private Shared 3 Bed	\$ 1,700

## REFUND POLICY

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

### Termination before Occupancy

The resident may terminate the agreement at any time before occupancy without penalty. If the termination occurs within seven days after execution of the agreement, the agreement may

be terminated by signing the Notice of Right to Rescind. All applicable refunds will be made after termination and within sixty days of Resident's request.

### **Termination after Occupancy**

The Entrance Fee is amortized and accrued to the benefit of the Community at the rate of 20% per year for five years from the designated occupancy date or date of occupancy. In the event of termination for any reason except death during the five year period, any unamortized amounts pro-rated on a monthly basis, less amounts deducted to cover costs incurred to refurbish, restore, or repair the unit in the event of unreasonable wear and tear, or to cover costs incurred at the specific request of the resident, or to satisfy unpaid charges, shall be refunded. All applicable refunds will be made once the agreement is terminated and the living unit has been vacated and reoccupied by another resident and the entrance fee for the reoccupied living unit has been paid in full. As long as resident or co-resident continues to occupy any living accommodation within the Community no refund shall be due, and no refund shall be paid until the death, permanent transfer outside of the Community, discharge or voluntary departure outside the Community.

*It is recommended that the Provider amend the refund provision to include of the entrance fee to include an established period of time to provide the resident a refund or if the unit is reoccupied by another resident and the entrance fee has been paid in full, whichever occurs first.*

### **Refund upon Death**

In the case of single occupancy, refunds to resident's estate shall be paid to the appointed representative of the estate after proof of such appointment is provided to the Provider. In situations of double occupancy, any applicable refund shall be paid by the Provider to the estate of the last surviving Co-Resident unless otherwise agreed in writing.

## **MANAGEMENT AND CONTROL**

### **BOARD OF DIRECTORS/OFFICERS**

The Provider is a closely held limited liability corporation consisting of Colev J. Gestetner with a 97% ownership interest with the remaining 3% owned by Charles S. Gestetner.

Colev J. Gestetner serves as the managing member and acts as the Chief Executive Officer. The skilled nursing facility is operated by Greg Monroe as the Administrator with Dr. John Michele as the Medical Director. The Administrator of the personal care home is Nochum Feder and the Medical Director is Dr. Brian Kimmel.

All individuals listed have a business address of 2109 Red Lion Road, Philadelphia, Pennsylvania, 19115.

## CORPORATE RECORDS

### CERTIFICATE OF ORGANIZATION

No amendments were made to the Provider's Certificate of Organization during the period of examination.

### BY-LAWS

Limited liability companies are not required to establish by-laws with the Commonwealth.

### ANNUAL DISCLOSURE STATEMENT

The Provider's 2016 Annual Disclosure Statement was reviewed for compliance with the Act and Regulations, specifically § 151.7 and § 151.9. The Examiner found that the 2016 Annual Disclosure Statement was in compliance with all information required by the Act and the Regulations. However, the Provider did not timely file the audited financial statements in compliance with 40 P.S. § 3207(13)(b).

*It is recommended that the Provider shall file with the commissioner the audited financial statements within four months following the end of the Provider's fiscal year, in compliance with 40 P.S. § 3207(13)(b).*

### RESIDENT AGREEMENT

The Provider's 2016 Resident Agreement was reviewed for compliance with the Act, 40 P.S. § 3214, and the Regulations, specifically § 151.8 and § 151.9. The 2016 Resident Agreement was in compliance with all information required by the Act and the Regulations.

### 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, 2016, 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 Earnings and Members' Equity; and  
Comparative Statement of Cash Flow

The financial information presented in the following financial statements was presented in the audited financial statements as of December 31, 2016.

Centennial Healthcare, LLC d/b/a Centennial Healthcare and Rehabilitation Center

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**Comparative Balance Sheet  
For the Year Ended December 31,**

Assets	<u>2016</u>	<u>2015</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 575,388	\$ 8,565
Cash - restricted (patient funds)	172,475	575,524
Cash - limited use - CCRC Statutory Liquid	9,822	9,505
Accounts receivable - less allowance of \$!	3,145,379	2,712,798
Escrow deposits	-	260,264
Due from related parties	1,299,690	484,825
Loan receivable	120,000	100,000
Prepaid expenses and other	282,776	215,734
<b>Total current assets</b>	<u>5,605,530</u>	<u>4,367,215</u>
Property and equipment - net	1,242,078	1,236,819
Intangible assets - net	1,800,000	240,039
Due from prior owner	-	623,504
Security deposit	-	196,654
<b>Total Assets</b>	<u>\$8,647,608</u>	<u>\$6,664,231</u>
<b>Liabilities and Members' Equity</b>		
<b>Current Liabilities</b>		
Line of credit	\$ 695,000	\$ 695,000
Accounts Payable	2,389,060	2,426,700
Accrued expenses	978,654	888,828
Accrued and withheld taxes	107,819	90,527
Due to member	147,041	147,041
Due to related parties	401,300	601,300
Deferred revenue	9,450	11,970
Loans payable	343,000	343,000
Income tax payable	35,023	-
Patients' funds and deposits payable	259,435	223,433
<b>Total current liabilities</b>	<u>5,365,782</u>	<u>5,427,799</u>
Loans payable	1,591,351	-
Deferred liability	114,952	101,775
<b>Total liabilities</b>	<u>7,072,085</u>	<u>5,529,574</u>
<b>Members' equity</b>	<u>1,575,523</u>	<u>1,134,657</u>
<b>Total Liabilities and Members' equity</b>	<u>\$8,647,608</u>	<u>\$6,664,231</u>

**Comparative Statement of Earnings and Members' Equity  
For the Year Ended December 31,**

	<u>2016</u>	<u>2015</u>
Revenues	\$ 18,150,402	\$ 16,825,756
Operating expenses	<u>17,236,141</u>	<u>16,555,254</u>
Earnings from operations	914,261	270,502
Non-operating revenue (expenses)		
Interest income	2,314	790
Interest expense	<u>(72,584)</u>	<u>(75,745)</u>
Earnings before provision for income taxes	843,991	195,547
Provision for income taxes	<u>(85,548)</u>	<u>(20,739)</u>
<b>Net Earnings</b>	<b>758,443</b>	<b>174,808</b>
Members' equity - beginning of year	<u>1,134,657</u>	<u>954,104</u>
	1,893,100	1,128,912
Members' equity contributed (distributed)	<u>(317,577)</u>	<u>5,745</u>
<b>Members' Equity - end of year</b>	<b><u>\$ 1,575,523</u></b>	<b><u>\$ 1,134,657</u></b>

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

<b>Cash flows from operating activities</b>	<b>2016</b>	<b>2015</b>
Net earnings	\$ 758,443	\$ 174,808
<b>Adjustments to reconcile net earnings to net cash provided by operating activities</b>		
Depreciation and amortization	795,334	914,265
Deferred revenue	(2,520)	5,470
Deferred liability	13,177	4,988
<b>(Increase)decrease in assets</b>		
Accounts receivable	(432,581)	(934,579)
Escrow deposits	260,264	(35,949)
Prepaid expenses	(67,042)	(39,727)
<b>Increase (decrease) in liabilities</b>		
Accounts payable	(37,639)	511,886
Accrued expenses and withheld taxes	107,114	(87,535)
Income taxes payable	35,023	-
Patients' funds and deposits payable	36,002	(42,774)
<b>Net cash provided by operating activities</b>	<u>1,465,575</u>	<u>470,853</u>
<b>Cash flows from investing activities</b>		
Purchase of equipment	(360,553)	(96,378)
Purchase of intangible assets	(2,000,000)	-
Increase (decrease) in security deposits	196,654	(5,728)
<b>Net cash used in investing activities</b>	<u>(2,163,899)</u>	<u>(102,106)</u>
<b>Cash flows from financing activities</b>		
Increase in line of credit	-	(205,000)
Loan receivable	(20,000)	(100,000)
Members' equity contributed (distributed)	(317,576)	5,746
Due from prior owner	623,505	18,872
Repayments of loans payable	-	(380,266)
Increase in loans payable	1,591,351	-
Loans to related parties	(1,014,865)	(277,000)
<b>Net cash used in financing activities</b>	<u>862,415</u>	<u>(937,648)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	164,091	(568,901)
Cash and cash equivalents - beginning of year	593,594	1,162,495
<b>Cash and cash equivalents - end of year</b>	<u>\$ 757,685</u>	<u>\$ 593,594</u>

## NOTES TO FINANCIAL STATEMENTS

### STATUTORY MINIMUM LIQUID RESERVE **\$9,822**

In accordance with 40 P.S. § 3209, the Provider must establish and maintain a statutory liquid reserve in an amount equal to or exceeding the greater of:

- (1) The total of all principal and interest payments due during the next 12 months on account of any mortgage loan or other long-term financing of the facility;  
or
- (2) Ten percent of the projected annual operating expenses of the facility exclusive of depreciation.

Of the above two requirements, the value of (1) is \$191 and the value of (2) is \$9,822. As of December 31, 2016, the Provider had established and reported a reserve of \$9,822 for this purpose. The Provider's current assets satisfy this requirement.

### ESCROW ACCOUNT REQUIREMENTS

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

### SUBSEQUENT EVENTS

The Examiner was not made aware of any events that could have a significant effect on the solvency of the Provider subsequent to the examination date.

## RECOMMENDATIONS

### PRIOR EXAMINATION

There are no prior exam recommendations, as this is the first examination of the Provider.

### CURRENT EXAMINATION

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

1. *It is recommended that the engagement agreement between the Provider and the CPA firm not contain an indemnification clause pursuant to the requirements of 31 Pa. Code § 147.6(b)(4).* (See “Scope of Examination”, page 1).
2. *It is recommended that the Provider amend the refund provision of the entrance fee to include an established period of time to provide the resident a refund or if the unit is reoccupied by another resident and the entrance fee has been paid in full, whichever occurs first.* (See “Refund Policy”, page 2).
3. *It is recommended that the Provider shall file with the commissioner the audited financial statements within four months following the end of the Provider's fiscal year, in compliance with 40 P.S. § 3207(13)(b).* (See “Annual Disclosure Statement”, page 4).

### CONCLUSION

The examination of Centennial Healthcare, LLC d/b/a Centennial Healthcare and Rehabilitation Center is in compliance with all applicable Pennsylvania laws and regulations as they pertain to CCRCs as of December 31, 2016, except as noted in the Recommendations section on page 9 of this report.

This examination was conducted by Jordan R. Fulton.

Respectfully,



Melissa L. Greiner  
Director  
Bureau of Financial Examinations



Robert A. Woronko, CPA, CFE, CISA  
Examination Manager



Jordan R. Fulton  
Examiner-in-Charge

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