

EXAMINATION WARRANT # 15-251838588-CP

REPORT OF EXAMINATION

OF THE

CHICORA MEDICAL CENTER, LP

CHICORA, PENNSYLVANIA

AS OF

JUNE 30, 2015

For Informational Purposes Only

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Harrisburg, Pennsylvania
March 3, 2016

Honorable Joseph DiMemmo, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In compliance with instructions contained in Examination Warrant 15-251838588-CP dated February 1, 2016, and in accordance with provisions of the Pennsylvania Continuing-Care Provider Registration and Disclosure Act, 40 P.S. § 3219 (“the Act”), an examination was conducted of the records and affairs of

CHICORA MEDICAL CENTER, LP

a continuing-care retirement community (“CCRC”) hereafter referred to as the “Provider.” This examination was conducted at the administrative office of the Provider located at 612 North Main Street, Butler, Pennsylvania 16001.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

This is the second examination of the Provider. This examination covered the period from July 1, 2010 through June 30, 2015 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, 2011 through June 30, 2014, the financial statements were audited by the certified public accounting (“CPA”) firm of Carbis Walker LLP, of New Castle, Pennsylvania. For the year ending June 30, 2015, the financial statements were audited by the CPA firm of Arnett Carbis Toothman LLP, formerly Carbis Walker LLP. For all years covered by the examination, the CPA firm rendered an unmodified opinion of the financial statements based on generally accepted accounting principles.

HISTORY

The Provider was formed as a limited partnership on May 28, 1999. The Provider operates a long-term care nursing facility in a suburban area of Butler County, Pennsylvania. On May 1, 2007, the Provider was issued a Certificate of Authority by the Department to operate as a CCRC. In September 2008, the first CCRC resident was admitted.

Chicora Medical Center, LP is an affiliate of the Sugar Creek Rest, Inc. d/b/a, Quality Life Services. Quality Life Services is a for-profit corporation. Quality Life Services provides administrative and fiscal services to all of its affiliates, including managing the Provider's total operations.

DESCRIPTION OF FACILITY

The Provider's facilities are located on approximately 17 acres in Chicora, Pennsylvania, in a suburban area of Butler County. The Provider's campus consists of a 26-bed assisted living unit, a 114-bed skilled nursing care unit, including a 19 bed Alzheimer Care Unit and a single level duplex.

The single level duplex provides two residential living units which serve as the independent living component of the Provider's CCRC. The duplex is located adjacent to the nursing and personal care facility.

Each living unit includes one bedroom, one full bathroom, a full kitchen, dining room, living room, and a one car garage.

FEES AND SERVICES

As of June 30, 2015, the entrance fee was \$25,000 for single or double occupancy for a living unit in the duplex.

In addition to the entrance fee, CCRC residents are charged a monthly maintenance fee of \$650 for single or double occupancy. Numerous services are offered by the Provider as part of the monthly fee.

Some of the services CCRC residents are entitled to include utilities, repair of equipment, building and grounds maintenance, administrative support services, real estate tax exemption, and recreational, educational and social services. Other services available at additional charges include meals in the Community's dining room, barber/beauty services, housekeeping, linen/laundry, transportation services, and monthly phone, internet and cable services. The specific services are outlined in the resident agreement.

REFUND POLICY

In the event of termination during the amortization period, the resident is entitled to a refund of the unamortized portion of the entrance fee.

Refunds are reduced by the cost of any upgrades or improvements made at the specific request of the resident. After occupancy, refunds are further reduced for any financial assistance provided to the resident by the Provider and any amounts necessary to cover costs incurred by the Provider to refurbish, restore or repair the residence in the event of unreasonable wear and tear. No interest will accrue to the benefit of the resident or the resident's estate on any amounts required to be refunded under the CCRC agreement.

There were no terminations of CCRC resident agreements during the examination period. 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 reservation and entrance fees paid within sixty days.

If the Resident Agreement is terminated by reason of the resident's death, illness, injury or incapacity prior to occupying the unit, a full refund of the Entrance Fee will be made to the prospective Resident or his or her estate less any amounts deducted to cover expenses paid by the Provider.

Where one or two co-residents becomes ill, injured or withdraws before occupancy, the remaining resident shall have the same options as would a single resident under a resident agreement.

Refund after Rescission Period but Prior to Occupancy

After the lapse of the seven-day rescission period, but prior to occupancy, the resident may terminate the agreement and the Provider shall retain two percent of the entrance fee less any amounts deducted to cover expenses incurred by the Provider. Any additional payments shall be refunded to the resident.

In the event the resident dies before the designated occupancy date, or through illness, injury, or incapacity is precluded from becoming a resident under the terms of the agreement, the agreement is automatically rescinded, and a full refund shall be issued to the resident, or the resident's legal representative or estate.

Refund after Occupancy

After occupancy, the resident may terminate the agreement with a written notice 30 days prior to termination and the surrender of the residence. Termination shall be effective after the lapse of the 30-day notice period and surrender of the residence. All applicable refunds will be made only after the Resident or in situations of double occupancy, both co-residents' vacated the living unit and the apartment has been reoccupied by another resident, the entrance fee for the reoccupied living unit has been paid in full, and the Agreement has been terminated.

The entrance fee shall be amortized and accrued to the benefit of the Provider at the rate of two percent per month over a period of fifty months from the earlier of the designated occupancy date or date of occupancy. Any unamortized amounts pro-rated on a monthly basis, less amounts deducted to cover costs incurred by the Provider to refurbish, restore or repair the living unit, costs incurred due to specific requests of the resident, or to satisfy unpaid charges shall be refunded to the resident. After the lapse of fifty months, the entrance fee shall be earned fully by the Provider and no part of it shall be refunded.

Refund where Two Residents Execute the Agreement

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

Applicable refund will only be made in accordance with conditions and due date for refund payments after the last surviving co-resident vacates and surrenders the residence, and the agreement is terminated. In situations of double occupancy where one co-resident is transferred to the nursing care facility and becomes eligible for medical assistance, no potential future refund shall be available to pay for routine nursing care services.

MANAGEMENT AND CONTROL

PARTNERS

Chicora Medical Center, LP, is a Pennsylvania for-profit limited partnership, that provides a continuum of services on its existing campus including residential housing for the elderly, personal care, assisted living, and nursing care services. They have been engaged in the provision of health care services since 1999. The partners as of June 30, 2015 are as follows:

Limited Partner	Interest
Kenneth R. Tack Trust Chicora, PA	24.75%
Phillip E. Tack Trust Worthington, PA	24.75%
Steven D. Tack Kittanning, PA	33.00%
Mary Susan Tack-Yurek Butler, PA	8.25%
Susan E. Tack Beardsley Butler, PA	8.25%
General Partner	Interest
Sugar Creek Rest, Inc. Kittanning, PA	1.00%

CORPORATE RECORDS

CERTIFICATE OF LIMITED PARTNERSHIP

There were no changes made to the Provider's Certificate of Limited Partnership during the period under examination.

AGREEMENT OF LIMITED PARTNERSHIP

There were no changes made to the Provider's Agreement of Limited Partnership during the period under examination.

ANNUAL DISCLOSURE STATEMENT

The Provider's 2015 Annual Disclosure Statement was reviewed for compliance with the Act, and the Regulations, specifically § 151.7 and § 151.9. The examiner found that the 2015 Annual Disclosure Statement is in compliance with all information required by the Act and the Regulations.

The examiners noted that the Provider did not comply with 40 P.S. § 3207(c), which states, "from the date an annual disclosure statement is filed until the date the next succeeding annual disclosure statement is filed with the commissioner and prior to the provider's acceptance of part or all of any application fee or part of the entrance fee or the execution of the CCRC agreement by the resident, whichever first occurs, the provider shall deliver the current annual disclosure statement to the individual or individuals who are current or prospective residents and with whom the CCRC agreement is or may be entered into."

It is recommended that the Provider distribute the Disclosure Statement on an annual basis to its residents pursuant to the requirements of 40 P.S. § 3207(c).

RESIDENT AGREEMENT

The Provider's 2015 Resident Agreement was reviewed for compliance with the Act and the Regulations, specifically § 151.8 and § 151.9. The 2015 Resident Agreement is 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 examination date.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of June 30, 2015, and the results of its operations for the last two years under examination are reflected in the following statements:

Comparative Balance Sheet
Comparative Statement of Operations
Comparative Statement of Cash Flows

The financial information used to compile the following financial statements was presented in the audited financial statements as of June 30, 2015. There were no changes made to the financial statements as a result of this examination.

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

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,127,769	\$ 1,037,701
Residents' receivable, less allowance for doubtful accounts	1,446,052	1,529,529
Accounts receivable, affiliates	-	220
Supplies	-	10,000
Prepaid expenses	139,969	129,899
Total current assets	\$ 2,713,790	\$ 2,707,349
OTHER ASSETS		
Unamortized loan fees, net of accumulated amortization	2,807	3,268
Resident funds, cash	34,874	28,154
Investment in Butler Physicians Realty	45,000	45,000
Mortgage escrows	87,540	94,821
Accounts receivable, affiliates	550,858	725,001
Statutory liquid reserve	19,374	18,210
Rental security deposits	350	350
Total other assets	740,803	914,804
PROPERTY AND EQUIPMENT, at cost		
Land	175,000	175,000
Buildings and improvements	6,233,416	6,233,416
Parking lot	82,381	82,381
Equipment	2,492,114	2,429,962
Furniture and fixtures	14,966	14,966
Automotive equipment	47,327	47,327
Construction in progress	5,795	-
Subtotal	9,050,999	8,983,052
Less accumulated depreciation	4,964,573	4,717,328
Net property and equipment	4,086,426	4,265,724
Total assets	\$ 7,541,019	\$ 7,887,877
LIABILITIES AND NET ASSETS/ (DEFICIT)		
CURRENT LIABILITIES		
Line of credit		
Current maturities of long-term debt	\$ 509,458	\$ 476,889
Accounts payable, trade	249,327	241,003
Accounts payable, affiliates	50,490	41,033
Accounts payable, other	14,956	17,102
Estimated third-party payor settlements	49,229	77,044
Accrued payroll and payroll taxes	226,198	192,264
Accrued vacation	144,690	132,423
Accrued other expenses	44,226	44,880
Total current liabilities	1,288,574	1,222,638
RESIDENT DEPOSITS	34,874	28,154
DEFERRED REVENUE	6,142	8,259
LONG-TERM DEBT, less current maturities	2,664,541	3,170,572
PARTNERS' EQUITY		
Limited partners	3,449,066	3,369,326
General partner	97,822	88,928
Total partners' equity	3,546,888	3,458,254
Total liabilities and partners' equity	\$ 7,541,019	\$ 7,887,877

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

	2015	2014
Net resident revenue	\$ 10,816,214	\$ 10,687,950
Operating expenses:		
Nursing and medical care	6,070,946	5,585,640
Administrative and general	1,171,758	1,120,638
Dietary	792,564	760,360
Operation and maintenance of facility	506,631	487,687
Recreation and social services	440,831	395,750
Housekeeping	287,373	310,977
Depreciation and amortization	257,146	289,598
Provision for bad debts	233,728	175,520
Interest	172,458	191,119
Laundry and linen	95,782	91,653
Total operating expenses	<u>10,029,217</u>	<u>9,408,942</u>
Operating income	<u>786,997</u>	<u>1,279,008</u>
Other income (expense):		
Rental income	85,394	86,918
Interest income	9,323	34,446
Contributions	(450)	(2,188)
Miscellaneous income	8,286	9,140
Total operating expenses	<u>102,553</u>	<u>128,316</u>
Net income	<u>\$ 889,550</u>	<u>\$ 1,407,324</u>

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

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 889,550	\$ 1,407,324
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	256,685	266,337
Amortization	461	23,261
Provision for bad debts	233,728	175,520
Proceeds from/Amortization of advanced fees	(2,117)	(2,822)
(Increase) decrease in assets:		
Residents' receivable	(150,251)	(379,069)
Accounts receivable, affiliates	220	(220)
Supplies	10,000	-
Prepaid expenses	(10,070)	2,602
Increase (decrease) in liabilities:		
Accounts payable, trade	8,324	(14,213)
Accounts payable, affiliates	9,457	(134,796)
Accounts payable, other	(2,146)	(47,915)
Estimated third-party payor settlements	(27,815)	76,124
Accrued payroll and payroll taxes	33,934	16,046
Accrued vacation and other expenses	11,613	17,615
Net cash provided by operating activities	<u>1,261,573</u>	<u>1,405,794</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(77,387)	(94,018)
Net collections on (issuances of) advances receivable, affiliates	174,143	(194,989)
Increase in statutory liquid reserve	(1,164)	(1,260)
Net withdrawals from (deposits to) mortgage escrows	7,281	(40,124)
Net cash provided by (used in) investing activities	<u>102,873</u>	<u>(330,391)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(473,462)	(440,980)
Distributions to partners	(800,916)	(1,215,438)
Net cash (used in) financing activities	<u>(1,274,378)</u>	<u>(1,656,418)</u>
Net increase (decrease) in cash	90,068	(581,015)
Cash:		
Beginning	1,037,701	1,618,716
Ending	<u>\$ 1,127,769</u>	<u>\$ 1,037,701</u>

NOTES TO THE FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE \$19,374

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 \$12,118 and the value of (2) is \$19,374. As of June 30, 2015, the Provider had established and reported a reserve of \$19,374 for this purpose. The Provider's current assets satisfy this requirement.

ESCROW ACCOUNT REQUIREMENTS

The Provider does not accept deposits from CCRC residents prior to date of occupancy, 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 subsequent to June 30, 2015, through the date of this examination report that would have a material effect on the solvency of the Provider.

RECOMMENDATIONS

PRIOR RECOMMENDATIONS

As a result of the prior examination, the following recommendations were made:

1. It was recommended that the Provider amend its Resident's Agreement to include the requisite information as specified in the following paragraph: 40 P.S. § 3214(a)(10) which requires that a 30 days advance notice to the resident before any change in fees or charges or scope of care or services may be effective, except for changes required by State or Federal assistance programs.
2. It was recommended that the Provider amend its Resident's Agreement to include the requisite information as specified in the following paragraph: 40 P.S. § 3214(a)(11) which states that charges for care paid in one lump sum shall not be increased or changed during

the duration of the agreed upon care, except for changes required by State or Federal assistance programs.

3. It was recommended that the Provider establish and maintain a statutory liquid reserve in accordance with 40 P.S. § 3209 and further to segregate and identify that amount on all future annual statements filed with the Department.

The Provider has complied with each of these recommendations.

CURRENT RECOMMENDATIONS

As a result of the current examination, the following recommendation is being made:

1. *It is recommended that the Provider distribute the Disclosure Statement on an annual basis to its residents pursuant to the requirements of 40 P.S. § 3207(c).* (See “Annual Disclosure Statement”, Page 5)

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CONCLUSION

As a result of our examination, we conclude that Chicora Medical Center, LP is in compliance with the applicable Pennsylvania laws and regulations as they pertain to CCRCs as of June 30, 2015, except as noted in the Recommendations section on page 11 of this report.

This examination was conducted by Barbara Kowalski.

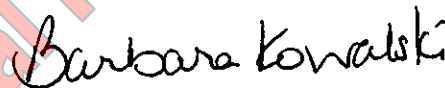
Respectfully submitted,



Melissa L. Greiner
Director
Bureau of Financial Examinations



Matthew C. Milford, CFE - cdd
Examination Manager



Barbara Kowalski - cdd
Examiner-In-Charge

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