

Examination Warrant Number 18-721562844-CP-2

Report of Examination of

Seneca Place
Verona, Pennsylvania

As of June 30, 2018

For Informational Purposes Only

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Harrisburg, Pennsylvania
November 7, 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 18-721562844-CP-2, dated June 25, 2019, 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

Seneca Place

a Pennsylvania domiciled continuing-care retirement community (“CCRC”), hereinafter referred to as the “Provider.” The examination was conducted at the Provider’s home office, located at 5360 Saltsburg Road, Verona, Pennsylvania 15147.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

This is the second examination of the Provider. The Pennsylvania Insurance Department (“Department”) has performed an examination of the Provider, which was last examined as of June 30, 2013. This examination covered from July 1, 2013 through June 30, 2018 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 their annual audits as of the latter date. 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 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 Arnett, Carbis, and Toothman, LLP (“CPA”) provided an unmodified audit opinion on the Provider’s year-end financial statements based on Generally Accepted 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.

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HISTORY

Seneca Place is part of an affiliated group of entities owned and operated by UPMC. The principal business of Seneca Place is to own and operate skilled nursing and residential living facilities for the elderly population residing in the Pittsburgh, Pennsylvania region.

Effective May 26, 2009, Seneca Place was granted a Certificate of Authority from the Department to operate as a CCRC.

The Provider is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. As of the examination date, the Provider has three CCRC residents.

DESCRIPTION OF FACILITY

Seneca Place offers CCRC agreements at two facilities on separate campuses, Seneca Hills Village and Lighthouse Point at Chapel Harbor. Both facilities offer standard rental agreements as well as CCRC agreements. Residents choosing to enter into a CCRC agreement will also receive preferential placement amongst all similar applicants for admission to the Provider's skilled nursing facility.

Seneca Hills Village is a three-story, 123-unit independent living facility located on a hilltop campus near Penn Hills in Verona, Pennsylvania. The facility has been in operation since November 1993. Seneca Hills Village consists of private and spacious studios/efficiencies or one or two-bedroom apartments, which are presently ready for occupancy for residents choosing either the continuing care agreement or standard rental agreement.

Lighthouse Pointe at Chapel Harbor is four-story, 131-unit independent living facility located on the Allegheny River waterfront in Pittsburgh, Pennsylvania. The facility has been in operation since August 2005. The independent living units of Lighthouse Pointe at Chapel Harbor consist of private and spacious studio efficiencies or one or two-bedroom apartments, which are presently ready for occupancy for residents.

FEES AND SERVICES

As of June 30, 2018, the Provider is offering two entrance fee options.

The Standard Plan requires an entrance fee of \$45,000. The CCRC resident is entitled to a 90% refund of the entrance fee, less 2 percent of the entrance fee for each month of residency for the first 45 months. After 45 months the entrance fee is earned in full and the resident is not entitled to any refund.

The 50% Estate Protection Plan requires an entrance fee of \$67,500. The CCRC resident is entitled to 90% refund of the entrance fee, less 2% of the entrance fee for each month for the first 20 months. After 20 months, the resident or the resident's estate shall, at all times, be entitled to a refund of 50% of the entrance fee.

Seneca Hills Village has three different types of units: studio efficiency unit with a monthly fee ranging from \$1,818 to \$2,256, one-bedroom unit with a monthly fee ranging from \$2,485 to \$2,757, and two-bedroom units with a monthly fee of \$3,107.

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Lighthouse Pointe at Chapel Harbor has three different types of units: efficiency unit with a monthly fee ranging from \$2,098 to \$2,389, one-bedroom unit with a monthly fee ranging from \$2,865 to \$3,485 and two-bedroom units with a monthly fee ranging from \$3,263 to \$3,962.

The fees described above are based on single occupancy. An additional \$410 is added to the monthly fee for a second person.

The CCRC residents receive three meals per day, weekly housekeeping services, including laundering of linens and towels, and all utilities including cable television, but excluding telephone service. The residents receive an emergency response system, parking and certain transportation services. The residents are also entitled to participate in recreational and community activities.

REFUND POLICY

The following describes the Provider's refund policy which complies with the Act and Regulations. There were no CCRC resident refunds issued during this examination period; therefore, testing was not warranted.

Refund During the Rescission Period

A resident may rescind their resident agreement, without penalty or forfeiture, within seven days of the signing date. A resident is not required to move into the CCRC facility before the expiration of the seven-day period. No other agreement or statement shall constitute a waiver of the right to rescind the agreement within the seven-day period.

Refund Prior to Occupancy

To reserve a particular apartment unit during the application process, prospective CCRC residents must pay a specific deposit in the amount of \$500. Payment of the specific deposit gives the prospective resident ("depositor") the right of first refusal should another prospective resident desire to select the same apartment unit. In the event another prospective resident desires the same apartment unit held by the depositor, the depositor must, within seven days of the notice, commit to the move-in date not to exceed thirty days from the date of the notice. If the depositor does not commit to a move-in date within seven days of the notice, the particular apartment unit will be offered to the second prospective resident. The depositor must then select another apartment unit and commit to a move-in date or be placed on a wait list until an appropriate apartment unit is available.

The specific deposit will be applied to the depositor's entrance fee, which is due to prior to residency at the Provider. The specific deposit is non-refundable, unless there is a change in the health status of the depositor prior to admission rendering the independent living setting unsuitable for the depositor's health needs. In order to receive a refund of the specific deposit due to health reasons, the depositor must provide a written physician's statement indicating the depositor is unable to reside in an independent living setting due to the depositor's health condition.

Refund after Occupancy

Ten percent of the entrance fee shall be surrendered to the Provider immediately upon the occupancy date to offset administrative fees. The Provider will refund the unamortized portion of the entrance fee to the resident or the resident's estate.

Residents choosing the Standard Plan shall be entitled to a 90% refund of the entrance fee, less 2% for each month of residency for 45 months. After 45 months there shall be no refund of the entrance fee.

Residents choosing 50% Estate Protection Plan are entitled to 90% refund of the entrance fee, less 2% of the entrance fee for each month of residency for the first 20 months. After 20 months, the resident or resident's estate is entitled to a refund of 50% of the entrance fee.

Refund Where two Residents Execute the Agreement

In the event of the transfer or death of either a resident or second resident ("departing resident") occupying a shared living unit, no refund is made to the departing resident or the departing resident's estate. The entrance fee will continue to be surrendered to the Provider based upon the original entrance fee plan selected. The resident or second resident that remains ("remaining resident") may continue to reside at the Provider under the same terms and conditions but is only required to pay the single monthly service fee. Upon the transfer or death of the remaining resident, any remaining entrance fee will be refunded to the remaining resident in accordance with the entrance fee and refund policy.

Conditions and Due Date for Refund Payments

The Provider will refund the entrance fee within 60 days the living unit is vacated. Any refund due will be reduced by any outstanding charges owed to the Provider, including any costs incurred by the Provider to restore the living unit to its condition on the resident's occupancy date.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

Management of the Provider is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, June 30, 2018:

Name and Address	Principal Occupation
Deborah S. Brodine Pittsburgh, PA	President UPMC Community Provider Services
Jerome Shaffer Pittsburgh, PA	CFO UPMC Community Provider Services
William Nigro Pittsburgh, PA	CFO UPMC Senior Communities
Mark Bondi Pittsburgh, PA	President UPMC Senior Communities

OFFICERS

As of the examination date, June 30, 2018, the following officers were appointed and serving in accordance with the Provider's by-laws:

Name	Title
Deborah Brodine	Chairperson
Mark Bondi	President
William Nigro	Treasurer
Bryant Wesley	Secretary

CORPORATE RECORDS

ARTICLES OF INCORPORATION

No amendments were made to the Articles of Incorporation during this examination period.

BY-LAWS

No amendments were made to the By-Laws during this examination period.

ANNUAL DISCLOSURE STATEMENT

The Provider's 2018 Annual Disclosure Statement was reviewed for compliance with the Act and Regulations, specifically § 151.7 and § 151.9. The examiner found that the 2018 Annual Disclosure Statement was not compliance with all information required by the Act and the Regulations, as described below.

1. The examiner noted the Provider did not name the management staff and their day to day commitment to the CCRC residents in accordance 40 P.S. §§ 3207(a)(3)(i) - (iii).

It is recommended the Provider amend its disclosure statement to include the management staff and their day to day commitment to the CCRC residents pursuant to the requirements of 40 P.S. § 3207(a)(3)(i) to (iii).

2. The examiner noted the Provider did not include the management staff experience in CCRC or similar facilities in accordance with g 40 P.S. § 3207(a)(3)(iii)(A).

It is recommended the Provider amend its disclosure statement to include the management staff experience in CCRC or similar facilities pursuant to the requirements of 40 P.S. § 3207(a)(3)(iii)(A).

3. The examiner noted the Provider did not include verbiage if they have ever been affiliated with a religious, charitable, or nonprofit organization in accordance with 40 P.S. § 3207(a)(4)(i).

It is recommended the Provider amend its disclosure statement to include a statement if they have ever been affiliated with a religious, charitable, or nonprofit organization pursuant to the requirements of 40 P.S. § 3207(a)(4)(i).

4. The examiner noted the Provider did not include a reference to the Reserve Account, the person who will oversee the account, and its intended purpose for the CCRC residents in accordance with 40 P.S. § 3207(a)(8).

It is recommended the Provider amend its disclosure statement to include the Reserve Account, the person who will oversee the account and its intended purpose for the CCRC residents pursuant to the requirements of 40 P.S. § 3207(a)(8).

5. The examiner noted the Provider did not include the name, location, and telephone number of the individual to be contacted to discuss admissions in accordance with 31 Pa. Code § 151.7(c)(3).

It is recommended the Provider amend its disclosure statement to include the name, location, and telephone number of the individual to be contacted to discuss admissions pursuant to the requirements of 31 Pa. Code § 151.7(c)(3).

6. The examiner noted the Provider did not include a designation of each facility as urban, suburban, or rural in accordance with 31 Pa. Code § 151.7(c)(4)(i).

It is recommended the Provider amend its disclosure statement to include a designation of each facility as urban, suburban, or rural pursuant to the requirements of 31 Pa. Code § 151.7(c)(4)(i).

7. The examiner noted the Provider did not include the number of acres occupied by its facility in accordance with 31 Pa. Code § 151.7(c)(4)(ii).

It is recommended the Provider amend its disclosure statement to include the number of acres occupied by its facility pursuant to the requirements of 31 Pa. Code § 151.7(c)(4)(ii).

8. The examiner noted the Provider did not include the minimum age for admission in accordance with 31 Pa. Code § 151.7(c)(5).

It is recommended the Provider amend its disclosure statement to include the minimum age for admission of pursuant to the requirements of 31 Pa. Code § 151.7(c)(5).

9. The examiner noted the Provider did not include the current resident population in accordance with 31 Pa. Code § 151.7(c)(7).

It is recommended the Provider amend its disclosure statement to include the current resident population pursuant to the requirements of 31 Pa. Code § 151.7(c)(7).

RESIDENT AGREEMENT

The Provider's 2018 Resident Agreement was reviewed for compliance with the Act, 40 P.S. § 3214, and the Regulations, specifically § 151.8 and § 151.9. The 2018 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 examination date.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of June 30, 2018, and the results of its operations for the five-year period under examination, are reflected in the following statements*:

Comparative Balance Sheet;
Comparative Statement of Operations; and
Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Provider's filed Annual Statements due to rounding errors.

For Informational Purposes Only

**Comparative Balance Sheet
For the Year Ended June 30,**

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 300	\$ 300
Resident accounts receivable, net of allowance for doubtful accounts 2018 \$647,251; 2017 \$453,833	2,041,261	1,765,232
Due from UPMC	9,508,280	10,000,744
Total current assets	11,549,841	11,766,276
ASSETS WHOSE USE IS LIMITED		
Restricted assets	29,823	25,806
Statutory minimum liquid reserve	20,000	20,000
Resident trust fund deposits	31,649	28,260
Total assets whose use is limited	81,472	74,066
PROPERTY AND EQUIPMENT, NET	18,216,045	18,814,016
Total assets	\$ 29,847,358	\$ 30,654,358
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued security deposits	\$ 561,589	\$ 518,267
Other accrued liabilities	188,231	100,556
Rental deposits	1,900	2,900
Deferred rental revenue	52,121	42,857
Total current liabilities	803,841	664,580
RESIDENT TRUST FUND LIABILITY	31,649	28,260
DEFERRED REVENUE FROM ENTRANCE FEES	48,309	6,878
Total liabilities	883,799	699,718
NET ASSETS		
Unrestricted	28,933,736	29,928,834
Temporarily restricted	2,611	1,670
Permanently restricted	27,212	24,136
Total net assets	28,963,559	29,954,640
Total liabilities and net assets	\$ 29,847,358	\$ 30,654,358

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

	2018	2017
OPERATING REVENUE		
Net resident service revenue	\$ 21,253,747	\$ 20,828,019
Net assets released from restriction for operating purposes	-	1,625
Total operating revenue	<u>21,253,747</u>	<u>20,829,644</u>
OPERATING EXPENSES		
Salaries and employee benefits	11,801,608	11,298,093
Supplies and other expenses	8,062,529	8,512,198
Depreciation	1,572,684	1,453,626
Provision for bad debts	889,581	438,522
Interest	2,283	1,354
Total operating expenses	<u>22,328,685</u>	<u>21,703,793</u>
Operating (loss)	<u>(1,074,938)</u>	<u>(874,149)</u>
NON-OPERATING INCOME		
Contributions	75	347
Other non-operating income	79,765	113,672
Total non-operating income	<u>79,840</u>	<u>114,019</u>
(Deficiency) of revenue and non-operating income over expenses	<u>(995,098)</u>	<u>(760,130)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Net assets released from restrictions	-	(1,625)
Net assets transferred from permanently restricted net assets	941	844
Increase (decrease) in temporarily restricted net assets	<u>941</u>	<u>(781)</u>
PERMANENTLY RESTRICTED NET ASSETS		
Investment Income	4,017	2,842
Net assets transferred to temporarily restricted net assets	(941)	(844)
Increase in permanently restricted net assets	<u>3,076</u>	<u>1,998</u>
Change in net assets	<u>(991,081)</u>	<u>(758,913)</u>
Net assets:		
Beginning of year	<u>29,954,640</u>	<u>30,713,553</u>
End of year	<u>\$ 28,963,559</u>	<u>\$ 29,954,640</u>

**Comparative Statement of Cash Flow
For the Year Ended June 30,**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in unrestricted net assets	\$ (991,081)	\$ (758,913)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,572,684	1,453,626
Provision for bad debts	889,581	438,522
Proceeds from entrance fees	50,000	-
Amortization of entrance fees	(8,569)	(4,414)
(Increase) decrease in assets:		
Resident accounts receivable	(1,165,610)	(486,832)
Due from UPMC	492,464	2,431,165
Increase (decrease) in liabilities:		
Accrued security deposits and other accrued liabilities	130,997	(246,232)
Rental deposits	(1,000)	(100)
Deferred rental revenue	9,264	16,567
Net cash provided by operating activities	978,730	2,843,389
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(974,713)	(2,842,172)
Increase in restricted assets	(4,017)	(1,217)
Net cash (used in) investing activities	(978,730)	(2,843,389)
Change in cash and cash equivalents	-	-
Cash and cash equivalents:		
Beginning	300	300
Ending	\$ 300	\$ 300

NOTES TO FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE

\$20,000

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 \$0 and the value of (2) is \$9,293. As of June 30, 2018, the Provider had established and reported a reserve of \$20,000 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 examination team 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

As a result of the prior examination there were no recommendations.

CURRENT EXAMINATION

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

1. *It is recommended the Provider amend its disclosure statement to include the management staff and their day to day commitment to the CCRC residents pursuant to the requirements of 40 P.S. §§ 3207(a)(3)(i) - (iii).* (See "Disclosure Statement" page 5)
2. *It is recommended the Provider amend its disclosure statement to include the management staff's experience in CCRC or similar facilities pursuant to the*

requirements of 40 P.S. § 3207(a)(3)(iii)(A). (See “Disclosure Statement” page 5)

3. *It is recommended the Provider amend its disclosure statement to include a statement if they have ever been affiliated with a religious, charitable or nonprofit organization pursuant to the requirements of 40 P.S. § 3207(a)(4)(i).* (See “Disclosure Statement” page 6)
4. *It is recommended the Provider amend its disclosure statement to include the Reserve Account, the person who will oversee the account and its intended purpose for the CCRC residents pursuant to the requirements of 40 P.S. § 3207(a)(8).* (See “Disclosure Statement” page 6)
5. *It is recommended the Provider amend its disclosure statement to include the name, location, and telephone number of the individual to be contacted to discuss admissions pursuant to the requirements of 31 Pa. Code § 151.7(c)(3).* (See “Disclosure Statement” page 6)
6. *It is recommended the Provider amend its disclosure statement to include a designation of each facility as urban, suburban, or rural, pursuant to the requirements of 31 Pa. Code § 151.7(c)(4)(i).* (See “Disclosure Statement” page 6)
7. *It is recommended the Provider amend its disclosure statement to include the number of acres occupied by its facility pursuant to the requirements of 31 Pa. Code § 151.7(c)(4)(ii).* (See “Disclosure Statement” page 6)
8. *It is recommended the Provider amend its disclosure statement to include the minimum age for admission of pursuant to the requirements of 31 Pa. Code § 151.7(c)(5).* (See “Disclosure Statement” page 6)
9. *It is recommended the Provider amend its disclosure statement to include the current resident population pursuant to the requirements of 31 Pa. Code § 151.7(c)(7).* (See “Disclosure Statement” page 6)

CONCLUSION

The examination of Seneca Place, as of June 30, 2018, was determined to be not in compliance with all applicable Pennsylvania laws and regulations as pertaining to CCRCs, as described above.

This examination was conducted by Ellamarie Durant.

Respectfully,



Melissa L. Greiner
Director
Bureau of Financial Examinations



Matthew C. Milford, CFE
Examination Manager



Ellamarie Durant
Examiner-in-Charge

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