

EXAMINATION WARRANT # 14-582087733-CP

REPORT OF EXAMINATION

OF THE

**SOMERSET CARE, INC.
d/b/a MEADOW VIEW NURSING CENTER
BERLIN, PENNSYLVANIA**

AS OF

JUNE 30, 2014

For Informational Purposes Only

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Harrisburg, Pennsylvania
January 12, 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 14-582087733-CP dated October 2, 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

SOMERSET CARE, INC.

a continuing care retirement community ("CCRC") hereafter referred to as the "Provider." This examination was conducted at the Provider's administrative office located at 1404 Hay Street, Berlin, Pennsylvania 15530.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

This is the initial examination of the Provider. This examination covered the period from May 14, 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. of Plymouth Meeting, Pennsylvania, issued an unmodified opinion on the Provider's financial statements based on generally accepted accounting principles. The financial annual reports prepared by the CPA were reviewed during the examination and incorporated into the examination work papers.

HISTORY

The Provider is a Pennsylvania nonprofit corporation located in Berlin, Pennsylvania. The Provider was incorporated on August 31, 1993, for the purpose of acquiring land, constructing and operating a skilled nursing facility. In 2003, an eleven-unit residential wing was added. The Provider is an affiliate of Guardian Foundation, Inc. ("Guardian"), a Pennsylvania nonprofit corporation, and the Provider receives its tax-exempt status by virtue of being included within Guardian's group exemption which was granted by the Internal Revenue Service, and which recognizes such organizations as exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

The Provider commenced operations on July 20, 1994, when it obtained financing for the Meadow View Nursing Center. The skilled nursing facility opened on July 21, 1995. On May 14, 2010, the Department issued the Provider a certificate of authority to operate as a CCRC.

DESCRIPTION OF FACILITY

The Provider's facility, Meadow View Nursing Center, is located in a single three-story multi-winged building on 24 acres of land. Meadow View consists of a 150-bed skilled nursing unit and an independent living section comprised of 11 one-room studio apartments. The independent living apartments are segregated from the main nursing home by electronic doors which require a password to access.

FEES AND SERVICES

As of June 30, 2014, the entrance fee was \$8,800 for single-occupancy and \$13,680 for double-occupancy. The entrance fee is amortized at a rate of 4% per month for 25 months. After 25 months, the amount is considered fully surrendered and the resident is not entitled to a refund of the entrance fee.

There is a \$740 monthly maintenance fee for single occupancy and \$1,140 for double occupancy. The monthly maintenance fee includes basic services including meals, routine housekeeping, utility costs, maintenance, and trash removal.

REFUND POLICY

During the examination period, 11 resident agreements were terminated. In all cases, refunds were issued in accordance with the terms of the respective resident agreements. The following describes the Provider's refund policy which complies with the Act.

In the event of termination during the amortization period, the resident is entitled to a refund of the unamortized portion of the entrance fee. Any refunds are reduced by any outstanding charges due to the Provider by the resident.

Termination Before Occupancy

Residents shall have the right to rescind or terminate the agreement, without penalty or forfeiture, within seven days.

If resident dies prior to the occupancy date, or through illness, injury or incapacity, is precluded from becoming a resident under the terms of the agreement, the agreement will be automatically rescinded and the prospective resident, or their legal representative shall receive a full refund of all monies paid to the Provider, except those costs incurred by the Provider, as delineated in Addendum-A of the resident agreement.

Termination After Occupancy

The entrance fee shall be amortized at a rate of 4% per month from the designated occupancy date or actual date of occupancy, whichever is earlier. Upon the surrender of the residence, the entrance fee will stop being amortized. Upon termination of the agreement, and subject to certain conditions, the unamortized balance of the entrance fee will be refunded, less any amounts deducted to pay any outstanding charges.

If the agreement is terminated by either party upon giving 30 days' notice, the resident shall be obligated to pay any monthly maintenance fee within those thirty days, regardless if the resident vacates the unit prior to the end of the 30-day period. In the event the resident is temporarily hospitalized or temporarily transferred, all charges shall continue until the Provider receives a 30-day written notice of the resident's intention to vacate. In the event of the death or termination of the agreement by one resident under joint resident agreement, the monthly maintenance fee shall be adjusted to reflect single occupancy rate.

Conditions and Timing for Refunds

Prior to occupancy, all applicable refunds will be made within 30 days. After occupancy, all applicable refunds will be made after the unit has been surrendered, and only after it has been re-occupied by another resident from whom full payment of the applicable entrance fee was made. The refund is calculated by reference to the date of surrender of the unit. In situations of joint occupancy, any applicable refund will be made to the estate of the last surviving co-resident.

Where two or more individuals have signed an agreement for joint occupancy, the death of one of residents shall not constitute termination of the agreement, and no refund shall be due.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The management of the Provider is vested in its Board of Directors ("Board"), which was composed of the following members as of the examination date, June 30, 2014:

Name and Address

Principal Occupation

Gregory C. Grove
Atlanta, Georgia

President
Guardian Foundation, Inc.

Timothy A. Duggan
Atlanta, Georgia

Sales/Marketing
ComSource

Arthur C. DeLozier
Maryville, Tennessee

Retired

OFFICERS

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

Name

Title

Gregory C. Grove
William F. Rowe, III

President
Vice President, Secretary, Treasurer

CORPORATE RECORDS

ARTICLES OF INCORPORATION

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

BY-LAWS

There were no changes made 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 40 P.S. § 3207 and 31 Pa. Code §§ 151.7 and 151.9. The Provider was not in compliance with 40 P.S. § 3207(c), which requires that a copy of the disclosure statement be distributed annually to current or prospective CCRC residents.

It is recommended that the Provider comply with 40 P.S. § 3207(c) and implement a policy to distribute the disclosure statement to all current and prospective CCRC residents on an annual basis.

The Provider's 2014 annual disclosure statement also did not include comparative financial statements for the most recent two years as required by 40 P.S. 3207(a)(9), which says, "Certified financial statements of the Provider, including: (i) A balance sheet as of the end of the two most

recent fiscal years. (ii) Income statements of the Provider for the two most recent fiscal years or such shorter period of time as the Provider shall have been in existence.”

The Provider updated the 2014 disclosure statement on November 3, 2015, to bring such into compliance with this section of the Act.

RESIDENT AGREEMENT

The Provider’s 2014 Resident Agreement was reviewed for compliance with the Act, 40 P.S. § 3214, and the Regulations, specifically § 151.8 and § 151.9. The examiners found that the Resident Agreement included 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 June 30, 2014, 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; and
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, 2014. There were no changes made to the financial statements as a result of this examination.

Comparative Balance Sheet as of June 30,

ASSETS	<u>2014</u>	<u>2013</u>
Current Assets		
Cash	\$ 1,686,040	\$ 1,717,067
Resident accounts receivable, net	914,062	816,672
Prepaid expenses	192,161	206,190
Estimated third party payor settlements	9,579	-
Total Current Assets	<u>2,801,842</u>	<u>2,739,929</u>
Deposits Held in Trust - Funded		
Restricted cash - resident trust	<u>118,265</u>	<u>142,338</u>
Restricted Deposits and Funded Reserves		
Real estate and insurance escrow	100,191	85,463
Reserve for repairs and replacements	551,146	399,228
Other reserves - statutory liquid reserve	86,256	80,035
Total restricted deposits and funded reserves	<u>737,593</u>	<u>564,726</u>
Fixed Assets		
Land and land improvements	372,500	372,500
Buildings and improvements	9,344,484	9,272,575
Building equipment, portable	1,596,564	1,534,808
Maintenance equipment	285,858	281,971
Motor vehicles	120,870	120,870
Total fixed assets	<u>11,720,276</u>	<u>11,582,724</u>
Less accumulated depreciation	<u>(7,179,931)</u>	<u>(6,747,104)</u>
Net Fixed assets	<u>4,540,345</u>	<u>4,835,620</u>
Other Assets		
Loan costs, net	<u>399,521</u>	<u>424,868</u>
TOTAL ASSETS	<u>\$ 8,597,566</u>	<u>\$ 8,707,481</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable, operations	\$ 323,694	\$ 307,953
Accrued wages and taxes	330,506	315,991
Accrued interest payable	14,498	14,832
Mortgage note payable, current portion	147,732	143,657
Estimated third party payor settlements	-	68,721
Accrued expenses	384,573	612,651
Prepaid revenue	16,131	17,667
Total Current Liabilities	<u>1,217,134</u>	<u>1,481,472</u>
Deposits		
Resident trust liability	118,265	142,338
Long-Term liabilities		
Mortgage note payable, less current portion above	<u>6,053,541</u>	<u>6,200,938</u>
Total Long-Term Liabilities	<u>6,053,541</u>	<u>6,200,938</u>
Total Liabilities	<u>7,388,940</u>	<u>7,824,748</u>
Net Assets	<u>1,208,626</u>	<u>882,733</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,597,566</u>	<u>\$ 8,707,481</u>

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

	<u>2014</u>	<u>2013</u>
Revenue, Gains and Other Support		
Net resident service revenues	\$ 11,578,188	\$ 11,321,638
Total Revenue, Gains and Other Supports	<u>11,578,188</u>	<u>11,321,638</u>
Operating Expenses		
Elderly care expenses	7,723,590	7,973,563
Administrative expenses	1,782,281	1,622,156
Utilities expense	241,880	239,412
Operating and maintenance expenses	323,462	312,653
Taxes and insurance	513,841	511,049
Financial expenses (including interest expenses of \$214,291)	214,291	295,301
Depreciation	432,827	428,036
Amortization	25,347	21,488
Total Operating Expenses	<u>11,257,519</u>	<u>11,403,658</u>
Operating income	<u>320,669</u>	<u>(82,020)</u>
Other revenues		
Interest Income	2,588	2,541
Gains on long term debt refinancing	-	3,951,871
Other miscellaneous income	2,636	3,852
Total other revenues	<u>5,224</u>	<u>3,958,264</u>
Excess of revenues over expenses and increase in net assets	325,893	3,876,244
Net Assets, Beginning of Period	<u>882,733</u>	<u>(2,841,144)</u>
Transfer of assets	-	<u>(152,367)</u>
Net Assets, End of Period	<u>\$ 1,208,626</u>	<u>\$ 882,733</u>

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

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Net resident service revenue	\$ 11,409,364	\$ 11,668,896
Interest income	2,588	2,541
All other	<u>2,636</u>	<u>3,852</u>
Cash provided by operating activities	11,414,588	11,675,289
Elderly care expenses	(4,692,488)	(4,919,008)
Administrative expenses	(465,319)	(871,109)
Management expenses	(733,150)	(698,836)
Utilities expenses	(254,356)	(239,840)
Salaries and wage expense	(3,710,329)	(3,642,464)
Operating and maintenance expense	(421,514)	(152,744)
Taxes expense, other	(375,433)	(376,300)
Insurance, fire, liability expense, etc.	(130,881)	(178,254)
Interest on mortgage	(214,625)	(218,058)
Interest on bond	-	(62,411)
Cash disbursed for operating activities	<u>(10,998,095)</u>	<u>(11,359,024)</u>
Net Cash Provided by Operations	<u>\$ 416,493</u>	<u>\$ 316,265</u>
Cash Flows From Investing Activities:		
Net deposits to real estate tax and insurance escrow account	(14,728)	(85,463)
Net deposits to the reserve for repairs and replacement accounts	(151,918)	(399,228)
Decrease in assets whose use is limited	(137,552)	1,852,029
Purchase of fixed assets	-	(534,725)
Net Cash Provided by (Used in) Investing Activities	<u>\$ (304,198)</u>	<u>\$ 832,613</u>
Cash Flows From Financing Activities:		
Acquisition of mortgage note payable	-	6,472,500
Payments of mortgage note payable	(143,322)	(127,905)
Payments of bonds payable	-	(7,773,242)
Acquisition of loan costs	-	(376,092)
Transfer of assets	-	(51,032)
Net Cash Used in Financing Activities	<u>\$ (143,322)</u>	<u>\$ (1,855,771)</u>
Net Increase (decrease) in Cash	(447,520)	(1,023,158)
Cash, Beginning of Period	1,717,067	2,423,960
Cash, End of Period	<u>\$ 1,269,547</u>	<u>\$ 1,400,802</u>

NOTES TO THE FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE \$83,937

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.

Of the above two requirements, the value of (1) is \$24,254, and the value of (2) is \$83,937. The Provider designated \$86,256 of liquid assets reserved at June 30, 2014 for this purpose. The Provider's current assets satisfy this requirement.

ESCROW ACCOUNT REQUIREMENTS

The Provider has established an escrow account in which to hold entrance fee deposits. The amounts held are clearly shown by resident, monthly charges are disclosed, and a residual balance is maintained.

SUBSEQUENT EVENTS

The examination team was not made aware of any events that could have a significant effect on the solvency of the Provider as of the date of examination and through the date of this examination report.

RECOMMENDATIONS

This is the initial examination of the Provider, and as such, there were no prior examination recommendations. As a result of the current examination the following recommendation is being made:

It is recommended that the Provider comply with 40 P.S. § 3207(c) and implement a policy to distribute the disclosure statement to all current and prospective CCRC residents on an annual basis. (See Annual Disclosure Statement, page 4).

CONCLUSION

As a result of our examination, we conclude that Somerset Care, Inc. is in compliance with all applicable Pennsylvania laws and regulations as they pertain to CCRCs as of June 30, 2014, except as noted in the recommendation on page 9 of this report.

This examination was conducted by Robert W. Smith, CFE.

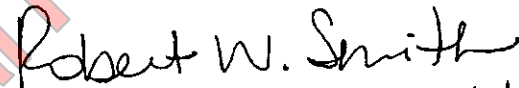
Respectfully submitted,



Melissa L. Greiner
Director
Bureau of Financial Examinations



Matthew C. Milford, CFE
Examination Manager - cdd



Robert W. Smith, CFE
Examiner-In-Charge - cdd

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