

Examination Warrant Number 17-250969478-CP-2

**Report of Examination of
St. John Lutheran Care Center
d/b/a St. John Specialty Care Center
Mars, Pennsylvania**

As of June 30, 2017

For Informational Purposes Only

St. John Lutheran Care Center d/b/a St. John Specialty Care Center

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For Informational Purposes Only

Harrisburg, Pennsylvania
July 22, 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 17-250969478-CP-2, dated December 21, 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

St. John Lutheran Care Center d/b/a St. John Specialty Care Center

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 500 Wittenberg Way, Mars, Pennsylvania 16046-0928.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of the Provider, which was last examined as of June 30, 2013. This examination covered the period from July 1, 2013 through June 30, 2017.

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 the years ending June 30, 2013 through June 30, 2017, the certified public accounting ("CPA") firm Baker Tilly Virchow Krause, LLC issued unmodified audit opinions of the Provider's financial statements based on the generally accepted accounting principles.

HISTORY

The Provider was issued a Certificate of Authority from the Department to operate as a CCRC on December 16, 2008. The examiner noted that the Certificate of Authority is issued to

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the Provider, while the subsidiary that actually renders the continuing care services is St. John Specialty Care Center ("Facility").

The Facility has been operating in conjunction with Mars Holdings Inc. ("Mars"). Mars is a wholly-owned subsidiary of the Provider and considered a separate legal entity. Mars operates two other affiliated facilities, RoseCrest and Overbrook Pointe ("Overbrook"). RoseCrest offers assisted living residences with memory support and Overbrook offers residential living.

While St. John Specialty Care Center is listed on the St. John Lutheran Care Center's Certificate of Authority, the facilities of RoseCrest and Overbrook are not listed. The Regulations require that a provider must obtain a Certificate of Authority for every facility which it operates, pursuant to 31 Pa. Code § 151.3(a). The Regulations further define a facility as "the place or places in which a person undertakes to provide continuing care to an individual."

It is recommended that the Provider's Certificate of Authority be modified to list the additional facilities pursuant to the requirements of 31 Pa. Code § 151.3(a).

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

DESCRIPTION OF FACILITY

The Facility is a suburban facility located on 33 plus acres in the Borough of Mars, Pennsylvania. The building contains personal care apartments and a skilled nursing facility. There are 36 licensed personal care rooms and 300 licensed nursing beds located within the Facility.

FEES AND SERVICES

As of June 30, 2017, the Fees and Services included in the Provider's Resident Agreement were associated with the Overbrook facility only. The Act in 40 P.S. § 3207(a)(7) requires that the Disclosure Statement shall include a description of all fees required of the residents. If more than one facility is utilized, the Disclosure Statement should include a table showing the frequency and average dollar amount of each increase in the rates at each facility for the previous five years.

It is recommended that the Provider include the appropriate fees and services associated with the facility in the Disclosure Statement pursuant to the requirements of 40 P.S. § 3207(a)(7).

REFUND POLICY

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

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Rescission Period

Any Entrance Fee payments, including the Reservation Fee, will be refunded in full if the Agreement is rescinded within seven (7) days.

Prior to Occupancy

In the event of termination by death, illness, injury, or incapacity prior to Occupancy, a full refund of all Entrance Fee payments will be made, including the Reservation Fee, less any amounts deducted (including the Administrative Processing Fee) to cover expenses incurred by the Provider, by a specific written request. In the event of Double Occupancy, the death of one Co-Resident shall not constitute termination of the agreement.

During the Transition Period

In the event of termination for any reason during the Transition Period, including death, illness, injury, or incapacity, a full refund of all Entrance Fee payments will be made, including the Reservation Fee and the Administrative Processing Fee, less any amounts deducted to cover expenses incurred by the Provider, so long as a written request is submitted.

After Occupancy

After Occupancy, any applicable refund will be made after the following have been completed: (a) the Residential Apartment has been vacated and released; (b) keys, garage door opener and security fobs to the Residential Apartment have been returned; (c) all personal furniture and belongings have been removed from the Residential Apartment; (d) termination of the agreement; and (e) upon the earlier of: (i) six (6) months after the lapse of conditions (a) through (d); or (i) the Provider has accepted and entered into a Resident and Care Agreement with a new resident for the Residential Apartment and the seven (7) day rescission period has expired; (ii) the replacement Entrance Fee has been paid in full for the Residential Apartment; and (iii) such new resident has taken Occupancy.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS (Provider)

The business and affairs of the Facility is controlled by the Board of Directors of the Provider. The Provider's Board of Directors consisted of the following members as of the examination date, June 30, 2017:

Name and Address	Principal Occupation
Rev. Ronald A. Brown Cranberry Township, PA	Parish Pastor
Jeannette Christensen Monroeville, PA	Senior Director, Technical Consulting
Ronald J. Coombs Wexford, PA	Chief Financial Officer

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Rev. William B. Diehm Pittsburgh, PA	Parish Pastor
Rev. James W. Dollhopf Butler, PA	Retired Parish Pastor
George D. Ehringer Coraopolis, PA	Retired Engineer/Architect
Rev. Brian A. Evans Pittsburgh, PA	Parish Pastor
David Fenoglio Mars, PA	President & CEO Lutheran SeniorLife
Rev. Randall Frenz Franklin, PA	Chaplain
Kurt Herbst Wexford, PA	Financial Associate
Chris O. Jordheim Pittsburgh, PA	Certified Financial Planner
Eric D. Kofmehl, PhD Pittsburgh, PA	Retired Health Care Professional
Marilyn D. Landis Pittsburgh, PA	President & CEO, Business Consulting
Rev. Tara R. Lynn Gibsonia, PA	Parish Pastor
David Merrick Cranberry Township, PA	Vice President, Healthcare Industry
Michele Reuss Pittsburgh, PA	Independent Consultant
Rev. Sandra Samuel Hermitage, PA	Retired Pastor
Rev. Margaret Suhr-Barkley Harmony, PA	Parish Pastor
Mark Trauman Zelienople, PA	CPA, Financial Planner
Chad J. Zutter, PhD Baden, PA	Finance Professor

BOARD OF DIRECTORS (Facility)

Management of the Facility is vested in its Board of Directors (“Board”), which was comprised of the following members as of the examination date, June 30, 2017:

Name and Address	Principal Occupation
David Fenoglio Mars, PA	President & CEO Lutheran SeniorLife
David Grifzer Pittsburgh, PA	Executive Director St. John Community

The Provider does not currently hold annual meetings.

It is recommended that the Provider shall comply with Article IV of their By-Laws, which states in Section 4.1, "The Board shall hold at least an annual meeting and may hold special meetings called by the President or any two (2) of the directors."

OFFICERS

The Provider could not provide documentation of the officers of the Provider during the period of examination.

It is recommended that the Provider shall elect officers in accordance with their By-Laws and 15 Pa. C.S. § 5732(a).

CORPORATE RECORDS

CERTIFICATE OF ORGANIZATION

There were no changes made to the Provider's Certificate of Organization 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 2017 Annual Disclosure Statement was reviewed for compliance with the Act and Regulations, specifically § 151.7 and § 151.9. The Examiner found that the 2017 Annual Disclosure Statement was not filed on time and did not include a current copy of the applicable resident agreement. Therefore, the Provider was not in compliance with all information required by the Act and the Regulations, as further described below.

It is recommended that the Provider attach a current copy of the Resident Agreement to the Disclosure Statement filed with the Department per 31 Pa. Code § 151.8(f)(1).

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(a)(13).

It is recommended that the Provider only include information related to its facility in the Annual Disclosure Statement in accordance with 40 P.S. § 3208(b).

RESIDENT AGREEMENT

The Provider's Resident Agreement was reviewed for compliance with the Act, 40 P.S. § 3214, and the Regulations, specifically § 151.8 and § 151.9. The 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 following financial statements were provided to the Department by the Provider, as of June 30, 2017:

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

The Examiner was not able to obtain financial statements that accurately reflect the Provider's individual financial condition. The examiner noted that the financial information included some financial information of affiliated companies.

It is recommended that the Provider refile its Annual Statements with the Department pursuant to the requirements of 31 Pa. Code § 151.11(a).

It is recommended that the Provider file separate financial statements in accordance with 31 Pa. Code § 151.11(b), which states, "Providers holding one or more certificates of authority to operate facilities organized as separate and distinct legal entities from the provider shall file an annual statement for each separate facility."

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

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,300	\$ 2,598,461
Accounts receivable:		
Patients, net	2,965,475	2,746,928
Other	5,682	4,239
Assets whose use is limited	201,321	358,113
Amounts due from third party payors	6,288	6,863
Affiliate receivables	389,659	531,046
Prepaid expenses and other current assets	282,844	203,159
Total Current Assets	<u>3,852,569</u>	<u>6,448,809</u>
Investments	4,716,973	4,237,791
Assets Whose Use is Limited	1,188,978	1,067,864
Assets Whose Use is Limited, Act 82 Reserves	49,857	66,042
Investments Held by Lutheran SeniorLife Foundation	3,105,889	2,753,862
Property and Equipment, Net	4,327,703	4,160,978
Beneficial Interest in Charitable Remainder Trust	31,393	30,593
Total assets	<u>\$ 17,273,362</u>	<u>\$ 18,765,939</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 210,338	\$ 201,400
Cash overdraft	333,782	-
Accounts payable	747,374	412,358
Accrued payroll and other expenses	723,630	714,496
Affiliate payables	329,354	324,234
Funds held for residents	55,975	101,217
Amounts due to third party payors	-	313,536
Total current liabilities	<u>2,400,453</u>	<u>2,067,241</u>
Long-Term Debt	9,692,835	9,892,391
Total Liabilities	<u>12,093,288</u>	<u>11,959,632</u>
Net Assets		
Unrestricted	4,584,144	6,211,507
Temporarily restricted	379,308	378,178
Permanently restricted	216,622	216,622
Total net assets	<u>5,180,074</u>	<u>6,806,307</u>
Total liabilities and net assets	<u>\$ 17,273,362</u>	<u>\$ 18,765,939</u>

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

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Net patient service revenue	\$ 17,194,918	\$ 19,244,817
Nursing home assessment	1,302,703	1,191,264
Other operating revenue	318,135	342,014
Net assets released from restrictions for operations	-	6,239
Total operating revenues	<u>18,815,756</u>	<u>20,784,334</u>
Operating Expenses		
Salaries, payroll taxes, and employee benefits	9,999,649	10,203,405
Professional fees	5,916,505	6,348,110
Utilities and maintenance	1,534,181	1,358,515
Supplies	1,466,922	1,651,737
Other expenses	668,868	611,124
Depreciation	540,010	563,501
Nursing home assessment	539,361	523,558
Interest	458,608	467,166
Provision for bad debts	161,650	171,647
Total operating expenses	<u>21,285,754</u>	<u>21,898,763</u>
Operating Loss	<u>(2,469,998)</u>	<u>(1,114,429)</u>
Nonoperating Revenues (Expenses)		
Investment income	840,625	40,963
Contributions	30,332	86,782
Other nonoperating (expenses) revenues	(28,322)	19,347
Total nonoperating revenues, net	<u>842,635</u>	<u>147,092</u>
Revenues Less than Expenses and Decrease in Unrestricted Net Assets	<u>\$ (1,627,363)</u>	<u>\$ (967,337)</u>

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

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (1,626,233)	\$ (858,510)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation	540,010	563,501
Amortization of debt issuance costs	10,782	10,782
Provision for bad debts	161,650	171,647
Net realized and unrealized (gain) loss on investments	(666,988)	218,201
Valuation (gain) loss, beneficial interest in charitable remainder trust	(800)	874
Contributions restricted for long-term purposes	-	(105,834)
Changes in assets and liabilities:		
Accounts receivable, patients	(380,197)	104,350
Accounts receivable, other	(1,443)	(445)
Amounts due from / to third party payors	(312,961)	319,838
Prepaid expenses and other current assets	(79,685)	4,039
Accounts payable	335,016	(264,967)
Accrued payroll and other expenses	9,134	106,257
Affiliate payables	5,120	(49,353)
Net cash (used in) provided by operating activities	<u>(2,006,595)</u>	<u>220,380</u>
Cash Flows from Investing Activities		
Decrease (increase) in affiliate receivables	141,387	(232,278)
Net sales (purchases) of investments and assets whose use is limited	194,427	(107,461)
(Increase) decrease in investments held by Lutheran SeniorLife Foundation	(352,027)	123,430
Purchases of property and equipment	(706,735)	(717,561)
Net cash used in investing activities	<u>(722,948)</u>	<u>(933,870)</u>
Cash Flows from Financing Activities		
Increase in cash overdraft	333,782	-
Payments on long-term debt	(201,400)	(192,842)
Proceeds from contributions restricted from long-term purposes	-	105,834
Refund of deferred financing costs	-	2,050
Net cash provided by (used in) financing activities	<u>132,382</u>	<u>(84,958)</u>
Net decrease in cash and cash equivalents	(2,597,161)	(798,448)
Cash and Cash Equivalents, Beginning of Year	<u>2,598,461</u>	<u>3,396,909</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,300</u>	<u>\$ 2,598,461</u>
Supplemental Disclosure of Cash Flow Information		
Interest Paid	<u>\$ 447,826</u>	<u>\$ 456,384</u>

NOTES TO FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE

\$49,857

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 \$72,845, and the value of (2) is \$112,517. As of June 30, 2017, the Provider had established and reported a reserve of \$49,857 for this purpose. These assets do not make a sufficient reserve for this purpose.

The Provider's Act 82 Reserves state, "St. John has elected to include the budget of Mars Holdings, Inc., an affiliate located on St. John's campus." The Examiner was not able to determine a statutory minimum liquid reserve that accurately reflects the individual amount of the Provider.

It is recommended that the Provider shall calculate and establish a minimum liquid reserve pursuant to the requirements of 40 P.S. § 3209 in order to continue operations as a licensed CCRC provider.

ESCROW ACCOUNT REQUIREMENTS

The Provider does accept deposits from CCRC residents, and therefore maintains an escrow account 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 were no recommendations made as a result of the prior examination.

CURRENT EXAMINATION

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

- (1) *It is recommended that the Provider's Certificate of Authority be modified to list the additional facilities pursuant to the requirements of 31 Pa. Code § 151.3(a).*
- (2) *It is recommended that the Provider include the appropriate fees and services associated with the facility as pursuant to the requirements of 40 P.S. § 3207(a)(7).*
- (3) *It is recommended that the Provider shall comply with Article IV of their By-Laws, which states in Section 4.1, "The Board shall hold at least an annual meeting and may hold special meetings called by the President or any two (2) of the directors."*
- (4) *It is recommended that the Provider shall elect officers in accordance with their By-Laws and 15 Pa. C.S. § 5732(a).*
- (5) *It is recommended that the Provider attach a current copy of the current Resident Agreement to the Disclosure Statement filed with the Department per 31 Pa. Code § 151.8(f)(1).*
- (6) *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(a)(13).*
- (7) *It is recommended that the Provider only include information related to its facility in the Annual Disclosure Statement accordance with 40 P.S. § 3208(b).*
- (8) *It is recommended that the Provider refile its Annual Statements with the Department pursuant to the requirements of 31 Pa. Code § 151.11(a).*
- (9) *It is recommended that the Provider file separate financial statements in accordance with 31 Pa. Code § 151.11(b), which states "Providers holding one or more certificates of authority to operate facilities organized as separate and distinct legal entities from the provider shall file an annual statement for each separate facility."*
- (10) *It is recommended that the Provider shall calculate and establish a minimum liquid reserve pursuant to the requirements of 40 P.S. § 3209 in order to continue operations as a licensed CCRC provider.*

CONCLUSION

As a result of our examination, we conclude that St. John Lutheran Care Center d/b/a St. John Specialty Care Center is not in compliance with all applicable Pennsylvania laws and regulations as pertaining to CCRCs, as of June 30, 2017 as described in the Recommendations section on page 11.

This examination was conducted by Jessica H. Sassaman.

Respectfully,



Melissa L. Greiner
Director
Bureau of Financial Examinations



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



Jessica H. Sassaman
Examiner-in-Charge

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