

Examination Warrant Number 18-465032816-CP-1

**Report of Examination of
Transitions Healthcare Washington, PA, LLC
Washington, Pennsylvania**

As of December 31, 2018

For Informational Purposes Only

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Harrisburg, Pennsylvania
February 27, 2020

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 18-465032816-CP-1, dated August 23, 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

Transitions Healthcare Washington, PA, LLC

a Pennsylvania domiciled, continuing-care retirement community (“CCRC”), hereinafter referred to as the “Provider.” The examination was conducted at the Provider’s facility, located at 90 Humbert Lane, Washington, Pennsylvania 15301.

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 the Provider’s first examination and covered the period from January 1, 2014 through December 31, 2018.

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 Solomon and Nislow, P.A. (“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.

The Provider entered into agreements with its auditors, for each year under examination which included indemnity clauses. This is discussed in more detail in the Annual Disclosure Statement section of this report on page 4.

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HISTORY

The Provider was incorporated on February 26, 2014 and subsequently purchased Transitions Healthcare Washington from an existing CCRC provider, Bruno Investments, LP (“Bruno”). Prior to purchase, Bruno operated the facility under the name Humbert Lane Senior Living and surrendered its certificate of authority upon completion of licensure by the Provider, which became the licensed operator of the CCRC and nursing facility November 1, 2014.

DESCRIPTION OF FACILITY

The Provider is located on approximately six acres in Washington, Pennsylvania in a suburban area of Washington County. The campus consists of a 51,000 square foot, single story, steel studded, stucco finished exterior building, which houses 48 licensed personal care beds, 120 licensed nursing care beds, and two one-bedroom independent living apartments. Each one-bedroom apartment contains a kitchen, living/dining room, bathroom and patio.

Through its home care agency license, the Provider, within the licensed area of the CCRC, aids with self-administered medications, personal hygiene, dressing and feeding, housekeeping, transportation, meal planning and preparation, and other non-skilled services. The real property of the continuing care retirement campus is owned by 90 Humbert Lane, LLC.

FEES AND SERVICES

As of December 31, 2018, the entrance fee for the Provider was \$18,000 per unit for single occupancy and \$27,000 per unit for double occupancy. The monthly maintenance fee was \$1,000 for single occupancy and \$1,500 for double occupancy. Services available for an additional charge include additional meals / guest meals, telephone, television cable, additional housekeeping, and salon services. The cost for nursing care services is not included in the entrance fee or monthly maintenance fee. CCRC agreements signed by residents are fee-for-service contracts.

REFUND POLICY

The following describes the Provider’s refund policy which does comply the requirements of the Act and Regulations.

Refund During Rescission Period

Any entrance fee payments will be refunded in full if the resident rescinds the continuing care agreement within seven (7) days in accordance with Notice of Right to Rescind.

Refund After Rescission Period but Prior to Occupancy

In the event of termination of the CCRC agreement before the designated occupancy date or actual date of occupancy, whichever is earlier, the Provider will make a full refund of any entrance fees, less any amounts dedicated to cover expenses incurred by the Provider for any upgrades or improvements as requested by the resident. Where two individuals have signed the

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CCRC agreement for double occupancy, the death of one co-resident will not constitute termination of the CCRC agreement, and no refund shall be due.

Refund After Occupancy

In the event of termination during the amortization period, the resident will be entitled to a refund of the unamortized portion of the entrance fee, if any, less deductions for 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, and / or costs incurred at the residents request, and / or any unpaid charges. All applicable refunds will be made after the resident surrenders the apartment and only after the apartment has been re-occupied by another resident who has paid in full the applicable entrance fee. After the lapse of the amortization period, the resident will not be entitled to a refund of any portion of the entrance fee.

MANAGEMENT AND CONTROL

MEMBER/OWNERS

The owners/members of the Provider have oversight authority over the CCRC. Each member holds 33 1/3% of the membership interests of the Provider. The members of the Provider are Matthew Maurano, NHA; Kevin Williams, RN; Mark Feldman, CPA.

MANAGEMENT COMPANY

Transitions Healthcare, LLC, a related entity, manages the day to day activities of the Provider through a management agreement. The members who own the Provider also own the management company and hold the following positions within Transitions Healthcare, LLC (the management company):

Name	Title
Matthew Maurano, NHA	Chief Executive Officer
Kevin Williams, RN	Chief Operations Officer-Clinical Operations
Mark Feldman, CPA	Chief Financial Officer

CORPORATE RECORDS

CERTIFICATE OF ORGANIZATION

The Provider is a limited liability company with an address of 90 Humbert Lane, Washington, Pennsylvania 15301. The Certificate of Organization filed with the Department of State was effective February 26, 2014.

BY-LAWS

The Provider is a limited liability company; and as such, is not required to have By-laws. The Provider does operate under the specifics of the Limited Liability Company Agreement dated March 13, 2014, as amended.

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 in compliance with all information required by the Act and the Regulations as described below.

The Provider entered into an agreement with its auditors, for certain years which included indemnity clauses. The Provider's engagement letter indemnified the auditors from any action, regardless of form, arising out of services performed under the agreement, by either party, more than three (3) years after the date of last services provided under the agreement.

According to 31 Pa. Code § 147.6(b)(4), the Department will not recognize a firm as a qualified CPA when "the person or firm has entered into an agreement of indemnity, or other release from liability, that would shift, transfer, or limit in any manner the potential liability of the person or firm for failure, whether by omission or commission, to adhere to applicable auditing or professional standards, whether or not the failure would result in whole or in part from misrepresentations made by the insurer or its representatives."

It is recommended that the Provider submit, with its Annual Disclosure Statement, financial statements which were audited by a qualified independent certified public accountant who has not entered into indemnity clauses, which are prohibited in 31 Pa. Code § 147.6(b)(4).

RESIDENT AGREEMENT

The Provider's 2018 Resident Agreement was reviewed for compliance with Act, 40 P.S. § 3214, and the Regulations, specifically 31 Pa. Code § 151.8 and § 151.9. The 2018 Resident Agreement was not in compliance with all information required by the Act and the Regulations.

The Resident Agreement is non-compliant with 31 Pa. Code 151.8(d) "provider agrees that resident shall not be liable to a health care provider for services rendered under a resident's agreement. In the event a health care provider seeks payment from the resident, the continuing care provider shall assume liability for payment of the health care services rendered, if the health care services rendered are services which a provider agreed to furnish to a resident in consideration of the residents payment of entrance and periodic fees. Health care providers shall include persons rendering services to a resident as employees of the provider or facility, on a fee-for-service basis or otherwise."

It is recommended that the Provider update the Resident Agreement to be in compliance with 31 Pa. Code 151.8(d).

PENDING LITIGATION

There was no known pending legal action, or any known potential litigation matters which could have a materially adverse effect on the Provider's financial condition as of the date of the examination.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of December 31, 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 Income and Changes in Members' Equity; and
Comparative Statement of Cash Flows

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

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Comparative Balance Sheet For the Years Ended December 31, 2018 and 2017

Assets	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and cash equivalents	\$ 178,678	\$ 39,295
Medicare/Medicaid/other insurance receivable - net	1,510,115	2,216,662
Due from third-party payers	288,103	464,460
Prepaid expenses	<u>183,199</u>	<u>111,352</u>
Total current assets	2,160,095	2,831,769
Restricted deposits and funded reserves		
Escrow deposits	94,407	106,920
Reserve for replacements	140,706	117,241
Statutory liquid reserve requirement	<u>33,622</u>	<u>33,622</u>
Total restricted deposits and funded reserves	268,735	257,783
Property and equipment		
Leasehold improvements	257,426	222,262
Furnishings	<u>362,011</u>	<u>301,647</u>
Sub-total	619,437	523,909
Less: accumulated depreciation	<u>254,030</u>	<u>198,333</u>
Total property and equipment	<u>365,407</u>	<u>325,576</u>
Other assets		
Security deposits	<u>145,445</u>	<u>145,446</u>
Total other assets	<u>145,445</u>	<u>145,446</u>
Total assets	<u>\$ 2,939,682</u>	<u>\$ 3,560,574</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 1,984,653	\$ 2,192,259
Accrued wages and benefits payable	304,266	367,196
Due to third-party payers	186,839	193,504
Current portion of long-term debt	<u>946,237</u>	<u>1,003,840</u>
Total current liabilities	3,421,995	3,756,799
Other liabilities		
Deferred revenue	5,340	5,995
Other resident liabilities	55,793	35,782
Due to related parties, long term	65,831	273,293
Long-term debt	<u>974,382</u>	<u>751,597</u>
Total other liabilities	<u>1,101,346</u>	<u>1,066,667</u>
Members Equity	<u>(1,583,659)</u>	<u>(1,262,892)</u>
Total liabilities and members equity	<u>\$ 2,939,682</u>	<u>\$ 3,560,574</u>

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**Comparative Statement of Income and Changes in Members' Equity
For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Revenue		
Nursing home	\$ 12,250,236	\$ 12,519,215
Expenses		
Administrative	2,960,785	2,963,229
Depreciation and amortization	55,698	56,029
Interest	72,295	87,141
Operating and maintenance	9,482,227	9,850,869
Total expenses	<u>12,571,005</u>	<u>12,957,268</u>
Net Income	<u>(320,769)</u>	<u>(438,053)</u>
Members' Equity		
Beginning balance	\$ (1,262,892)	\$ (824,839)
Net income (loss)	<u>(320,767)</u>	<u>(438,053)</u>
Ending balance	<u><u>\$ (1,583,659)</u></u>	<u><u>\$ (1,262,892)</u></u>

Comparative Statement of Cash Flows
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ (320,767)	\$ (438,053)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	55,698	49,728
Amortization	0	6,302
(Increase) Decrease in trade receivables	706,547	5,168
(Increase) Decrease in due from third-party payers	176,357	(39,900)
(Increase) Decrease in prepaid expenses	(71,847)	31,876
(Increase) Decrease in other assets	0	0
(Increase) Decrease in accounts payable and accrued expenses	(277,201)	544,419
(Increase) Decrease in other liabilities	19,356	259
Total adjustments	<u>608,910</u>	<u>597,852</u>
Net cash (used in) provided by operating activities	<u>288,143</u>	<u>159,799</u>
Cash Flows from Investing Activities:		
Net purchases of depreciable assets	(95,528)	(61,020)
Deposits to restricted reserves	(10,952)	128,782
Net cash used in investing activities	<u>(106,480)</u>	<u>67,762</u>
Cash Flows from Financing Activities		
(Increase) Decrease in due to related parties, net	(207,462)	(340,409)
Payment from other loans and notes payable	(58,903)	(332,857)
Proceeds from other loans and notes payables	224,085	282,562
Net cash (used in) financing activities	<u>(42,280)</u>	<u>(390,704)</u>
Net increase (decrease) in cash and cash equivalents	<u>139,383</u>	<u>(163,143)</u>
Cash and cash Equivalents, Beginning	<u>39,295</u>	<u>202,438</u>
Cash and cash Equivalents, Ending	<u>\$ 178,678</u>	<u>\$ 39,295</u>
Supplemental Disclosures:		
Cash paid during the year for:		
Interest	72,293	\$ 87,141
Taxes		

NOTES TO FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE

\$33,622

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 \$7,228 and the value of (2) is \$7,855. As of December 31, 2018, the Provider had established and reported a reserve of \$33,622 for this purpose.

It was determined the Provider calculated the proportional share of the projected operating expenses when calculating the Statutory Minimum Liquid Reserve based on square footage of the independent living units to total square footage as opposed to residents under CCRC agreements to total residents as required by the Act.

It is recommended that the Provider calculate their Statutory Minimum Liquid Reserve based on the number of residents pursuant to the requirements of the Act.

ESCROW ACCOUNT REQUIREMENTS

The Provider does accept deposits from CCRC residents and maintains an escrow account 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

CURRENT RECOMMENDATIONS

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

- (1) *It is recommended that the Provider submit, with its Annual Disclosure Statement, financial statements which were audited by a qualified independent certified public accountant who has not entered into indemnity clauses, which are prohibited in 31 Pa. Code § 147.6(b)(4).* (See Annual Disclosure Agreement page 4)
- (2) *It is recommended that the Provider update the Resident Agreement to be in compliance with 31 Pa. Code 151.8(d).* (See Resident Agreement page 4)

- (3) *It is recommended that the Provider calculate their Statutory Minimum Liquid Reserve based on the number of residents pursuant to the requirements of the Act.*
(See Statutory Minimum Liquid Reserve page 9)

CONCLUSION

The examination of the Provider, as of December 31, 2018, was determined not to be in compliance with all applicable Pennsylvania laws and regulations as pertaining to CCRCs.

This examination was conducted by Judson R. Fodness

Respectfully,

Melissa Greiner

Melissa L. Greiner
Director
Bureau of Financial Examinations

William M. Fedak

William M. Fedak, CFE
Examination Manager

Judd Fodness

Judson Fodness
Examiner-in-Charge

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