

EXAMINATION WARRANT # 16-251881436-CP

REPORT OF EXAMINATION OF

**TRINITY LIVING CENTER, LP
BUTLER, PENNSYLVANIA**

As of June 30, 2016

For Informational Purposes Only

TRINITY LIVING CENTER, LP

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Harrisburg, Pennsylvania
January 6, 2017

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

Dear Sir:

In accordance with instructions contained in Examination Warrant 16-251881436-CP dated October 14, 2016, and in accordance with provisions of the Pennsylvania Continuing Care Provider Registration and Disclosure Act, as cited in 40 P.S. § 3219 (“the Act”), an examination was made of

TRINITY LIVING CENTER, LP

a Pennsylvania domiciled continuing-care retirement community (“CCRC”), hereafter referred to as the “Provider.” This examination was conducted at the Provider’s administrative office 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, 2012, through June 30, 2016, 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 each year during the period under examination, the certified public accounting (“CPA”) firm of Carbis Walker LLP, New Castle, Pennsylvania and their successors Arnett, Carbis, and Toothman provided an unmodified opinion based on generally accepted accounting principles (“GAAP”). Relevant work performed by the CPA during the audit of the Provider has been utilized during the examination and incorporated into the examination workpapers.

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HISTORY

On November 2, 1921 Grove City Hospital began operations. In 1978, the Grove City Hospital was converted into a nursing home and became known as Hillcrest Nursing Rehabilitation Center. In September 1983, construction was completed on the expansion of the west halls of the second and third floors of the building. In 1992, Hillcrest Nursing Rehabilitation Center was sold which resulted in a change in the name of the facility to Buchanon Commons.

In the spring of 2001, the facility was acquired by the Tack family. The facility was renamed Trinity Living Center. On January 7, 2002, the Tack family began renovations of a three-year, million-dollar construction project that added a 20-bed personal care unit and a 48-bed Alzheimer Specialty Care unit.

The Provider is currently licensed to operate 109 nursing beds. The Provider is an affiliate of the Sugar Creek Rest, Inc., d/b/a Quality Life Services, ("Quality Life") a for-profit corporate system, managed by Quality Life. Quality Life provides administrative and fiscal services to its affiliates and coordinates the total operations of Trinity Living Center and other entities under Quality Life's management.

On March 21, 2007, the Department issued the Provider a Certificate of Authority to operate as a CCRC.

The Provider is a for-profit limited partnership and is taxed in accordance with the provisions of the Internal Revenue Code.

DESCRIPTION OF FACILITY

Trinity Living Center is located on approximately five acres of land located at 400 Hillcrest Avenue, Grove City, Pennsylvania, in a suburban area of Mercer County. The Provider's campus consists of a brick building that contains residential living, personal care, and nursing care services. The original part of the building, built in 1921, consists of two floors that house a 20-bed personal care unit on the first floor and two residential living units on the second floor. The third residential unit was converted and is currently being used for storage.

As of the last day of field work on this examination, the Provider had two units available for CCRC residents; however, neither unit was occupied. The Provider is actively marketing the community to prospective CCRC residents. One of the remaining two apartments was furnished and is currently used as display model.

It is recommended that the Provider submit to the Department a plan for enrolling CCRC residents into its community. If the Provider is unable to attract residents into the community through continuing care agreements, then the Provider should voluntarily surrender its Certificate of Authority.

FEES AND SERVICES

As of June 30, 2016, CCRC residents had a choice of two options for residence with varying entrance fees. The entrance fees for existing units under Option 1 was \$25,000 and Option 2 was \$15,000. The entrance fee is amortized over 50 months after occupancy at 2% per month. After 50 months from the date of occupancy, no part of the entrance fee will be refunded.

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In addition to the entrance fee, residents are charged a monthly maintenance fee of \$300 for Option 1 and \$500 for Option 2. Numerous services are offered by the Provider as part of the monthly fee.

Some of the services CCRC residents are entitled to include utilities and wireless internet services, repair of equipment, building and grounds maintenance, administrative support services, bi-weekly housekeeping services, real estate tax exemption, and recreational, educational and social services and a 24-hour response call system. Other services available at additional charges include meals, barber/beauty services, housekeeping, linen/laundry service, full furnishings, transportation services, and monthly phone, 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 continuing care agreement.

There were two terminations of CCRC resident agreements during the examination period; and, in both 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.

Termination Before Occupancy

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

In the event the resident is precluded from taking occupancy because of death, illness, injury, or incapacity prior to the Designated Occupancy Date or actual date of occupancy, whichever is earlier; then the Provider will make a full refund of all entrance fee payments less any amounts deducted to cover expenses incurred at the resident's specific written request.

If the agreement is not terminated within the seven (7) day rescission period but is terminated prior to the Designated Occupancy Date or actual date of occupancy, whichever is earlier, while not precluded from taking occupancy by illness, injury, incapacity, or death; then the in such event, this agreement is automatically rescinded and a full refund shall issue to Resident, Resident's legal representative, or Resident's estate.

Termination After Occupancy

The entrance fee shall be amortized at a rate of amortized and earned by the Provider at the rate of two percent (2%) per month over a period of fifty (50) months from the Designated Occupancy Date or actual date of Occupancy, whichever is earlier. At the conclusion of the amortization period, the entrance fee shall be earned in full by the Community.

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The Resident may terminate this Agreement by delivery of written notice to the Community at least thirty (30) days prior to termination, and by the surrender of the living accommodation. Termination shall be effective after the lapse of the thirty (30) day notice period and surrender of the living accommodation. Any unamortized portion of the entrance fee shall be refunded to the Resident.

Conditions and Timing for Refunds

Prior to occupancy, all applicable refunds will be made within thirty (30) days. After occupancy, all applicable refunds will be made after the unit has been surrendered. The amount of any refund is subject to deductions for any amounts due and will be calculated by reference to the date of surrender of the unit. In situations of multiple 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 multiple occupancy, the death of one resident shall not constitute termination of the agreement, and no refund shall be due.

MANAGEMENT AND CONTROL

The management of the Provider is shared by a Limited partnership and also a General Partner as described in the tables below.

<u>Limited Partners:</u>	<u>Percentage of ownership</u>	<u>Location</u>
Kenneth R. Tack Trust	33.0%	Chicora, PA
Philip E. Tack Trust	33.0%	Worthington, PA
Steven D. Tack	33.0%	Kittanning, PA
General Partner:		
Sugar Creek Rest, Inc.	1.0%	Butler, PA

Affiliates:

The Provider is an affiliate of Sugar Creek Rest, Inc. d/b/a, Quality Life Services ("Quality Life"), a for-profit corporate system, managed by Quality Life. Quality Life provides administrative and fiscal services to its affiliates, and coordinates the total operations of the Provider and the following separate legal entities under Quality Life's management:

1. **Sugar Creek Rest, LP** (founded 1973) a continuing care retirement community located in Worthington, PA.
2. **Armstrong Retirement Village, LP** (developed 1980) the owner and operator of eight residential living modular homes in Worthington, PA.
3. **Countryside Convalescent Home, LP** (purchased 1992), located in Mercer, PA, is a 48-bed nursing facility with a 100-bed personal care facility. It includes five apartments that are rented to the general public.

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4. **Quality Pharmacy Services** (founded 2006) as a retail pharmacy. Quality Pharmacy Services has also expanded into an institutional pharmacy which provides services to its affiliated health care facilities that are part of the Quality Life corporate system.
5. **Chicora Medical Center, LP** (purchased 1999) the owner and operator of a continuing care retirement community consisting of a 114-bed nursing facility, 26-bed personal care facility and three residential living units located in Chicora, PA.
6. **South Fayette Nursing Center, LP** (purchased 2007) is the owner and operator of a 60-bed nursing facility located in Markleysburg, PA.
7. **Fair Winds Manor, LP** (purchased 2007) is the owner and operator of a continuing care retirement community that consists of a 66-bed nursing facility, 30 bed personal care facility and one free-standing residential living apartment located in Sarver, PA.
8. **Henry Clay Villa, LP** (purchased 2010) is the owner and operator of a 74-bed nursing facility and a 30-bed personal care facility located in Markleysburg, PA.
9. **West Haven Manor, LP** (purchased 2010) is the owner and operator of a 177-bed nursing facility and a 70-bed personal care facility located in Apollo, PA.
10. **Newberry Apartments, LLC, d/b/a Newberry Apartments** (created 2002) is the owner and operator of 42 one-bedroom apartments and 10 two-bedroom apartments in Grove City, PA. These apartments are rented to the general public and are not considered residential living apartments for the elderly.
11. **Newberry Apartments, LLC, d/b/a Pine Tree Village Apartments** is the owner and operator of 128 apartments located in West Middlesex, PA. These apartments are rented to the general public and are not considered residential living apartments for the elderly. Twenty percent (20%) of the apartments are designated for individuals and families under the HUD Section-8 housing program.
12. **Tack Capital Company**, a limited liability company that funded loans made to Trinity, Sugar Creek, Chicora, Fair Winds Manor, and South Fayette facilities.

Each of the above companies is a separate legal entity and is accounted for separately in regard to financial reporting purposes.

CORPORATE RECORDS

CERTIFICATE OF LIMITED PARTNERSHIP

There were no changes made to the Provider's Certificate during the examination period.

AGREEMENT OF LIMITED PARTNERSHIP

There were no changes made to the Provider's Agreement during the examination period.

ANNUAL DISCLOSURE STATEMENT

The Provider's 2015 Annual Disclosure Statement was reviewed for compliance with the Act, 40 P.S. § 3207, and the Regulations, specifically § 151.7 and § 151.9. The examiner found that the 2015 Disclosure Statement is in compliance with all information required by the Act and the Regulations.

RESIDENT AGREEMENT

The Provider's current Resident Agreement was reviewed for compliance with the Act, 40 P.S. § 3214, and the Regulations specifically § 151.8 and § 151.9. The examiner found that the current Resident Agreement was in compliance with all information required by the Act and the Regulations.

PENDING LITIGATION

There was no known pending legal actions or potential legal actions which could have a materially adverse effect on the Provider's financial condition as of the date of this examination.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of June 30, 2016, 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; and
Statement of Partners' Equity

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,

ASSETS	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash	\$ 52,466	\$ 162,996
Resident accounts receivable, less allowance for doubtful accounts	1,074,598	1,226,310
Accounts receivable, affiliates	2,715	12,352
Prepaid expenses	115,742	94,090
Total current assets	<u>1,245,521</u>	<u>1,495,748</u>
OTHER ASSETS		
Nursing facility bed licenses, net of accumulated amortization	-	28,160
Unamortized loan fees, net of accumulated amortization	382	1,033
Resident funds, cash	30,076	21,922
Statutory liquid reserve	7,755	15,587
Mortgage escrows	64,618	66,947
Total other assets	<u>102,831</u>	<u>133,649</u>
PROPERTY AND EQUIPMENT, at cost		
Land	167,650	167,650
Buildings and improvements	3,911,802	3,853,322
Equipment	1,427,326	1,390,859
Furniture and fixtures	3,866	3,866
Construction in progress	22,124	22,124
	5,532,768	5,437,821
Less accumulated depreciation	(2,682,695)	(2,508,781)
Net property and equipment	<u>2,850,073</u>	<u>2,929,040</u>
Total assets	<u>\$ 4,198,425</u>	<u>\$ 4,558,437</u>
LIABILITIES AND PARTNERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 193,346	\$ 232,804
Accounts payable, trade	155,676	204,886
Accounts payable, affiliates	34,767	2,432
Advances payable, affiliate	875,000	275,000
Accrued payroll and payroll taxes	152,312	172,770
Accrued vacation and other expenses	109,130	124,097
Estimated third-party payor settlements	23,056	36,821
Total current liabilities	<u>1,543,287</u>	<u>1,048,810</u>
RESIDENT FUNDS	<u>30,076</u>	<u>21,922</u>
LONG-TERM DEBT, less current maturities	<u>739,948</u>	<u>947,880</u>
ADVANCES PAYABLE, AFFILIATES	<u>390,670</u>	<u>241,258</u>
DEFERRED REVENUE FROM ADVANCED FEES	<u>4,290</u>	<u>2,455</u>
REFUNDABLE FEES AND DEPOSITS	<u>18,900</u>	<u>22,800</u>
PARTNERS' EQUITY		
Limited partners	1,425,735	2,221,962
General partner	45,519	51,350
Total partners' equity	<u>1,471,254</u>	<u>2,273,312</u>
Total liabilities and partners' equity	<u>\$ 4,198,425</u>	<u>\$ 4,558,437</u>

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Comparative Statement of Operations
for the Year Ended June 30,

	<u>2016</u>	<u>2015</u>
Net resident revenue	\$ 7,782,022	\$ 8,242,956
Operating expenses:		
Nursing and medical care	4,549,879	4,514,552
Administrative and general	951,818	959,657
Operation and maintenance	814,750	772,527
Dietary	717,885	731,754
Provision for bad debts	381,571	230,310
Recreation and social services	350,037	371,558
Depreciation and amortization	230,759	196,998
Housekeeping	229,774	293,619
Interest	87,393	78,255
Laundry and linen	86,301	102,167
	<u>8,400,167</u>	<u>8,251,397</u>
Operating (loss)	<u>(618,145)</u>	<u>(8,441)</u>
Other income:		
Rental income	10,953	9,434
Meals	6,348	5,837
Gain from sale of equipment	-	2,750
Miscellaneous income	17,618	8,030
	<u>34,919</u>	<u>26,051</u>
Net income (loss)	<u>\$ (583,226)</u>	<u>\$ 17,610</u>

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

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$(583,226)	\$ 17,610
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	201,948	165,627
Amortization	28,811	31,371
Gain on sale of equipment	-	(2,750)
Provision for bad debts	381,571	230,310
Proceeds from / amortization of advanced fees	(2,065)	10,987
(Increase) decrease in assets:		
Resident accounts receivable	(229,859)	(91,372)
Accounts receivable, affiliates	9,637	(9,931)
Prepaid expenses	(21,652)	7,482
Increase (decrease) in liabilities:		
Accounts payable, trade	(49,210)	57,942
Accounts payable, affiliates	32,335	(135,036)
Accrued payroll and payroll taxes	(20,458)	12,288
Accrued vacation and other expenses	(14,967)	(7,648)
Estimated third-party payor settlements	(13,765)	9,333
Net cash provided by (used in) operating activities	<u>(280,900)</u>	<u>296,213</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(122,981)	(534,546)
Proceeds from sale of equipment	-	2,750
(Increase) decrease in statutory liquid reserve	7,832	(8,100)
Net withdrawals from mortgage escrows	2,329	508
Net cash (used in) investing activities	<u>(112,820)</u>	<u>(539,388)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(247,390)	(235,158)
Net advances from affiliates	749,412	507,207
Distributions to partners	(218,832)	(189,968)
Net cash provided by financing activities	<u>283,190</u>	<u>82,081</u>
Net (decrease) in cash	<u>(110,530)</u>	<u>(161,094)</u>
Cash:		
Beginning	<u>162,996</u>	<u>324,090</u>
Ending	<u>\$ 52,466</u>	<u>\$ 162,996</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	<u>\$ 87,393</u>	<u>\$ 78,255</u>

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Statements of Partners' Equity
for the Year Ended June 30,

	Kenneth R. Tack Trust	Philip E. Tack Trust	Steven D. Tack	Total Limited Partners	Sugar Creek Rest, Inc. d/b/a Quality Life Services	Total
Balance, June 30, 2014	\$878,876	\$844,527	\$671,094	\$2,394,497	\$51,173	\$2,445,670
Add net income	5,811	5,811	5,811	17,433	177	17,610
Deduct partner distributions	(92,834)	(92,834)	(4,300)	(189,968)	0	(189,968)
Balance, June 30, 2015	791,853	757,504	672,605	2,221,962	51,350	2,273,312
Deduct net (loss)	(192,465)	(192,465)	(192,465)	(577,395)	(5,831)	(583,226)
Deduct partner distributions	(102,966)	(102,966)	(12,900)	(218,832)	0	(218,832)
Balance, June 30, 2016	\$496,422	\$462,073	\$467,240	\$1,425,735	\$45,519	\$1,471,254

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NOTES TO THE FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE \$7,775

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 \$2,503, and the value of (2) is \$7,775. As of June 30, 2016, the Provider had established and reported a reserve of \$7,775 for this purpose.

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 resident's 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, 2016, through the date of this examination report that would have a material effect on the solvency of the Provider.

RECOMMENDATIONS

PRIOR RECOMMENDATIONS

There were no recommendations made as a result of the prior examination.

CURRENT RECOMMENDATIONS

As a result of this examination the following recommendation is made:

1. *It is recommended that the Provider submit to the Department a plan for enrolling CCRC residents into its community. If the Provider is unable to attract residents into the community through continuing care agreements, then the Provider should voluntarily surrender its Certificate of Authority.*

CONCLUSION

As a result of our examination, we conclude that Trinity Living Center, LP is in compliance with the applicable Pennsylvania laws and regulations as they pertain to CCRCs as of June 30, 2016, except as noted in the Recommendations section above.

This examination was conducted by Cornelius McConville.

Respectfully submitted,



Melissa L. Greiner
Director
Bureau of Financial Examinations



Matthew Milford, CFE
Examination Manager



Cornelius McConville
Examiner-In-Charge

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