

REPORT ON EXAMINATION

OF

HEALTH ALLIANCE SENIOR LIVING CORP.

d/b/a WOODLAND POND AT NEW PALTZ

AS OF

DECEMBER 31, 2014

DATE OF REPORT

DECEMBER 5, 2016

EXAMINER

FROILAN ESTEBAL

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

December 5, 2016

Honorable Maria T. Vullo
Superintendent of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law and the New York Public Health Law and acting in accordance with the instructions contained in Appointment Number 31416, dated January 29, 2016, attached hereto, I have made an examination of Health Alliance Senior Living Corp., d/b/a Woodland Pond at New Paltz, a not-for-profit continuing care retirement community certified pursuant to the provisions of Article 46 of the New York Public Health Law, as of December 31, 2014, and respectfully submit the following report thereon.

The examination was conducted at the home office of Woodland Pond at New Paltz, located at 100 Woodland Pond Circle, New Paltz, NY.

Wherever the designations “Woodland Pond” or the “Community” appear herein, without qualification, they should be understood to indicate Woodland Pond at New Paltz.

Wherever the designation “HealthAlliance” appears herein, without qualification, it should be understood to indicate HealthAlliance, Inc., the parent of the Community.

Wherever the designation the “Department” appears herein, without qualification, it should be understood to indicate the New York State Department of Financial Services.

1. SCOPE OF THE EXAMINATION

The previous examination was conducted as of December 31, 2011. This examination covered the three-year period from January 1, 2012 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

Representatives of the New York State Department of Financial Services conducted a site survey of the Community's facility on March 14, 2016, pursuant to the requirements of Section 4614(1) of the New York Public Health Law.

The examination utilized, to the extent considered appropriate, work performed by the Community's independent certified public accountants and independent actuary. It is noted that the balance sheet included herein was reported as of December 31, 2014, on a statutory actuarial basis, pursuant to Department Insurance Regulation No. 140 (11 NYCRR 350).

A review was also made of the following items:

- Community documents
- Compliance with By-laws
- Occupancy levels
- Financial documents
- Minutes of Board of Directors' meetings

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

A review was also made to ascertain what actions were taken by the Community with regard to comments and recommendations contained in the prior report on examination.

2. **DESCRIPTION OF THE COMMUNITY**

The Community was formed on October 3, 2002 as a continuing care retirement community (“CCRC”), as defined under Article 4601 of the New York Public Health Law. The Community received a Certificate of Authority issued by the New York State Department of Health and approved by the Continuing Care Retirement Community Council, effective October 26, 2007. The Community commenced operations on September 25, 2009. Woodland Pond is a New York State not-for-profit organization and is tax exempt pursuant to the provisions of Section 501(c)(3) of the Internal Revenue Code.

Woodland Pond is designed for older adults who are in good physical health and are able to live independently. The Community consists of two hundred one (201) independent living units, with one hundred seventy-seven apartments (177) and twenty-four (24) cottages. Additionally, there are sixty (60) enriched housing units, including twenty (20) units dedicated to people with memory impairment, and forty (40) skilled nursing beds. The Community also contains a community center, which includes dining rooms, a library, lounges, lobbies, and other public gathering spaces, as well as administrative offices.

Woodland Pond provides residents with a continuum of services, including independent living, enriched housing and skilled nursing home care. As a condition precedent to providing these services, the Community enters into a continuing care contract with each prospective resident that sets forth the responsibilities of both parties. For the right to occupy, use the living accommodations, and utilize the services of the Community, each resident is required to pay an

entrance fee and a monthly service fee based on the size, type, and number of occupants in the unit.

A. Corporate Governance

Pursuant to the Community's charter and by-laws, management of the Community is to be vested in a board of directors consisting of not less than seven, nor more than eleven directors. As of the examination date, the board of directors was comprised of seven members.

As of December 31, 2014, the directors of the Community and their principal business affiliations were as follows:

<u>Name and Residence</u>	<u>Principal Affiliation</u>
Anna M. Brett Kingston, NY	Retired
Dr. Laurel M. Garrick Duhaney New Paltz, NY	Assoc. Provost & Dean Graduate School, State University of New York, New Paltz
Alan Dunefsky Port Ewen, NY	Dean, State University of New York, New Paltz
Beverly Finnegan Kingston, NY	Retired
Mr. John Klassen Kingston, NY	Community Lender, Rhinebeck Bank
Brooke Pickering-Cole Kingston, NY	Associate Director For Community Relations, Local Economies Project
J. Peter Roberts, M.D. Kingston, NY	Retired Physician

Additionally, David Scarpino, Acting President and Chief Executive Officer of the Health Alliance Hospital, Broadway Campus, attended meetings as a voting ex-officio member.

The Community's board met at least once each quarter during the exam period, in compliance with its by-laws.

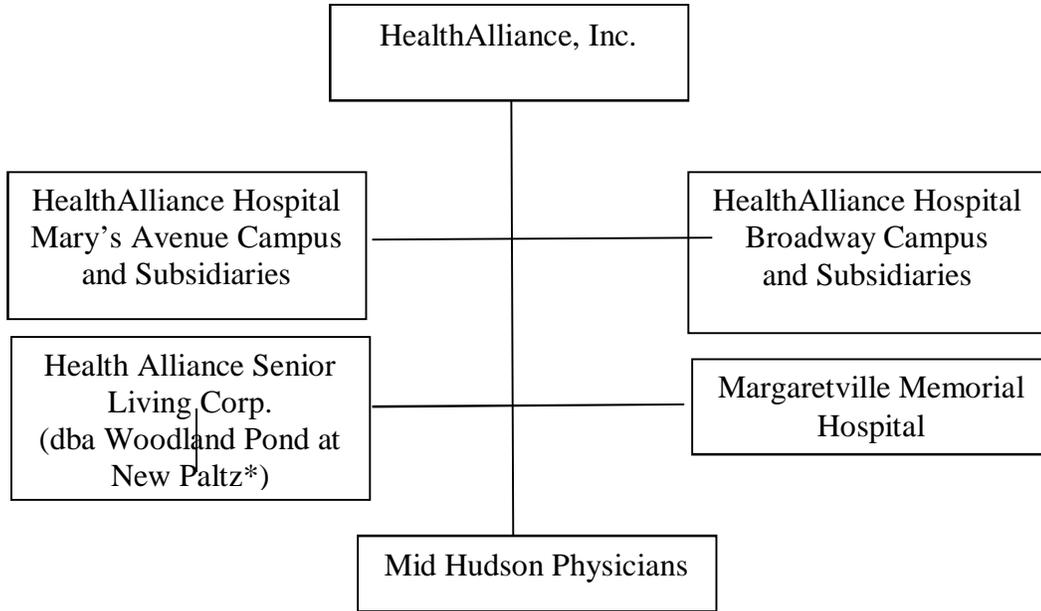
A review of the attendance records of the board of directors' meetings held during the period under examination revealed that the meetings were generally well attended, with all members attending at least one half of the meetings they were eligible to attend.

The principal officers of the Community at December 31, 2014 were as follows:

<u>Officers</u>	<u>Title</u>
David Scarpino	Chief Executive Officer
Steve Haas	Chief Financial Officer
Beverly Finnegan	Chairman of the Board
Alan Dunefsky	Vice Chairman
Michelle Gramoglia	Executive Director
Christi Battistoni	Director of Finance
Brooke Pickering-Cole	Secretary

B. Holding Company System

Woodland Pond is a subsidiary of HealthAlliance. Other affiliated entities for which HealthAlliance is the parent include HealthAlliance Hospital Mary's Avenue Campus and Subsidiaries, HealthAlliance Hospital Broadway Campus and Subsidiaries, Margaretville Memorial Hospital and Mid-Hudson Physicians. These relationships are shown in the chart below.



* Subsequent to the examination, the Community filed to de-affiliate with its parent company HealthAlliance, Inc. The filing was approved by the New York Attorney General's Office effective March 24, 2016. Effective March 24, 2016, the Community was officially re-named Woodland Pond, Inc.

As of the examination date, the Community received administrative services, subject to the terms of an amended and restated corporate services agreement from its parent, HealthAlliance effective May 4, 2010. Generally, HealthAlliance provided a limited amount of management services, including advisory and administrative services and personnel administration, as may be necessary to assist the Community's goal of operating a CCRC and providing retirement housing services. HealthAlliance was responsible for certain supervisory oversight services. In consideration for the management oversight by HealthAlliance, the Community was required to pay HealthAlliance a bi-weekly management fee equal to the total percentage of time that HealthAlliance staff and contractors perform services for and on behalf of the Community which was provided to Management in December 2015.

As of December 31, 2014 the Community reported \$4,907,707 due to parent, subsidiaries and affiliates. The Community incurred the following management fees during the examination period.

<u>Year</u>	<u>Management Fee</u>
2012	\$226,398
2013	\$92,639
2014	\$92,817

Subsequent to the examination period, during 2015, the Community's management fee was \$93,006.

C. Conflict of Interest Policy

HealthAlliance has a system-wide written Code of Conduct for its employees and directors. It describes what standards and behavior are required of its employees, including what activities or practices constitute a conflict of interest for its directors and employees.

A review of the conflict of interest statements for the Community's board members revealed that only four out of the seven members had a signed conflict of interest statement on file as of December 31, 2014, and four out of ten had a signed conflict of interest statement on file, as of December 31, 2015.

The Department recommends that conflict of interest statements filed with the corporate secretary be fully completed and signed by each board member annually. It is noted that this recommendation was also in the prior report on examination.

D. Plan of Operation

The Community provides residents with lifetime residency in an independent living unit (“ILU”) and access, as needed, to an adult enriched housing unit and a nursing center (the “Health Care Center”). A resident may choose among several contract options that provide different levels of prepaid nursing care benefit days and different refund options.

The consideration paid for entering into the contract and becoming a Woodland Pond resident is the entrance fee and a monthly maintenance fee, the amount of which is determined by the size and layout of the residence.

Entrance Fee Deposit

Each prospective resident is required to pay a deposit equal to ten percent of the Entrance Fee. The balance of the Entrance Fee is due on the date of residency, but in no event later than sixty days following the date upon which the resident’s living accommodation is available for occupancy. If the resident fails to take residency within sixty days of the date the living accommodation is ready for occupancy, or within any extension period approved at the sole discretion of the Community, the Community may cancel the agreement and within thirty days thereafter, refund the resident’s entrance fee deposit without interest.

Monthly Fee Requirement

After the contract is endorsed and the entrance fee is paid, the resident is subject to a monthly maintenance fee that is prorated for any partial month that the resident begins or ends occupancy. The Community is required to give sixty days written notice before increasing the

amount of the monthly fee, except for changes required by state and federal assistance programs and regulatory authorities. Any increase is either to be approved by the Department, or arrived at by using a methodology that was previously approved by the Superintendent of Financial Services.

Contract Options

Woodland Pond offers prospective residents a Continuing Care plan with two different entrance fee options. Both provide residents with thirty cumulative lifetime days of care in the Enriched Housing Unit (“EHU”) and sixty cumulative lifetime days of care in the Skilled Nursing Unit (“SNU”). After using the cumulative days of free care, residents are required to pay the current private pay rate for either the EHU or SNU. However, prospective residents may add a Lifecare option under which, for an additional fee, they can receive unlimited days in either the EHU or SNU.

Under the first Continuing Care Plan, the entrance fee is 90% refundable. Under the second Continuing Care Plan, the entrance fee is 65% of the 90% refundable option but 100% nonrefundable after a four year period. Under the nonrefundable option, a four percent administrative fee is charged and then the balance is reduced by two percent per month for four years, until the refund due to the resident reaches zero.

E. Initial Disclosure Statement

The Initial Disclosure Statement is attached to and distributed with the residency agreement to applicants that have been accepted into the Community, as required by Section 4606 of the New York Public Health Law.

Section 4606(10) of the New York Public Health Law states in part:

“Prior to the execution of a contract, or before the transfer of any money, other than a refundable priority reservation fee or non-refundable priority reservation agreement application fee, to an operator by or on behalf of a prospective resident, whichever occurs first, the operator shall deliver to the person’s legal representative... an initial disclosure statement which contains the... most recent financial statement of the provider prepared in accordance with generally accepted accounting principles applied on a consistent basis and certified by an independent certified, or public accountant, including a balance sheet as of the end of the provider’s last fiscal year and income statements for the last two fiscal years, or such shorter period of time as the provider has been in operation...”

A review of the Community’s disclosure statement revealed that the Community did not include the income statements for the last two fiscal years, as required by Section 4606(10) of the New York Public Health Law. Only the year-ending December 31, 2014 income statement was included in the most recent disclosure statement.

The Department recommends that a copy of the Community’s most recent audited financial statements, which includes the balance sheet and income statements for the last two fiscal years, be included in the Community’s disclosure statement, as required by Section 4606(10) of the New York Public Health Law.

3. COMMUNITY DEMOGRAPHICS

A. Occupancy Levels

As of the year-ending December 31, 2014, the Community maintained 184 occupied independent living units, 51 occupied enriched housing units and 34 occupied skilled nursing beds. The overall occupancy level at the year ending December 31, 2014, was 92.4%, which exceeds the required occupancy rate covenant.

The following reflects the occupancy rates at each year-end during the examination period and the subsequent year for each of the facilities within the Community:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Independent living units	77%	84%	91%	94%
Enriched Housing/ Adult Care	86%	89%	96%	90%
Skilled Nursing facility	89%	80%	91%	92%

The 2015 rate exceeds the required covenant for the Community. The 2015 rate is added here as a subsequent event.

B. Disaster Recovery/Business Continuity Plans

As of December 31, 2014, the Community maintained a disaster recovery plan which provides for the essential maintenance of services to the Community's residents in the event of a disaster. The Community adheres to the disaster recovery plan's required maintenance and the plan is well documented.

C. Contract with Information Technology Vendor

Review of third party vendor contracts on file revealed that the contract with Professional Computer Associates (“PCA”), the Community’s information technology (“IT”) vendor expired as of August 1, 2015. PCA provides and manages the Community’s desktop computers, servers and communication equipment.

The Department recommends that the Community maintain current signed agreements with all of its contractors. Current copies of the contracts should be maintained on file by the Community.

D. Fees

The examiner also reviewed the notices of rate and fee increases to ensure they were submitted at least 60 days prior to implementation, as required by Section 4608(10) of the New York Public Health Law. No exceptions were noted.

4. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, and actuarial surplus as of December 31, 2014, as contained in the Community’s 2014 filed annual statement, presented on a statutory actuarial basis pursuant to Insurance Regulation No. 140 (11 NYCRR 350), a condensed summary of operations, and a reconciliation of the actuarial surplus account for the years under review. It is noted that the actuarial report was originally prepared in 2012 and updated subsequent to the report, in 2014.

The firm of Fust Charles Chambers LLP (“FCC”) was retained by the Community to audit the Community’s financial statements of financial position starting with the calendar year 2014 and the related statements of operations and cash flows for the years then ended.

FCC concluded that the financial statements present fairly, in all material respects, the financial position of the Community at the respective audit date. Balances reported in these audited financial statements were reconciled to the corresponding years’ annual statements with no discrepancies noted.

A. Balance Sheet

Assets

Cash and investable assets	\$ 24,247,941
Accounts receivable and prepaid expenses	1,688,000
Property plant and equipment related to the community	106,898,958
Deferred financing costs	3,985,790
Deferred marketing costs	1,504,384
Total assets	<u>\$ 138,325,073</u>

Liabilities

Loans payable	\$ 76,145,000
Actuarial reserve	64,225,210
Total liabilities	<u>140,370,210</u>

Net Surplus

Earned surplus	<u>(2,045,137)</u>
Total liabilities and net surplus	<u>\$ 138,325,073</u>

It should be noted that the net asset values herein are reported on a statutory/actuarial basis. As such, the values differ from the certified financial statements prepared by the Community’s certified public accountants using generally accepted accounting principles (GAAP basis).

B. Statement of Revenue and Expenses and Change in Actuarial Surplus

The statement of revenue and expenses is presented on a GAAP basis, as modified pursuant to Department Insurance Regulation No. 140 (11NYCRR 350), for the period of operation January 1, 2012 through December 31, 2014, as follows:

<u>Revenues</u>		
Monthly Maintenance Fees	\$	20,891,589
Other Revenue from Residents		463,126
Earned Entrance Fees (net of refunds)		7,040,551
Patient Revenues from Nonresidents		16,737,273
Interest and Dividend Income		167,336
Non-operating Revenue		<u>11,038</u>
Total Revenues	\$	<u>45,310,913</u>
 <u>Expenses</u>		
Interest Expense	\$	12,986,801
Facility and Dining Expenses		13,546,217
Health Expenses		13,010,249
Administration Expenses		9,841,422
Depreciation and Amortization Charges		12,917,187
Change in Provision for Uncollectable Accounts		1,238,909
Real Estate Taxes and PILOT		845,000
NYS Health Facilities Assessment		287,173
Aggregate Write-ins		1,211,088
Total Expenses	\$	<u>65,884,046</u>
Net Gain (Loss) Before Income Taxes	\$	<u>(20,573,133)</u>

Changes in Actuarial Surplus

Surplus increased \$6,276,584 during the period of operation, January 1, 2012 through December 31, 2014, detailed as follows:

Surplus as of December 31, 2011			\$ (8,321,721)
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net Income/(Loss)		\$ 20,573,133	
Future Service Obligation		28,350,800	
Net Realized and Unrealized			
Capital Gains (Losses)		39,311	
Change in Future Service			
Obligation		1,973,200	
Aggregate Write ins		355,845	
Statutory Adjustment	\$ 57,568,873		
Net increase/(decrease) in surplus			<u>6,276,584</u>
Surplus per report on examination, as of December 31, 2014			<u><u>(2,045,137)</u></u>

It is noted that the Community's actuarial surplus continues to be negative and as a result, continues to operate under a plan of correction as do all Communities not in an actuarial surplus. The Department recommends that the Community continue to strive to achieve a positive actuarial surplus within the required regulatory time frame.

5. SUBSEQUENT EVENTS

Between December 31, 2011 and April 16, 2015, the Community was operating without an approved Plan of Correction. This is because the Plan of Correction that had been prepared

was dependent upon revenue sourced from outside admissions to the Community's facilities, which had not been approved by the New York State Department of Health ("DOH"). On March 31, 2015, the New York State Department of Health provided the Community with a waiver, as authorized under Department of Health Regulation 10 NYCRR 900.8(b) and 900.8(c) to accept up to 35 outside admissions to the Department of Health Article 7 Adult Care Facility and Department of Health Article 28 Skilled Nursing Facility. As a result, the Department was able to accept the Plan of Correction as of April 16, 2015.

Subsequent to the examination, the Community filed to de-affiliate with its parent company HealthAlliance. The filing was approved by the New York Attorney General's Office effective March 24, 2016. Effective the same date, the Community was officially re-named Woodland Pond, Inc. As of the date of the report, the Company was in the process of developing new by-laws and effective with the de-affiliation, the board of directors is to be comprised solely of Woodland Pond elected directors.

7. COMPLIANCE WITH PRIOR COMMENTS AND COMMENDATIONS

The prior report on examination contained the following two (2) comments and recommendations (The page numbers included in the table below refer to the prior report on examination).

ITEM NO.

PAGE NO.

Surplus

- | | | |
|----|---|-----------|
| 1. | As of December 31, 2011, the Community's required actuarial surplus, pursuant to Part 350.9 of New York Insurance Regulation 140 (11 NYCRR 350.9), as determined using generally accepted actuarial standards and applying statutory requirements, was impaired in the amount of \$(8,321,721). The Community is currently operating under a Plan of Correction that was accepted by the New York Department of Financial Services on April 16, 2015. It is noted that between the as of date of this examination, December 31, 2011 and April 16, 2015, the Community was operating without an approved Plan of Correction. This is because the Plan of Correction was dependent upon revenue sourced from outside admissions to the Community's facilities, which had not been approved by the New York State Department of Health ("DOH"). This is further described in Section Five of this report. | 2, 14, 17 |
|----|---|-----------|

On March 31, 2015, DOH granted a waiver allowing outside admissions and so, the Department was able to accept the Plan of Correction.

Management and Controls

- | | | |
|----|---|---|
| 2. | It is recommended that all conflict of interest statements required to be filed with the corporate secretary be fully completed, signed and returned by each board member annually. | 9 |
|----|---|---|

The Company has not complied with this recommendation. A similar comment is included in the report on examination.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Conflict of Interest Policy</u></p> <p>The Department recommends that conflict of interest statements filed with the corporate secretary be fully completed and signed by each board member annually. It is noted that this recommendation was also in the prior report on examination.</p>	<p>7</p>
<p>B. <u>Initial Disclosure Statements</u></p> <p>The Department recommends that a copy of the most recent audited financial statements, which includes the balance sheet and income statements for the last two fiscal years, be included in the Community's disclosure statement, as required by Section 4606(10) of the New York Public Health Law.</p>	<p>10</p>
<p>C. <u>Contract with Information Technology Vendor</u></p> <p>The Department recommends that the Community maintain current signed agreement with all of its contractors. Current copies of the contracts should be maintained on file by the Community.</p>	<p>12</p>
<p>D. <u>Financial Statements</u></p> <p>The Department recommends that the Community continue to strive to achieve a positive actuarial surplus within the required regulatory time frame.</p>	<p>15</p>

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES

I, SHIRIN EMAMI, Acting Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Froilan Estebal

as a proper person to examine the affairs of

Woodland Pond

and to make a report to me in writing of the condition of said

CCRC

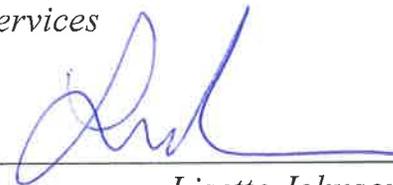
with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name
and affixed the official Seal of the Department
at the City of New York

this 29th day of January, 2016

SHIRIN EMAMI
Acting Superintendent of Financial
Services

By:



Lisette Johnson
Bureau Chief
Health Bureau

