

**REPORT ON EXAMINATION**  
**OF**  
**HEBREW HOSPITAL SENIOR HOUSING, INC.**  
**d/b/a/ WESTCHESTER MEADOWS**  
**AS OF**  
**DECEMBER 31, 2006**

**DATE OF REPORT**

**OCTOBER 9, 2007**

**EXAMINER**

**ANDRE BLACKMAN**

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

Eliot Spitzer  
Governor

Eric R. Dinallo  
Superintendent

October 9, 2007

Honorable Eric Dinallo  
Superintendent of Insurance  
Albany, NY 12257

Sir:

Pursuant to the requirements of the New York Insurance Law and in compliance with the instructions contained in Appointment Number 22538, dated August 10, 2006 annexed hereto, I have made an examination of the condition and affairs of Hebrew Hospital Senior Housing, Inc. D/b/a/ Westchester Meadows as of December 31, 2006 and submit the following report thereon. Westchester Meadows is a Continuing Care Retirement Community licensed pursuant to the provisions of Article 46 of the Public Health Law (PHL).

Wherever the designations "the Community" or "the CCRC" appear herein, without qualification, they should be understood to indicate Westchester Meadows. Wherever the designations "HHCS" or "the affiliate" appear herein, without qualification, they should be understood to mean Hebrew Hospital Corporate Services, the administrative services agency for all Hebrew Hospital affiliates, and corporate affiliate to Westchester Meadows. HHCS provides Westchester Meadows with consultation and assistance with financial services, human resources and management of information systems.

The examination was conducted at the former home office of Westchester Meadows at 801 Coop City Boulevard, Bronx, NY 10475 and at its current home office located at 55 Grasslands Road, Valhalla, NY.

As of December 31, 2006, the Community's required actuarial surplus, as determined by using generally accepted actuarial standards and applying statutory requirements, was impaired in the amount of \$7,116,399. The Community is operating under a Department approved Plan of Restoration (Plan) to resolve its required surplus deficiency and restore its minimum surplus as required by Department Regulation 140 (11 NYCRR 350.8(a)).

## **1. SCOPE OF THE EXAMINATION**

This examination covered the period from the time the Community commenced operations, April 2, 2000, through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets, liabilities as of December 31, 2006 in accordance with Generally Accepted Accounting Principles (GAAP), as modified by the Department pursuant to Insurance Department Regulation 140 (11 NYCRR 350), a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Community's independent certified public accountants. A review was also made of the following items:

- Community Documents
- Management and Organization
- Inter-Company Transactions
- Financial Documents
- Advertising and Underwriting
- Restoration Plan

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.

## **2. EXECUTIVE SUMMARY**

. Significant findings included in this report on examination include the following:

- As of December 31, 2006, the Community's required actuarial surplus, as determined by using generally accepted actuarial standards and applying statutory requirements, was impaired in the amount of \$7,116,399. The Community is operating under a Department approved Plan of Restoration (Plan) to resolve its required surplus deficiency and restore its minimum surplus as required by Department Regulation 140 (11 NYCRR 350.8(a)).
- Other areas where exceptions were noted in this report include board of director's composition, internal controls, inter-company balances, and accounting controls.

### **3. DESCRIPTION OF THE COMMUNITY**

Westchester Meadows was formed on September 24, 1997, received its Certificate of Authority on April 2, 2000 and began operating as a continuing care retirement community (CCRC) as defined under Article 46 of the New York State Public Health Law. The facility opened its doors for operation and admittance of life care residents on April 29, 2002. The Community is a Type-B New York not-for-profit organization which was formed to build, own, and operate a continuing care retirement community. The CCRC consists of One Hundred Twenty (120) independent living units; Ten (10) enriched housing units and Twenty (20) bed skilled nursing facility.

The Community is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is operated by Hebrew Hospital Senior Housing, Inc. (Sponsor), a New York State not-for-profit corporation located in the Bronx. Serving as administrator, Hebrew Hospital Corporate Services, Inc. (HHCS) is an affiliate of Hebrew Hospital Senior Housing, Inc. HHCS provides Westchester Meadows with several services, including consultation and assistance in financial services, human resources, and management information systems.

#### **A. Management**

Pursuant to the Community's charter and by-laws, the management of Westchester Meadows is vested in a board of directors currently consisting of five members. The bylaws of Hebrew Hospital Senior Housing, Inc. (Westchester Meadows) state that the board shall be comprised of not less than seven (7) or more than thirteen (13) directors. The board meets at least four times during each calendar year. The five current members of the Board of Directors are as follows:

<u>Name</u>	<u>Officer / Principal Business Affiliation</u>
Arnold Goldstein Rye, NY	Chairman, Samson Management
Bertram Gelfand	Director,

Bronx, NY	Kurzman & Eisenberg
Charles Goldberger White Plains, NY	Vice President, McCullough, Goldberger & Staudt
Michael Laub New York, NY	President, Realty Group
Alan Pearce Stamford, CT	Treasurer / Secretary, Bryan, Cave, Robinson, Silverman

The minutes of all meetings of the Board of Directors held during the examination period were reviewed.

It is recommended that the Community fill the member vacancies on its board in order to comply with the required number of board members specified by its by-laws.

The principal officers of Westchester Meadows as of December 31, 2006 were as follows:

Mary Frances Barrett	President & CEO
Brian J. Perino	CFO
Alan Pierce	Secretary

**B. Plan of Operations**

In exchange for an entrance fee, Westchester Meadows provides a potential resident with the option to enter into a contract that covers lifetime residence in the Westchester Meadows Life Care Community. The entrance fee, both the residential and life care portions, are refundable subject to the terms of the Life Care Agreement. A monthly maintenance fee is payable at the time that an applicant takes up residence in an independent living unit within the Community. Under the contract, a resident may be transferred to the Community's enriched housing or skilled nursing facility. These contracts can be voluntarily terminated. In addition to being available for contract holders, the Community's enriched housing and

skilled nursing facilities are also available on a per diem basis. Westchester Meadows currently offers a Life Care agreement with a 65% refundable deposit option. The CCRC had previously offered a contract with a 90% refundable deposit option.. Effective January 1, 2006, this contract option was no longer available. However, as of the time of this writing, most current residents are still covered under the 90% refundable deposit option.

#### Entrance Fee Requirement:

When a person has been accepted to become a resident in the CCRC, the applicant is required to submit a deposit equal to 10% of the required entrance fee. The remainder of the entrance fee must be paid before the resident enters the CCRC. The Entrance Fee is made up of two parts reflecting a residential component and a life care component. For the first 90 days after the resident pays the entrance fee, it is fully refundable. At the end of the 90 day period, the entrance fee will be reduced by a 4% administration fee, after which any entrance fee refund will be reduced by a 2% per month charge on the residential component of the fee. The residential component is fully amortized to the 65% level, where it remains, after 570 days. When the balance of the life care component is exhausted due to a 2% monthly charge on each additional month of residency, the life care component is fully amortized and no further refunds are given. Refunds made under the terms of the residency agreement will occur no later than 30 days after a new resident pays the entrance fee for unit being vacated or within one year after termination of the residency agreement, whichever occurs first.

#### Monthly Fee Requirement:

A monthly fee is charged to the resident who has assumed occupancy of an Independent Living Unit, and where applicable a second person fee, for the services and facilities made available to them. Monthly Fees are due and payable when a resident moves into the Independent Living Unit, or 60 days after it is available for residency. Any monthly fee increases are subject to inflation limitations depending on when the agreement was executed.

90% Refundable Fee Refund Option:

This contract option was discontinued as of 1/1/2006.

Contracts:

The CCRC offers a life care contract that varies based upon certain demographic factors. These factors affect the cost components of the life care contract and include the type of unit, if a second person will occupy the unit, and the time the contract is executed. Westchester Meadows issues a "Type A" residency agreement.

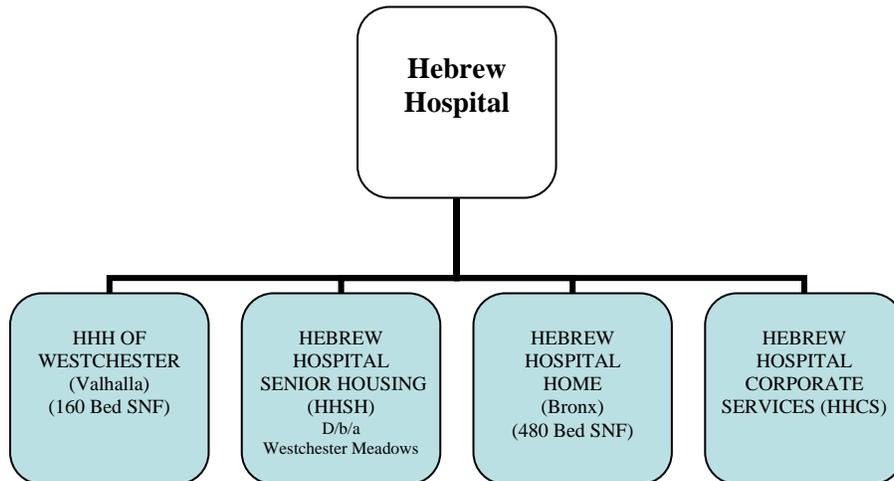
The Type A residency agreement includes coverage for services including residency at Westchester Meadows; dining; utilities (except telephone) and basic television cable; apartment and common area maintenance; weekly flat linen service; weekly housekeeping; transportation; use of exercise center including an indoor swimming pool and fitness center, and optional activities; and if needed, skilled nursing home services or assistance with the activities of daily living in an enriched housing apartment; access to contracted short-term and intermittent home health care; and various administrative services.

Initial Disclosure Statement:

The Initial Disclosure Statement is attached to and distributed with the residency agreement to an accepted applicant. The disclosure statement contains the necessary articles as required by Section 4606 of the NYS Public Health Law (PHL).

**C. Holding Company System**

Hebrew Hospital Senior Housing, Inc. is affiliated, through common board members, with Hebrew Hospital Home, a 480-bed skilled nursing facility in the Bronx, New York; Hebrew Hospital Home of Westchester, a 160-bed skilled nursing facility in Westchester County, New York; and Hebrew Hospital Corporate Services, Inc. (HHCS). These relationships are shown in the chart below.



The Community currently receives administrative services subject to the terms of an inter-company agreement with its corporate affiliate (HHCS). HHCS Inc. is a service entity that provides Finance, Human Resources, Payroll, Account Payable, Administration, Central Supply, Facility Construction, Marketing, Business Development, and MIS services to Westchester Meadows, as well as other entities. The costs for these services are allocated to Westchester Meadows and are booked as inter-company balances. These inter-company balances accrue on account until payment is made by the CCRC to HHCS. Other than actual costs, there are no fees assessed by HHCS to the Community for the administration of these services. The administrative services contract contains an original paragraph for “Fees”. The paragraph states the following:

“During the term of this agreement, the CCRC shall pay HHCS a fee for the provision of administrative / consultative corporate services hereunder, as set forth in Exhibit “A”, annexed hereto and made part of this agreement.”

However, Exhibit “A”, as annexed to the agreement, is a blank document with no published fee. The “Fee” paragraph contained in the contract is thereby deemed to have no effect since fees are not paid by the Community, and no fee is explicitly stated in the contract. The Community has verified that no fee is paid with respect to the services rendered by HHCS on behalf of the CCRC.

It is recommended that Westchester Meadows update its corporate services agreement to reflect the practice of receiving the services disclosed in the agreement with HHCS at cost.

**D. Occupancy Levels**

As a component of the actuarial review by the community’s actuaries, and the actual history of occupancy by the CCRC, it has been determined that current and prospective occupancy levels are at satisfactory levels. Overall occupancy has fallen slightly since the examination date of 12/31/06 to an occupancy level of 95.0%. Occupancy benchmarks determined by the CCRC’s actuaries are as follows:

Unit Type	Occupancy Level	Projected Units	Capacity
Independent Living	95.8%	115	120
Enriched Housing	93.0 %	9	10
Skilled Nursing	93.0%	19	20

The following table compares historical occupancy levels with projected levels of utilization at December 31, 2006:

	Independent Living	Enriched Housing	Skilled Nursing	Aggregate Projected Actuarial Benchmark	Total Actual Occupancy
<i>Actuarial Projected benchmark</i>	<i>95.8%</i>	<i>93.0 %</i>	<i>93.0%</i>	<i>93.6%</i>	
2003	97.5%	30%	30%	<i>93.6%</i>	52.5%
2004	99.2%	40%	55%	<i>93.6%</i>	64.7%
2005	97.5%	80%	70%	<i>93.6%</i>	82.5%
2006	95.0%	80%	100%	<i>93.6%</i>	95.0%

#### 4. INTERNAL CONTROLS

##### Account Payable Controls:

Where tested, invoices received and payments processed for the invoiced amounts contained appropriate signoffs. However, other internal controls for account payable and cash disbursement were lacking. A segregation of duties does not exist within the account payable process that would prevent unauthorized payments. There are no mitigating controls that would ensure only appropriate expenses are posted and paid.

It is recommended that the Community develop an internal control procedure that ensures only approved expenses are entered into and disbursed from the account payable system.

### Internal Audit

The function of internal controls for the community is vested in the Corporate Compliance Officer for the HHCS, Inc. This officer oversees compliance reviews and audits handled internally and by outside auditors. A review of the compliance reviews completed during and pertaining to the examination period ending December 31, 2006 showed no Westchester Meadows related audits.

It is recommended that the Corporate Compliance Officer initiate reviews and or audits of the administrative operations that impact Westchester Meadows, including applicable key areas and issue written audit reports thereon.

## **5. FINANCIAL STATEMENTS**

### **A. Balance Sheet**

The following shows the assets, liabilities and surplus as of December 31, 2006, as determined by this examination. It is the same as the revised actuarial balance sheet submitted in July 2007 and as reported by the Company presented on a statutory accounting basis, pursuant to Insurance Department Regulation 140 (11 NYCRR 350).

<b><u>Assets</u></b>		<b><u>2006</u></b>
Total current assets	\$	1,841,498
Other cash and investments		11,973,061
Property, plant and equipment		50,629,865
Unamortized financing costs		1,617,348
Deferred marketing costs		<u>1,233,594</u>
<b>Total Assets</b>	<b>\$</b>	<b><u>67,295,366</u></b>
 <b><u>Liabilities</u></b>		
Long-term and short-term debt	\$	17,972,435
Subordinated loan – long-term debt		3,703,424
Reserve liability		<u>52,735,906</u>
<b>Total Liabilities</b>	<b>\$</b>	<b><u>74,411,765</u></b>
 <b>Net surplus</b>	<b>\$</b>	<b><u>(7,116,399)</u></b>
<b>Total liabilities and surplus</b>	<b>\$</b>	<b><u>67,295,366</u></b>
<b>Ratio of net surplus to total liabilities</b>		<b>(9.60%)</b>

#### **NOTES:**

It should be noted that the asset values herein are reported on an 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).

As of December 31, 2006, the Community's required actuarial surplus, as determined by generally accepted actuarial standards and applying statutory requirements was impaired in the amount of \$7,116,399. The Community is operating under a Department approved Plan of Restoration (Plan) to resolve its required surplus deficiency and restore of its minimum surplus as required by Department Regulation 140 (11 NYCRR 350.8(a)).

**B. Statement of Revenue and Expenses**

The statement of revenue and expenses is presented on a GAAP basis for the period, January 1, 2002 through December 31, 2006.

**REVENUES**

Monthly maintenance fees	\$ 23,502,908
Other revenue from residents	522,800
Earned entrance fees (net of refunds)	3,655,780
Patient revenues from nonresidents	4,035,031
Interest and dividend income	<u>1,217,214</u>
<b>Total Revenues</b>	<b>\$ 32,933,733</b>

**OPERATING EXPENSES**

Interest expense	\$ 6,098,382
Facility and dining expenses	15,766,549
Health expenses	6,281,680
Administration expenses	8,798,553
Depreciation and amortization	6,751,439
Real estate taxes	2,983,487
NYS health facilities assessment	93,019
Write-ins for other operating expenses	<u>258,176</u>
<b>Total Expenses</b>	<b><u>\$ 47,031,285</u></b>

**Net Income (Loss)** **\$ (14,097,552)**

**C. Changes in actuarial surplus**

Reserves and surplus decreased \$7,116,399 during the examination period, January 1, 2002 through December 31, 2006, detailed as follows:

Actuarial Surplus as of 1/1/2002			(\$0)
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
GAAP basis net income/(loss)		<u>(\$14,097,552)</u>	
Actuarial adjustment per 2006 actuarial study	<u>\$6,981,153</u>		
Actuarial Surplus as of 12/31/2006			<u>(\$7,116,399)</u>

It is therefore recommended that the Community continue to operate under its Department approved Plan of Restoration to resolve its required surplus deficiency of \$7,116,399 and restore its minimum surplus, as required by Department Regulation 140 (11 NYCRR 350.8(a)).

**6. MARKET CONDUCT REVIEW**

The examination included a market conduct review focusing on the following major areas:

- a) Underwriting, sales, and advertising
- b) Disclosure statement
- c) Care Agreement

No unfair practices were noted.

## **7. CONCLUSION**

As of December 31, 2006, Westchester Meadow's required actuarial surplus, as determined by using generally accepted actuarial standards and applying statutory requirements, was impaired in the amount of \$7,116,399. The Community is operating under a Department approved Plan of Restoration to resolve its required surplus deficiency and restore its minimum surplus as required by Department Regulation 140 (11 NYCRR 350.8(a)).

## 8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <b><u>Actuarial Surplus</u></b>	
As of December 31, 2006, the Community's required actuarial surplus, as determined using generally accepted actuarial standards and applying statutory requirements, was impaired in the amount of \$7,116,399. The Community is operating under a Department approved Plan of Restoration to resolve its required surplus deficiency and restore its minimum surplus as required by Department Regulation 140 (11 NYCRR 350.8(a)).	2,4,12,16
B. <b><u>Management</u></b>	
It is recommended that the Community fill the member vacancies on its board in order to comply with the required number of board members specified by its by-laws.	6
C. <b><u>Holding Company System</u></b>	
It is recommended that Westchester Meadows update its corporate services agreement to reflect the practice of receiving the services disclosed in the agreement with HHCS at cost.	7
D. <b><u>Internal Controls</u></b>	
i. It is recommended that the community develop an internal control procedure that ensures only approved expenses are entered into the account payable system and only approved expenses are disbursed.	11
ii. It is recommended that the Corporate Compliance Officer initiates reviews and or audits of the administrative operations that impact Westchester Meadows, including applicable key areas and issue written audit reports thereon.	12

Appointment No. 22538

**STATE OF NEW YORK  
INSURANCE DEPARTMENT**

I, Howard Mills, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

**Andre Blackman**

as a proper person to examine into the affairs of the

**Hebrew Hospital Senior Housing, Inc. d/b/a  
Westchester Meadows**

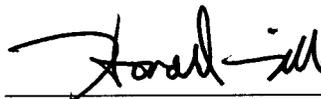
and to make a report to me in writing of the said

**Continuing Care Retirement Community**

with such information as he shall deem requisite.

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

this 10<sup>th</sup> day of August 2006



Howard Mills  
Superintendent of Insurance

