COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
525 Health and Welfare Building
Harrisburg, Pennsylvania 17105-2675

TELEPHONE NUMBER
(717) 772-2231
FAX NUMBER
(717) 705-9094

Tina L. Long
ACTING DIRECTOR

MAR 22 2011

Jonathan Vipond, III, Esquire
Buchanan Ingersoll & Rooney, PC
One South Market Square
213 Market Street, 3d Floor
Harrisburg, PA 17101-2121

Dear Mr. Vipond:

I am enclosing for your review the final performance audit report of Cambridge Point Pleasant, LLC as prepared by the Division of Audit and Review (DAR). Your response dated March 3, 2011 has been incorporated into the final report as an attachment.

I would like to express my appreciation for all the courtesy extended to my staff during the course of the fieldwork. I understand that your client was especially helpful to Mr. Rausch in expediting the audit process.

The report will be forwarded to the Department's Office of Children, Youth and Families (OCY&F) and the Office of Developmental Programs (ODP), to begin the Department's resolution process concerning the report contents. The staff from OCY&F and/or ODP may be in contact with you to follow-up on the action taken in consideration of the report's findings.

Sincerely,

Tina L Long

Tina Long

Enclosure

c: Dr. Erwin Carner
Mr. Steven Atlass
Mr. Greg Hook
Dr. Jeffrey Rubin
Mr. Robert Heyert
Ms. Vicki Stillman-Toomey
Ms. Raheemah Shamsid-Deen Hampton
Mr. Joseph Church
Mr. Thomas Diehl
Mr. Louis Sannutti

Some information has been redacted from this audit report. The redaction is indicated by magic marker highlight. If you want to request an unredacted copy of this audit report, you should submit a written Right to Know Law (RTKL) request to DPW's RTKL Office. The request should identify the audit report and ask for an unredacted copy. The RTKL Office will consider your request and respond in accordance with the RTKL (65 P.S. §§ 67.101 et seq.). The DPW RTKL Office can be contacted by email at: ra-dpwtkl@pa.gov.

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MAR 22 2011

Tina L. Long
ACTING DIRECTOR

TELEPHONE NUMBER
(717) 772-2231
FAX NUMBER
(717) 705-9094

Mr. Richard Gold
Deputy Secretary for Children, Youth & Families
Health & Welfare Building, Room 131
Harrisburg, Pennsylvania 17120

Mr. Kevin T. Casey
Deputy Secretary for Developmental Programs
Health & Welfare Building, Room 512
Harrisburg, Pennsylvania 17120

Dear Mr. Gold and Mr. Casey:

In response to a request from the Office of Children, Youth and Families (OCY&F) and the Office of Developmental Programs (ODP), the Bureau of Financial Operations (BFO) initiated an audit of Cambridge Point Pleasant, L.L.C (CPP). The audit was designed to determine if CPP is viable as a going or continuing concern and to investigate the structure and setting of CPP's various reimbursement rates. The audit examined the period July 1, 2009 through August 31, 2010.

This report is currently in final form and therefore does contains current management's views on the reported findings, conclusions and recommendations. Management's response to the draft report is included as an attachment hereto. The reports contents and response was discussed at an exit conference held March 10, 2011.

Cambridge Point Pleasant LLC
Executive Summary

The principles of CPP also own and operate other critical care facilities in the Commonwealth. Each facility is owned by a separate limited liability company. The facility at Point Pleasant, Bucks County, Pennsylvania is owned and operated by Cambridge Point Pleasant, LLC (CPP). The Point Pleasant facility is managed by Cambridge Companies Management, LLC (Management). Management and CPP are owned equally by the same two principle partners and are considered related entities.

Cambridge Point Pleasant LLC
July 1, 2009 Through August 31, 2010

The report findings and recommendations for corrective action are summarized below:

FINDINGS	SUMMARY
Finding No. 1 – Cambridge Point Pleasant, LLC Is Not A Viable Going Concern Or Continuing Entity In Its Present Financial Condition Because It Is In Default To Its Secured Lender.	Due to the accumulation of debt over time, CPP incurs an excessive amount of interest expense each month that drains it of working capital. Although in default since June 2010, the lender has not yet foreclosed.

HIGHLIGHTS OF RECOMMENDATIONS

CPP should:

- Take all possible precautions so that the welfare of the residents will not be jeopardized.
- Prepare, present and implement a viable business recovery plan.
- Take all possible steps to keep the regulatory and funding agencies appraised of the status of any pending foreclosure, change of ownership and/or management and the potential effects on the residents.

OCY&F and ODP should:

- Explore potential alternative options for the placement of residents.

FINDINGS	SUMMARY
Finding No. 2 – A Portion Of The Proceeds From The Refinancing Of Cambridge Point Pleasant, LLC's Debt Was Used To Benefit Other Related Entities.	When CPP refinanced its debt in May 2007, a significant portion of the payoff was applied to extinguish preexisting debt. Some of the preexisting debt was incurred and/or spent to operate, improve and maintain other properties that are owned by related entities.

HIGHLIGHTS OF RECOMMENDATIONS

CPP should:

- Resolve its lawsuit against a secured lender.
- Cease expenditures for the benefit of related entities.
- Seek an affiliation, joint venture or partnership with a larger health care organization.
- Collect its accounts receivable from related parties so as to improve its liquidity.

OC&Y and ODP should:

- Explore potential alternative options for the placement of residents.

FINDINGS	SUMMARY
Finding No. 3 – Cambridge Point Pleasant, LLC's Per Diems Are Not Currently Supported By Any Budgets, Cost Reports Or Other Traditional Measures Of Value.	CPP's three basic per diem rates were set more than 10 years ago by negotiations between the prior owner and the various funding entities, the largest being Medical Assistance. At present, no cost analysis exists to justify the reimbursement rates currently being paid. There are three levels of care plus special needs residents whose rates are specifically negotiated. The per diem rates now in effect may be overstated by as much as 18% due to the excessive interest charges.

HIGHLIGHTS OF RECOMMENDATIONS

CPP should:

- Quantify the costs associated with each of the three levels of resident care and determine the prospective rates.
- Continue to negotiate on case-by-case basis a specific rate at the time of admittance for each special needs resident.
- Cooperate in the renegotiation of the daily rates.

OCY&F, ODP and the Managed Care Entities should:

- Determine the extent of care required for each of the three categories of residential care.
- Quantify the costs associated with each of the levels of three levels of resident care and determine the prospective rates.
- Continue to negotiate on a case-by-case basis a specific rate at the time of admittance for each special needs resident.
- Each MCO should renegotiate the rates paid based on allowable actual costs.
- Direct that each new rate have a sunset provision such that each rate will expire on a future date (i.e. two years hence) thereby requiring that new rates be negotiated.

FINDINGS	SUMMARY
Finding No. 4 – The Weighted Average Per Diem Cost Before Interest Expense Per Resident Was $458.41.	Revenues for the eight month period ended August 31, 2010 were $7.1 million and interest expense was $1.4 million. Inclusive of all other expenses but for interest expense, the average per diem cost according to the resident census for this same period is $458.41. This per diem includes a management fee based on 4.5% of resident revenues.

HIGHLIGHTS OF RECOMMENDATIONS

CPP should:

- Continue to negotiate and renegotiate special needs residents on a case by case basis.

OCY&F and ODP should:

- Oversee negotiations between the MCOs and CPP to set new per diems that are set by direct analysis of the costs to provide the various levels of care required.

Background

During 2008, BFO provided technical assistance to ODP in regard to Cambridge Retirement Communities, Inc. (Snyder Avenue Home) and Cambridge Properties, Inc. That assignment was directed to provide advice concerning the amount of additional funding needed to wind down the operations at the Snyder Avenue Home in South Philadelphia. In the earlier report, BFO commented that $1.8 million dollars was advanced by CPP to the Snyder Avenue Home and will not be repaid. See Finding 2 below.

In 2007, CPP refinanced its Point Pleasant realty for $15.5 million. The secured lender also requires a reserve of cash to be on deposit. This reserve, in turn, can be drawn on a $2 million dollar line-of-credit. Since 2007, CCP has operated with a negative cash flow due to extraordinarily high levels of debt and high interest rates. When the 2007 loan matured in May 2010, CPP could not repay and is technically in default although no formal default or bankruptcy action(s) have been filed to our knowledge. BFO has made no attempt to contact the secured lender.

Objective/Scope/Methodology

The audit objectives, developed in concurrence with OCY&F and ODP were:

- To determine if Cambridge Point Pleasant, LLC is a going concern.
- To investigate the existing rate structure and give an opinion regarding its reasonableness.

In pursuing the objective, the BFO interviewed OCY&F, ODP and CPP's management. We also reviewed books, records, third party invoices, bills, receipts and other pertinent data necessary to pursue the audit objectives.

We conducted this performance audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Government auditing standards require that we obtain an understanding of management controls that are relevant to the audit objective described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of the effectiveness of these controls. Based on our understanding of the controls, no material deficiencies came to our attention. However, CPP may be unable to continue as a going concern as a result of its default on loans from a principal lender. This default is further discussed in Funding No. 1. Other areas where we noted an opportunity for improvement in management controls are addressed in the findings of this report.

The BFO's fieldwork was conducted between September 21, 2010 and October 30, 2010, and was performed in accordance with generally accepted government auditing standards. This report, when presented in its final form, is available for public inspection.

Results of Fieldwork

As indicated, the audit encompassed a review of CPP financial structure as well as its per diem rate structure. Additionally, the audit concludes that CPP's costs may be overstated in part as a result of excessive interest charges related to borrowings some of which were not related to the provision of services at CPP.

Finding No. 1 - Cambridge Point Pleasant, LLC Is Not A Viable Going Concern Or Continuing Entity In Its Present Financial Condition Because It is In Default To Its Secured Lender

BFO reviewed the settlement documents for the May 2007 refinancing of the Point Pleasant premises. A total of $17.5 million dollars was refinanced, $2 million of which was a line-of-credit. In addition, approximately $340,000 of fees and commissions were paid at settlement. CPP was unable to refinance this loan when it matured in May 2010.

As a result of the default in May of 2010, interest rates increased from 10% to 17%. The interest burden is crippling CPP. For instance, from May 2007 to May 2010, 10% interest on $15.5 million would equal $4.65 million in interest expense. A significant debt burden pre-existed May 2007 and it is understood that this negative working capital condition has been ongoing several years now.

However, so long as the secured lender continues to forebear from legal collection proceedings or foreclosure action, CPP can be expected to continue its operations, all the while increasing the amount, and the rate of its losses.

It is important to recognize that if the secured lender forecloses it would presumably take title to the Point Pleasant property thereby extinguishing debt for equity. For the eight months ended August 31, 2010, CPP's interest expense per resident per day was $108.

Recommendations

As a result of the continuing liquidity problem and overextended debt situation, BFO recommends that CPP take all possible precautions so that the welfare of the residents will not be jeopardized and take all possible steps to keep the regulatory and funding agencies appraised of the status of any pending foreclosure, change of ownership and/or management and the potential effects on the residents.

The BFO recommends that CPP prepare, present and implement a viable business continuation or recovery plan. For contingency planning, CPP should also take all possible steps to keep the regulatory and funding agencies appraised of the status of any pending foreclosure, change of ownership and/or management and the potential effects of the residents.

The BFO also recommends that OCY&F and ODP should explore potential alternative options for the placement of residents.

Finding No. 2 – <u>A Portion Of The Proceeds From The Refinancing Of Cambridge Point Pleasant, LLC's Debt Was Used To Benefit Other Related Entities</u>

BFO interviewed CPP's management and employees several times during the course of its field work. BFO also reviewed certain documents related to the refinancing of May 2007. Two of the items refinanced were to repay $1.98 million to [redacted] LLC and to repay $6.2 million to [redacted] According to management, the [redacted] proceeds were withdrawn and lent to Cambridge Retirement Communities, Inc., a related entity with a Personal Care Home (PCH) facility on Snyder Avenue, Philadelphia, PA. [redacted] was a blanket loan used to support various related entities.

The Snyder Avenue facility was conveyed to the Department of Housing and Urban Development after its operation became financially unprofitable. It appears that the root of CPP's present financial bind had its start in this related entity receiving financial assistance over the last decade with loan proceeds secured by CPP's assets.

Although a significant amount of the borrowed funds were lent to related parties the actual receivables from related parties as of August 31, 2010 was limited to approximately $430,000. The rest would appear to have been written off as uncollectable.

CPP's present default is in large part because its assets were used to finance other related operating entities. CPP is presently in litigation with a secured lender in regard to the default.

<u>Recommendations</u>

BFO recommends that CPP resolve its lawsuit with a principal lender as soon as practicable.

BFO also recommends that CPP should cease expenditures for the benefit of related entities. CPP should seek an affiliation, joint venture or partnership with a larger health care organization. Additionally, CPP should attempt to collect its accounts receivable from affiliated entities so as to improve its cash flow.

The BFO further recommends that OCY&F and ODP explore potential alternative options for the placement of residents.

Finding No. 3 – Cambridge Point Pleasant, LLC's Per Diems Are Not Currently Supported By Any Budgets, Cost Reports Or Other Traditional Measures Of Value

CPP acquired a pre-existing operation that was already in place at the Point Pleasant facility. The prior ownership negotiated the rates with the various providers and governmental state and county entities. Since that time, the current CPP management team has continued to operate under the same set of per diem rates.

However, at present, the per diem rates may be different even for residents similarly situated. For example, for Level II residents, Americhoice pays $600 while Health Partners and Keystone Mercy pay $515. Management's explanation is that some rates include durable medical equipment (DME) and/or prescriptions (Rxs) while other (presumably lower) rates do not include these items that are paid for separately by the MCO.

We also noted that some residents have their room and board paid by Philadelphia Department of Human Services; some receive Social Security while others get neither. These factors further complicate the per diem rate structure. For example, two Level II residents, both of whom are insured by Keystone Mercy Health Plan, have per diems of $515. For the first resident, CPP receives a per diem from the MCO plus a monthly social security payment. For the second individual, CPP receives the same per diem from the MCO plus a second per diem from DHS of $121.

CPP does not have any cost allocation plan, budget or other computation of the expense to provide the various levels of services required by the residents. The rates were simply rolled forward from one year to the next.

CPP should implement some method of assigning cost to its various levels of service. According to management, it already does this when considering for admission a special needs person. CPP then works up a cost plan specific to that individual's needs and uses this budgeted amount to set a rate with that potential resident's insurer. This process should be done for the three general levels of care based upon current expense data.

In order to avoid a recurrence of this stale rate dilemma, a sunset provision should be implemented wherein the various rates expire at some future date, thereby requiring that they be periodically revisited.

Recommendations

The BFO recommends that CPP quantify the costs associated with each of the three levels of resident care offered and set the prospective rates by negotiating with its MCOs and government payers for each of the three levels of care. It should also continue to negotiate on a case-by-case basis, current rates based upon actual allowable costs at the time of admittance for each special needs resident.

The BFO also recommends that CPP, in conjunction with OCY&F, ODP, the MCOs or the government payer, establish a sunset provision for its residents such that their rates are periodically renegotiated based on conditions at the time.

BFO recommends that OCY&F and ODP should determine the extent of care required for each of the three categories of residential care; quantify the costs associated with each of the three levels of resident care and determine the prospective rates; and, continue to negotiate on a case-by-case basis a specific rate at the time of admittance for each special needs resident.

Finally, the BFO recommends that OCY&F and ODP direct each MCO to renegotiate a current rate with CPP that is based on actual allowable costs for each of the three levels of care.

Finding No. 4 – <u>The Weighted Average Per Diem Cost Before Interest Expense Was $458.41</u>

In order to isolate the effect of interest expense on per diems, a computation was made to divide all costs and expenses, except for interest, by the number of resident census days. For the eight months ended August 31, 2010, the average per diem cost per resident was $458.41, not including interest expense. (Exhibit A) It is important to note that this rate includes a 4.5% management fee but the rate does not include profit[1].

Interest expense of $1,382,765 could also be averaged according to resident census days. (Exhibit B) The result would be over $108 per resident per day just for interest expense.

<u>Recommendations</u>

BFO recommends that CPP prepare budgets for each of the three levels of care provided to residents and renegotiate its rates with the MCOs or government payers that are based on actual allowable costs.

The BFO also recommends that OCY&F and ODP explore potential alternative options for the placement of residents. Also, they should oversee negotiations between the MCOs and CPP to set new per diems that are set in direct relation to the costs of the various levels of care required for each class of residents.

<u>Summary</u>

CPP is in default to its principal creditor in large part because it has borrowed excessively and has financed other related entities with a part of the loan proceeds. It is unable to refinance its debt and may eventually be forced to hand over control and ownership to this creditor. CPP's per diems may be overstated to the extend they include excessive interest charges related to the outstanding debt. The current per diems billed to the MCOs are not supported by any budgets, cost reports or other

[1] The rate calculated is an average using cost and patient days for the eight month period ending August 31, 2010. This rate does not reflect acuity levels as no data was available to differentiate between the various levels of care.

measures of valuation and should be renegotiated based upon current costs. Current rates appear to be 10% to 15% overstated.

Subsequent Event And Exit Conference

As of February 1, 2011, the facility which operated and licensed as Cambridge Point Pleasant, LLC, has been acquired and licensed to Pediatric Specialty Care at Point Pleasant (PSA). PSA's management has prepared and submitted its response dated March 3, 2011 to the draft audit report. The response states that the change in ownership alleviated the going concern issue in that the debt was reduced by $3,000,000, the interest rate on the outstanding debt reduced from 14.6% to 3.4%, and the status of the debt of the current owner is prudent and stable.

On March 10, 2011, an exit conference was held with PSA's management. Both DPW and PSA representatives were in agreement that new rates based on cost and acuity levels need to be established. PSA management expressed concerns that the rate presented within Finding No. 4 and exhibit A did not reflect cost based on acuity levels. BFO explained that no data was available to differentiate between the various levels of care. As such, a footnote was added to Finding No. 4 but no other changes were made to the report.

In accordance with our established procedures, an audit response matrix will be provided to your office. Once received, please complete the matrix within 60 days and email the Excel file to the DPW Audit Resolution Section at:

RA-pwauditresolution@state.pa.us

The response to each recommendation should indicate your office's concurrence or non-concurrence, the corrective action to be taken, the staff from your office responsible for the corrective action, the expected date that the corrective action will be completed, and any related comments.

Sincerely,

Tina L Long

Tina L. Long

Attachments

c: Dr. Erwin Carner
Mr. Steven Atlass
Mr. Greg Hook
Dr. Jeffrey Rubin
Mr. Robert Heyert
Ms. Vicki Stillman-Toomey
Ms. Raheemah Shamsid-Deen Hampton
Mr. Joseph Church
Mr. Thomas Diehl
Mr. Louis Sannutti

CAMBRIDGE POINT PLEASANT LLP
PER DIEM COMPUTATIONS

	6 Months Ended June 30, 2010		8 Months Ended August 31, 2010	
Operating Expenses	$	4,227,116	$	5,716,157
Depreciation & Amortization		95,549		127,205
Total Expenses Before Interest		4,322,665		5,843,362
Patient Days		9,463		12,747
Average Cost Per Resident Before Interest Expense	$	456.80	$	458.41

EXHIBIT A

CAMBRIDGE POINT PLEASANT LLP
RATIO OF REVENUE TO INTEREST EXPENSE

	6 Months Ended June 30, 2010		8 Months Ended August 31, 2010	
	Amount	**Percent Of Revenue**	**Amount**	**Percent Of Revenue**
Revenue	$ 5,258,931		$ 7,109,631	
Expenses before Interest	4,357,665		5,878,372	
Income before Interest	901,266	17.14%	1,231,259	17.32%
Interest Expense	942,633	17.92%	1,382,765	19.45%
Net Loss	$ (41,367)	-0.79%	$ (151,506)	-2.13%

As illustrated, excess interest expense will cause Cambridge Point Pleasant, LLC to incur current and, most likely, future losses.

EXHIBIT B

CAMBRIDGE POINT PLEASANT
RESPONSE TO THE DRAFT REPORT

ATTACHMENT

Buchanan Ingersoll & Rooney PC
Attorneys & Government Relations Professionals

One South Market Square
213 Market Street, 3rd Floor
Harrisburg, PA 17101-2121

P.O. Box 12023
Harrisburg, PA 17101-2023
T 717 237 4800
F 717 233 0852
www.buchananingersoll.com

Jonathan Vipond, III
717 237 4804
jonathan.vipond@bipc.com

March 3, 2011

VIA ELECTRONIC MAIL
ORIGINAL VIA REGULAR MAIL

Daniel Higgins
Audit Manager
Division of Audit and Review
Bureau of Financial Operations
Department of Public Welfare
801 Market Street, Suite 5040
Philadelphia, Pennsylvania 19107-3126

Re: Response to Draft Performance Audit Report Dated December 14, 2010: Cambridge Point Pleasant, LLC, now owned and operated as Pediatric Specialty Care at Point Pleasant (90 Cafferty Road Operating Company, LP)

Dear Mr. Higgins:

We are providing this response to a letter dated December 14, 2010 from Kevin M. Friel, Director of the Bureau of Financial Operations ("BFO") at the Department of Public Welfare attaching a "draft" performance audit report of Cambridge Point Pleasant, LLC for the period July 1, 2009 through August 31, 2010. I first note that, as of February 1, 2011, the facility which was operated and licensed as Cambridge Point Pleasant, LLC, has been acquired by and licensed to Pediatric Specialty Care at Point Pleasant ("Pediatric Specialty Care"). Pediatric Specialty Care, as the current owner and holder of the Department of Public Welfare licenses under 55 Pa. Code Chapter 3800 (License No. 136680) and under 55 Pa. Code Chapter 6400 (License Nos. 135830 and 135770). Pediatric Specialty Care is, therefore, responding to the allegations and conclusions set forth in the December 14, 2010 letter.

First, we would note on behalf of Pediatric Specialty Care that it was not until very recently even aware of the December 14, 2010 letter or the clear responsibilities stated therein to request an exit conference within forty (40) days of that date and in the context of electing to have an exit conference to provide a written response at least ten (10) days prior to that scheduled exit interview. We note through the reasonable accommodation of BFO that an exit conference has been scheduled for Thursday, March 10, 2011, at 11:00 a.m. at your Philadelphia BFO offices at 801 Market Street, Philadelphia, Pennsylvania. We are providing this response reasonably in advance of that meeting to facilitate candid discussion and hoped-for resolution.

We of course will be in attendance at that meeting and prepared to respond further as necessary. We will respond here to each of the four (4) draft findings sequentially.

BFO Finding No. 1: Cambridge Point Pleasant, LLC is not a viable going concern or continuing entity in its present financial condition because of its default to its secured lender.

Pediatric Specialty Care, as the current owner and operator of the facility as noted above, presently operates and is licensed to operate the facility. Such acquisition and operation occurred because the Cambridge Point Pleasant, LLC's secured lender executed its rights to take control of all of the facility's assets and operations. Therefore, in lieu of permitted foreclosure as to the underlying mortgage, the lender took the deed of ownership and possession of the assets and the operating facility. We attach a description of that transaction as February 1, 2011 as Attachment A. As a result of that action and acquisition by the current owner and operator, the viability of the prior owner is not presently in question or relevant and the status of the debt of the current owner is orderly, prudent and stable as indicated.

BFO Finding No. 2: A Portion Of The Proceeds From The Refinancing Of Cambridge Point Pleasant, LLC's Debt Was Used To Benefit Other Related Entities.

Again, the actions of the predecessor owner and operator are not presently relevant or material as to the operation of the facility by Pediatric Specialty Care whether or not the proceeds of prior borrowings or refinancings by Cambridge Point Pleasant, LLC were used for internal operating purposes or as to related entities. It is a past historic reference which need not be presently addressed in the context of the current financial stability and viability of the facility and its owner.

BFO Finding No. 3: Cambridge Point Pleasant, LLC's Per Diems Are Not Currently Supported By Any Budgets, Cost Reports Or Other Traditional Measures Of Value.

Pediatric Specialty Care notes that the facility is currently licensed separately for fifty-four (54) residents as a group home under 55 Pa. Code Chapter 6400 and for nine (9) residents as a residential facility under 55 Pa. Code Chapter 3800. While these regulations do have rate setting provisions as to some categories of facilities and their residents, all the rates in discussion here were established outside that process. Attachment B to this letter for the last full month for which statistics have been compiled which was January 2011 is a listing of the fifty-four (54) residents (omitting names and other personal identifiers) by admission date, and payor, and in terms of their levels of care and the per diems received for each day of care. We provide other relevant statistics as well at Attachment B.

As noted, the levels of care determine the amount of per diems based upon the complexity of the needs of the individual resident. The basic per diem rates have been established for at least ten (10) years by direction of the Office of Medical Assistance ("MA")

Programs at the Department of Public Welfare. These are not negotiated rates, but rather, rates determined by that Department based upon the perceived and measured needs of categories of residents. As to those residents enrolled in and which receive funding from managed care organizations operating under the HealthChoices Program in Southeastern Pennsylvania, those negotiated rates are based upon the MA fee-for-service rates originally established. None of those rates are based upon the submission of budgets or actual costs by the provider and have been inherited and assumed by the present owner and operator under existing provider contracts.

BFO Finding No.4: The Weighted Average Per Diem Cost Before Interest Expense Was $458.41

Pediatric Specialty Care has examined and confirmed the findings of BFO as to the operating expenses and total expenses of the facility for the six (6) month period ending June 30, 2010 and eight (8) month period ending August 31, 2010.

	June 30, 2010	August 31, 2010
Revenue	$5,258,931.00	$7,109,631.00
Expenses	$4,357,665.00	$5,878,372.00
Net Income	$901,286.00	$1,231,259.00
Income as a Percentage of Revenue	17.14%	17.32%

These numbers merely indicate differences between expenses and revenues and the percentage thereof which is net income. The number of residents for each period is according to our internal records low by 207 patient days but, regardless of the actual number, the simple act of dividing total expenses by total patient days merely results in an average expense cost which has no necessary bearing on or connection to rates paid for services. Other expenses including reasonable interest are part of its operating costs but again have no basis in these per diem rate calculations which were not derived from costs. The basis for our observation relates to the intended absence of a full and complete cost accounting in this audit as we recognize that, from a sound current public policy perspective, some appropriate level of cost scrutiny by BFO and of provider accountability is reasonable. We acknowledge the importance of reasonable and justifiable income margins and as noted pledge ourselves going forward to cooperation and transparency.

While we note that the rates paid are determined by the payer not by the purchaser or vendor based on allowable costs, we as the new owners of the facility fully intend to abide by all applicable regulatory and statutory requirements. With that being said, we believe that there is no provision in the applicable regulatory and statutory requirements limiting the purpose to which our or any regulated facility may apply its net income from revenues based on payor established rates. Accordingly, that income may be spent on any lawful purpose.

Conclusion

Pediatric Specialty Care appreciates the attention which BFO has given to the precarious financial position of the predecessor owner and operator but notes the current stable financial position of the facility which supports appropriate and qualitative delivery of services to the residents of the facility. We look forward to working with you going forward with respect to the performance and fiscal responsibility but note that we believe no remedial or further action need be taken with respect to this draft audit and its findings which applied to a prior owner.

With best regards,

Jonathan Vipond, III

Jonathan Vipond, III

JVIII/ldw
Attachments (2)
cc: Greg Hook

Pediatric Specialty Care at Point Pleasant
Senior Debt Schedule

		01/31/11		Transaction	02/01/11	
Loan	**Bank**	**Balance**	**Interest Rate**	**Adjustments**	**Balance**	**Interest Rate**
Senior Debt						
Mortgage Loan						
Mortgage Loan	[redacted] Bank	$0	14.60%	$13,500,000	$13,500,000	3.26%
Mortgage Loan (a)	[redacted] Group	0	14.60%	0	0	3.26%
Mortgage Loan		**$15,500,000**	**0.00%**	**$13,500,000**	**$13,500,000**	**3.26%**
Term Loan						
Term Loan	[redacted] Bank	$0	14.60%	$1,100,000	$1,100,000	5.00%
Term Loan (a)	[redacted] Group	0	14.60%	0	0	5.00%
Term Loan		**$2,000,000**	**0.00%**	**$1,100,000**	**$1,100,000**	**5.00%**
Senior Debt		**$17,500,000**	**0.00%**	**$14,600,000**	**$14,600,000**	**3.39%**

(a) Converted to equity.

Cambridge Point Pleasant
Billing Worksheet

For From 1/1/2011 To 1/31/2011 31

	ADMIT DATE	PAYOR	LEVEL	Auth#	PER DIEM RATES: Skilled Nursing - Non School	Skilled Nursing - School	County Room & Board	BILLABLE DAYS: Non-School	School	County	Days variance	Monthly Billing
1	[redacted]	United Healthcare	III	200164286	$650.00	$650.00		31				$20,150.00
2		KMHP	II	10064-1077	$515.00	$515.00		31				$15,965.00
3		KMHP	III	10231-0121	$566.50	$566.50		31				$17,561.50
4		Philadelphia OMR	III		$748.98	$748.98		31				$23,218.38
		SSI										($498.24)
5		KMHP	III	10222-0053	$566.50	$566.50		31				$17,561.50
		Phila DHS					$121.05			31		$3,752.55
6		HSCSN	I	A564945	$436.00	$436.00		31				$13,516.00
7		KMHP	I	10272-0401	$335.78	$335.78		31				$10,409.18
8		KMHP	I	10232-0556	$335.78	$335.78		31				$10,409.18
9		KMHP	II	10287-0742	$515.00	$515.00		31				$15,965.00
		Phila DHS					$121.05			31		$3,752.55
		Phila DHS					$121.05			9		$1,089.45
10		KMHP	I	10196-0504	$335.78	$335.78		31				$10,409.18
		Phila DHS					$121.05			31		$3,752.55
11		Health Partners-1		IP38	$515.00	$515.00						$0.00
		IBC	II	8025218-001	$850.00	$850.00		31				$26,350.00
12		Health Partners	III	IP43621	$571.25	$571.25		31				$17,727.50
13		KMHP	II	10194-0433	$515.00	$515.00		31				$15,965.00
		KMHP-1		10194-0433	$515.00	$515.00						-$2.00
14		PA MA	III		$568.00	$568.00		31				$17,608.00
15		Health Partners	III		$571.25	$571.25		24				$13,710.00
		PA MA-1			$568.00	$568.00		4				$2,272.00
16		KMHP	II	10152-0860	$515.00	$515.00		31				$15,965.00
17		Unison	III		$641.00	$641.00		11				$7,051.00
		Phila DHS					$121.05			11		$1,331.55
18		Health Partners	II	470193342	$515.00	$515.00		31		31		$15,965.00
19		KMHP	II	10194-0827	$515.00	$515.00		31				$15,965.00
20		KMHP	III	10194-0598	$566.50	$566.50		31				$17,561.50
		KMHP-1		10194-0598	$566.50	$566.50						-$2.00
21		KMHP	II	10218-0801	$515.00	$515.00		31				$15,965.00
22		Mercantile Trust Fund	II		$550.00	$550.00		31				$17,050.00
23		KMHP	II	10195-1138	$515.00	$515.00		31				$15,965.00
24		KMHP	III	10232-0597	$566.50	$566.50		31				$17,561.50
25		Health Partners	III	IP44787	$571.25	$571.25		31				$17,727.50
26		Health Partners	I	AP515	$365.00	$365.00		31				$11,315.00
27		KMHP	III	10172-0493	$566.50	$566.50		31				$17,561.50
28		United Healthcare	IV	200164226	$650.00	$650.00		31				$20,150.00
		Phila DHS					$121.05			31		$3,752.55
29		KMHP	III	10152-0931	$566.50	$566.50		31				$17,561.50
30		KMHP	I	10196-1247	$335.78	$335.78		31				$10,409.18
		Phila DHS					$121.05			31		$3,752.55
31		KMHP	I	1035-1154	$335.78	$335.78		26				$8,730.28
		Phila DHS					$121.05			26		$3,147.30
32		KMHP	II	10196-1355	$515.00	$515.00		31				$15,965.00
		Phila DHS					$121.05			31		$3,752.55
33		KMHP	II	10288-1072	$515.00	$515.00		31				$15,965.00
		Adjustment										-$0.10
34		KMHP	II	10172-0230	$515.00	$515.00		31				$15,965.00
35		KMHP	II	09180-0491	$515.00	$515.00		31				$15,965.00
36		KMHP	I	10195-1225	$335.78	$335.78		31				$10,409.18
37		KMHP	III	10053-1805	$566.50	$566.50		2				$1,133.00
38		KMHP	III	10075-0306	$566.50	$566.50		31				$17,561.50
39		PA MA	III		$568.00	$568.00		31				$17,608.00

SUMMARY INFORMATION

Census

Level	Actual	Budget	Variance
I	12		12
II	21		21
III	20		20
IV	1		1
Total	*54*	*0*	*54*

Average Daily Rate Non-School

Level	Actual	Budget	Variance
I	$345.75		$345.75
II	$542.71		$542.71
III	$595.26		$595.26
IV	$650.00		$650.00

Average Monthly Rate per Resident (total)

Actual $	Budget	Variance
$15,276	#DIV/0!	#DIV/0!

County/Other	$121.05	
Actual:	12	$39,231.20
Budget		$0.00
Variance	12	$ 39,231.20

Total Monthly Resident Revenue:		$ 785,790
Total Budgeted Resident Revenue:		$ -
Variance:	FAVORABLE	$ 785,790

Billable Days (Vacancy Loss based on 56 rentable beds)

Total Monthly	1,525	Vacant	211
Total Budget		Vacancy	12.15%
Var	1,525		

Insurance Per Day $ 515.27

40	[redacted]	Philadelphia OMR	II		$748.98	$748.98		31		$23,218.38
		SSI								($501.20)
41	[redacted]	KMHP	I	10195-1196	$335.78	$335.78		31		$10,409.18
		co-pay								-$5.00
		Feldman & Feldman from 04/01/10					$117.50		31	$3,642.50
42	[redacted]	KMHP	II	10195-1119	$515.00	$515.00		31		$15,965.00
43		Philadelphia OMR	II		$351.00	$351.00		31		$10,881.00
		SSI								($501.20)
44	[redacted]	Philadelphia OMR	III		$748.98	$748.98		31		$23,218.38
		SSI								($501.20)
45	[redacted]	KMHP	I	09231-1129	$335.78	$335.78		31		$10,409.18
46	[redacted]	Unison	II	200086798	$572.00	$572.00		5		$2,860.00
47	[redacted]	PA MA	III	no auth# yet	$568.00	$568.00		4		$2,272.00
48	[redacted]	KMHP	II	10148-0778	$515.00	$515.00		31		$15,965.00
49		United Healthcare	III	200140250	$600.00	$600.00		31		$18,600.00
50	[redacted]	KMHP	II	10288-0923	$515.00	$515.00		31		$15,965.00
		Phila DHS		Use: 85/29			$121.05		31	$3,752.55
51		United Healthcare	II	200164255	$600.00	$600.00		30		$18,000.00
52	[redacted]	KMHP	III	10344-0130	$566.50	$566.50		0		$0.00
53		KMHP	I	10196-1211	$335.78	$335.78		24		$8,058.72
		Phila DHS					$121.05		31	$3,752.55
54	[redacted]	PA MA	I	1006032109	$326.00	$326.00		31		$10,106.00
		Total for the month						1525		$825,021.16

		Count	Amount	# Days	$/Day
ADJ	Adjustment	1	$ (0.10)	0	#DIV/0!
ADJ	co-pay	1	$ (5.00)	0	#DIV/0!
County	Phila DHS	11	$ 35,588.70	294	$ 121.05
SSI (OMR)	SSI	4	$ (2,001.84)	0	#DIV/0!
R&B	Feldman & Feldman from 04/01/10	1	$ 3,642.50	31	$ 117.50
ADJ	PA MA-1	1	$ 2,272.00	4	$ 568.00
ADJ	KMHP-1	2	$ (4.00)	0	#DIV/0!
MCO	Health Partners	5	$ 76,445.00	148	$ 516.52
MCO	HSCSN	1	$ 13,516.00	31	$ 436.00
MCO	IBC	1	$ 26,350.00	31	$ 850.00
MCO	KMHP	32	$ 437,226.76	920	$ 475.25
MCO	Mercantile Trust Fund	1	$ 17,050.00	31	$ 550.00
MCO	PA MA	4	$ 47,594.00	97	$ 490.66
MCO	Philadelphia OMR	4	$ 80,536.14	124	$ 649.49
MCO	Unison	2	$ 9,911.00	16	$ 619.44
MCO	United Healthcare	4	$ 76,800.00	123	$ 625.20
		54	$ 785,528.90	1,521	$ 516.46
			$ 825,021.16		
			$ -		