

Bond Program Compliance Report  
on the  
Health Care Facilities Finance Act Program  
Administered by the  
NC Medical Care Commission  
For FYE 2012

Presented to the Commission on September 12, 2014

# Reasons for Change in Audit Scope

- Lack of reliance on audit work-papers and auditor's certificate of compliance
- Lack of reliance on Trustee oversight/review
- Appearance of general lack of knowledge of the covenants in the bond documents
  - Late or non-filing of required documents
  - Lack of succession plan/delegation of duties

# Compliance Examination Review Process

- Creation of Compliance Program to reflect changes in audit scope
  - Pulled together bond documents
  - Reviewed bond documents (average # of 4 doc per series x 178 series = 712 documents reviewed)
  - Create revised checklist and compliance program accordingly
- Contact/Communication with CFO and/or designated contact
  - Explained revised scope
  - Notified findings will be reported to the Commission
  - Answered any questions
- Contact/Communication with Audit Firm, Trustee and the Bank
  - Request work-papers
  - Discussed their compliance scope
  - Notified of need for revisions to certificate of compliance
- Follow up with CFO and/or designated contact
  - List of findings
  - Answer any questions
  - Suggested creation and implementation of post issuance tax compliance policy if one not in place

# Uses of Bond Proceeds and Documents Reviewed to Complete the Compliance Programs

- Typical Use of Bond Proceeds:
  - Refunding
  - Conversion
  - Construction and/or Equipment
  - Leases
- Documents Reviewed to Complete the Compliance Programs:
  - Loan Agreement
  - Master Trust Indenture
  - Trust Agreement
  - Tax Certificate
  - Letter of Credit, Reimbursement Agreement, Continuing Covenant Agreement
  - Master Lease Agreement

# Facilities with Outstanding MCC Debt at FYE 2012

Type of Facility	Number of Facilities	Original Amount Authorized	Principal Balance Outstanding at FYE 2012	Number of Outstanding Bond Issues
Hospitals & Health Care Facilities	38	\$7,153,767,897	\$5,768,047,377	97
Continuing Care Retirement Communities	32	\$1,943,194,250	\$1,319,499,839	73
Other Health Care Facilities				
Nursing Facilities	2	\$12,410,000	\$11,059,205	3
Hospice	3	\$17,395,000	\$14,676,500	4
Other	2	\$46,620,000	\$41,080,000	2
<b>Total</b>	<b>77</b>	<b>\$9,173,387,147</b>	<b>\$7,154,362,921</b>	<b>178</b>

# Facilities with No Findings

- Appalachian Regional Healthcare System
- Carolina Village, Inc.
- Duke University Health System, Inc.
- Forest at Duke, Inc.
- Lenoir Memorial Hospital, Inc.
- Union Regional Medical Center (Carolinas Medical) – debt paid off prior to FYE 2012
- Wake Forest Baptist Medical Center
- Well Spring Retirement Community, Inc. and Foundation

# Most Common Documents Filed Late to MCC

Type of Late Filing	Hospital	CCRC	Other Health Care	Total
Quarterly Financial Report	15	12	5	32
Operating and Capital Budget	11	10	5	26
Officer's Certificate of Compliance	11	5	6	22
Auditor's Certificate of Compliance	11	5	5	21
Schedule K of Tax Form 990	8	11	2	21
Audited Financial Statements	9	5	4	18
Comparison of Audit to Forecast	5	11	2	18
Disclosure Statement (CCRC Only)	NA	17	NA	17
Insurance Consultant Report	3	6	1	10
Continuation Statement – Opinion of Counsel Letter	5	3	1	9
Project Completion Letter	4	4	1	9
Rebate Calculation	2	3	0	5

# All Facilities with One or More Documents Filed Late to MCC

Slide 8 to 11

- Alamance Regional Medical Center (ARMC Healthcare and Affiliates)
- Aldersgate United Methodist Retirement Community
- Angel Medical Center, Inc.
- Arbor Acres United Methodist Retirement Community , Inc.
- Ashe Memorial
- Baptist Retirement Homes of North Carolina
- Blue Ridge Healthcare System , Inc. \*
- Blue Ridge Regional Hospital, Inc. \*
- Cape Fear (Cumberland County Hospital System, Inc.)
- Carol Woods (Chapel Hill Retirement Center , Inc.)
- Carolina Adventist Systems, Inc. \*
- Carolina Meadows, Inc.
- CaroMont Health & Affiliates (Gaston Mem.)
- Catholic Health East (St. Joseph of Pines)
- Cornelia Nixon Davis (CN Davis, Inc.)
- Cross Road Retirement Community

\* Facility that had only one document filed late



# All Facilities with One or More Documents Filed Late to MCC

Slide 8 to 11

- Cypress Glen Retirement Community \*
- Deerfield Episcopal Retirement Community, Inc.
- DePaul Adult Care Home Communities
- FirstHealth of the Carolinas, Inc.
- Friends Homes, Inc.
- Galloway Ridge
- Givens Estates, Inc.
- Halifax Regional Medical Center, Inc.
- High Point Regional Health System \*
- Hospice and Palliative Care - Charlotte Region
- Hospice of Alamance - Caswell
- Hugh Chatham Memorial Hospital, Inc.
- Iredell Memorial Hospital, Inc.
- J. Arthur Doshier Memorial Hospital
- Lower Cape Fear Hospice
- Lutheran Retirement Ministries of Alamance County, Inc. (Twin Lakes)

\* Facility that had only one document filed late

# All Facilities with One or More Documents Filed Late to MCC

Slide 8 to 11

- Lutheran Services for the Aging, Inc.
- McDowell Hospital, Inc. - debt paid off prior to FYE 2012
- McDowell Nursing (Senior Care Group of McDowell, LLC)
- Mission Health System, Inc.
- Moravian Home, Incorporated, DBA Salemtowne
- Morehead Memorial Hospital and Affiliate
- Moses H. Cone Memorial Hospital
- NC Housing Foundation, Inc.
- Novant Health, Inc.
- Penick Village
- Pennybyrn at Maryfield
- Pines at Davidson, Inc.
- Pitt (University Health Systems of Eastern Carolina, Inc.) Vidant Health
- Presbyterian Homes, Inc.
- Rex Healthcare, Inc. \*
- Rutherford Hospital, Inc.

\* Facility that had only one document filed late

# All Facilities with One or More Documents Filed Late to MCC

Slide 8 to 11

- Scotland Healthcare System
- Sharon Towers (Presbyterian Home at Charlotte, Inc.) \*
- Southeastern Regional Medical Center and Related Organizations
- Southminster, Inc.
- Stanly Health Services, Inc.
- Stanly Total Living Center, Inc.
- The ARC of North Carolina Property Management
- Transylvania Community Hospital, Inc.
- United Church Homes and Services
- United Methodist Retirement Home, Inc. \*
- Village at Brookwood (Alamance Extended Care, Inc.)
- WakeMed \*
- Wayne Health Corporation
- Well Spring Retirement Community, Inc.
- WestCare, Inc.
- WhiteStone
- WilMed Healthcare

\* Facility that had only one document filed late

# Most Common Documents Not Filed to MCC Not Resulting in a Tax Issue or Employment of a Consultant

Type of Finding	Hospital	CCRC	Other Health Care	Total
Quarterly Reports	2	8	3	13
Monthly Project Fund Status Report	3	5	0	8
Officer's Certificate of Compliance	5	0	0	5
Comparison of Audit to Forecast	1	3	1	5
Auditor's Certificate of Compliance	3	1	1	5
Audited Financial Statements	3	0	0	3
Long Term Debt Service Coverage Ratio	2	0	1	3
Officer's Certificate – Quarterly Reports	0	3	0	3

Total Number of Hospitals = 38, Total Number of CCRCs = 32, Total Number of Other Health Care = 7

# All Facilities with One or More Documents Not Filed to MCC

Slide 13 to 15

- Aldersgate United Methodist Retirement Community
- Arbor Acres United Methodist Retirement Community , Inc.
- Ashe Memorial
- Baptist Retirement Homes of North Carolina
- Blue Ridge Regional Hospital, Inc.
- Carol Woods (Chapel Hill Retirement Center , Inc.)
- Chatham Hospital, Inc.
- Catholic Health System (St. Joseph of Pines)
- Cleveland County Health Care System
- Cornelia Nixon Davis (CN Davis, Inc.)
- Cross Road Retirement Community
- FirstHealth of the Carolinas , Inc.
- Galloway Ridge
- Halifax Regional Medical Center , Inc.

# All Facilities with One or More Documents Not Filed to MCC

Slide 13 to 15

- High Point Regional Health System
- Hospice of Alamance - Caswell
- Hugh Chatham Memorial Hospital, Inc.
- Lower Cape Fear Hospice
- Lutheran Services for the Aging, Inc.
- McDowell Hospital Incorporated
- McDowell Nursing (Senior Care Group of McDowell, LLC)
- Morehead Memorial Hospital
- NC Housing Foundation, Inc.
- Penick Village
- Pennybyrn at Maryfield
- Pines at Davidson, Inc.
- Pitt (University Health Systems of Eastern Carolina, Inc.) Vidant Health
- Presbyterian Homes, Inc.

# All Facilities with One or More Documents Not Filed to MCC

Slide 13 to 15

- Randolph Hospital, Inc. – debt paid off prior to FYE 2012
- Rex Healthcare, Inc.
- Rowan Regional Medical Center, Inc. – debt paid off prior to FYE 2012
- Rutherford Hospital, Inc.
- Scotland Healthcare System
- Sisters of Mercy
- Southeastern Regional Medical Center
- Southminster, Inc.
- The ARC of North Carolina Property Management
- United Church Homes and Services
- Wayne Health Corporation
- WestCare, Inc.
- WhiteStone
- WilMed Healthcare

# Significant Potential Financial and/or Tax Ramifications

2012 Finding	Facility
Financial Calculations:	
• Debt Service Coverage Ratio	Chatham, WestCare, Penick Village
• Days Cash on Hand	WestCare
• Leverage Ratio	WestCare
• Marketing	Galloway Ridge, Pennybyrn, WhiteStone
• Occupancy	Pennybyrn, Southminster
• Rebate (not completed & filed as required per Tax Certificate)	WilMed, Presbyterian Homes, McDowell Nursing
Additional Indebtedness	High Point Regional, Scotland Hlthcare, WestCare, Lower Cape Fear Hospice
Secondary Market Disclosure (Not required for every facility, fixed rate deals only)	Halifax, Morehead, WilMed, McDowell Nursing, NC Housing, The ARC
Insurance Consultant Report (not completed & filed)	Cross Road, Galloway Ridge, Lower Cape Fear Hospice
Consultant – DSCR	WestCare
Transfer of Assets (waiver obtained)	Scotland, Wayne
Conveyance of Land (waiver obtained)	Hugh Chatham
Closing Trustee Funds	Ashe Memorial
Disposal of Assets Funded with Bond Proceeds (waiver obtained)	First Health
Additional Principal Payments	High Point
Missed Principal Payment (Trustee failed to notify and make payment)	Southeastern Regional



# Warning Signs to be Monitored

- Financial
  - Secondary Market Disclosure (non-filing)
  - Financial Covenant Violations (LTDSCR, DCOH, Marketing/Occupancy)
  - Incurrence of Additional LT Debt
  - Quarterly Reports
  - Comparison of audit to forecast/budget (measurement of reliability)
  - Non-payment of principal and interest payments
- Tax
  - Use of construction costs to pay issuance costs (2% tax limit)
  - Use of proceeds for private use
  - Transfer of assets or investments to non-obligated group members
  - Improper disposal of assets funded with bond proceeds
  - Arbitrage – rebate calculations

# 2012 Initiative

- 2012 Examinations
  1. Provided list of findings
  2. Conference call(s) with CFO and/or designated contact to discuss compliance requirements
  3. Offered to provide compliance program and/or document filing checklist
  4. Encouraged facilities to create their own compliance checklist if they did not accept the compliance program or document filing checklist used by the MCC
- New Initiatives
  - Continue 2012 Examination Items 1-4
  - Dedicate time specific to covenants with CFOs prior to new bond closing
  - Meeting(s) on site with CFOs to discuss covenant requirements

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