



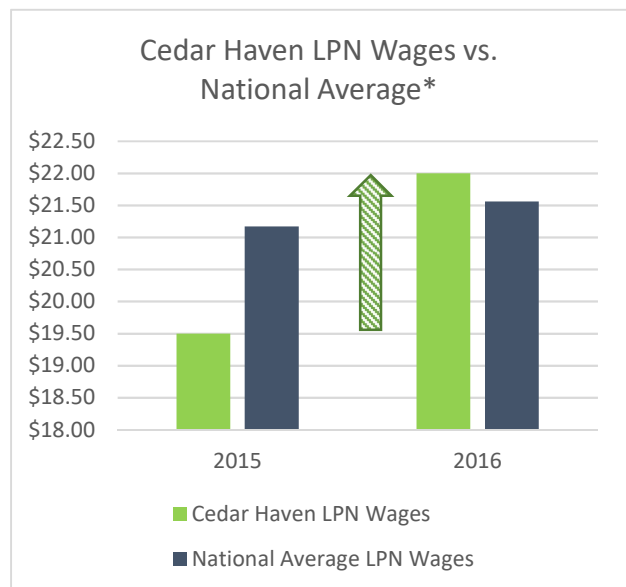
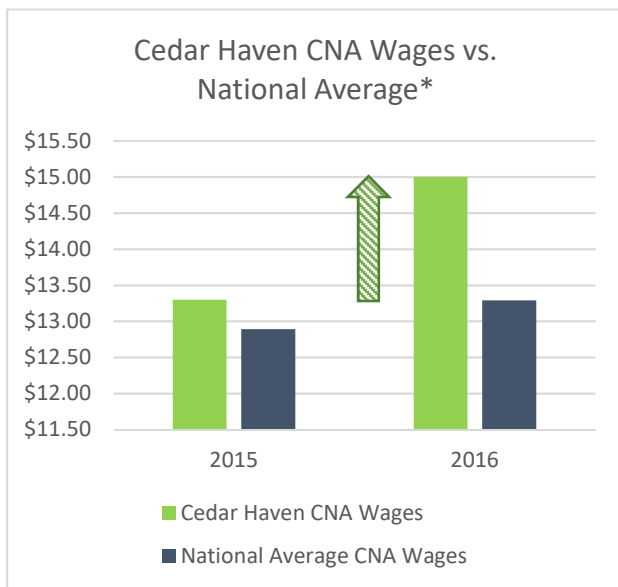
August 29, 2017

Dear Cedar Haven Team:

We are writing to follow up our July 13 letter and to ensure that you are informed of the issues that affect us all.

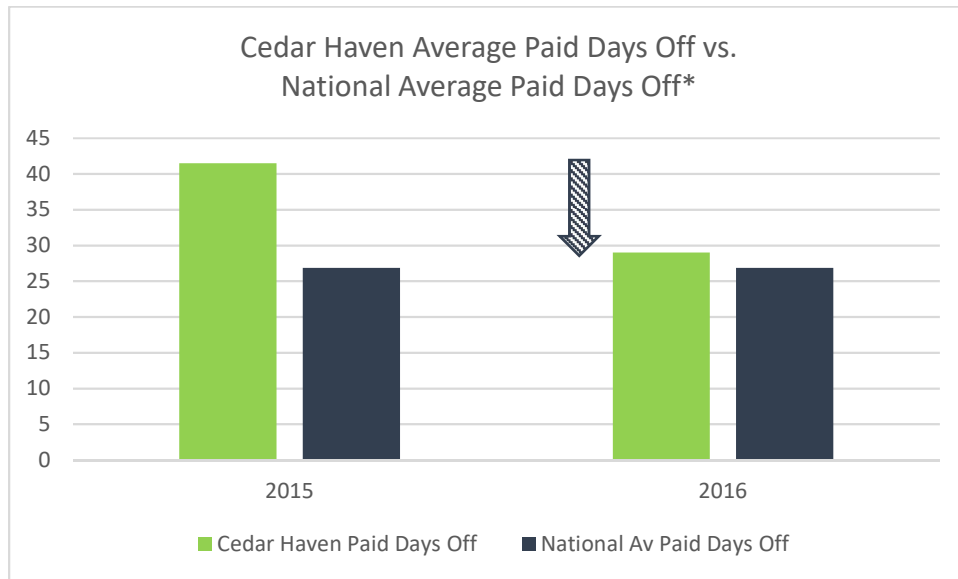
Cedar Haven has been a great provider of skilled nursing care to the Lebanon community for the past 50 years. Prior to its sale, Cedar Haven was losing approximately \$5 million per year. This was financially unsustainable and, like with many other County-owned skilled nursing facilities throughout the State, Lebanon County decided that it was best to sell Cedar Haven. The County selected us as the new owner/operator because we have proven our ability to help skilled nursing facilities, and many other types of businesses, succeed --- clinically, operationally, and financially. We were interested in working with the existing Cedar Haven team because of the great work that was being done here. We took on commitments inherited from the County with a plan to ultimately become a sustainable, economically stable skilled nursing facility.

In addition to improving clinical care and operational efficiency (with a new Electronic Medical Record system and new payroll/scheduling software and technology, to name a few efforts), our plan was to increase wages and reduce paid time off. We sought to increase wages to market levels in order to attract critical nursing staff and to reduce paid time off to ensure that we had the staff we needed to care for our residents. We were able to achieve this during last year’s contract negotiations with the Union. Even though we had not reached our financial targets, we gave CNAs an average 12.2% wage increase and LPNs an average 12.6% wage increase last year. **Due to these increases, our CNA and LPN wages are above the national averages for these classifications. Other bargaining unit employees received a 3.2% wage increase.**



*National Averages for CNA and LPN wages come from the Bureau of Labor Statistics (<http://www.bls.gov>)

Even though paid days off were significantly reduced last year, full-time employees still had a total of between 25 and 37 available paid days off (8 sick, 7 holidays, 10 to 22 vacation days), **closer to, but still above, the national average for privately-owned businesses.**



**This information, from the Bureau of Labor Statistics (<http://www.bls.gov>) is an average of all employees of privately-owned businesses.*

During last year’s negotiations, changes were also made to employee benefit plans. Under the prior contract, many employees had a \$300 deductible employee-only plan, with premiums paid by Cedar Haven, that had a maximum out-of-pocket cost of \$6,350. This past year, there was a \$5,000 deductible employee-only plan option, with premiums paid by Cedar Haven. Despite the higher deductible, this plan was actually an improvement since it had a maximum out-of-pocket cost of \$5,000, and after the addition of an employer-funded Health Reimbursement Account (“HRA”) of \$1,500, an adjusted maximum out-of-pocket cost of \$3,500. 51% of bargaining unit employees chose this plan, and those with significant medical expenses saw a savings of \$2,850 over the prior plan. Other plans with lower deductibles were also available, at a cost to employees, with lesser maximum out-of-pocket costs. Unfortunately, family coverage was at a higher cost for employees.

Where are we today? Due to the efforts of the entire Cedar Haven team over the past several years, quality of care and financial performance at our facility have improved. Cedar Haven is now a five-star facility, with better training, new and improved technology, and up-to-date marketing and communications. While our business is now able to cover its current expenses, we have a long way to go in terms of hiring more employees and addressing the many external pressures demanding our attention. We have relied on partners meaningfully over the past several years, including Dietary (Culinary Services Group) and Rehabilitation (Select Rehab) vendors, who have extended us credit and have allowed us to pay for their valuable services over a longer period than is customary. We are thankful for their support.



While we continue to pay down what we owe to our vendors, Cedar Haven is currently facing several challenges that will likely cost us over \$2 million in the coming year, including the following:

- As of July 1, 2017, the State of Pennsylvania decided that it will pay skilled nursing facilities, including Cedar Haven, less for the important work that we do. **Specifically, Medicaid reimbursement is being reduced by approximately \$4 dollars per resident per day, which represents a reduction of approximately \$400,000 per year to Cedar Haven’s revenue.**
- Our refinancing of the long-term debt (which is almost complete with HUD) will require us to invest in deferred and necessary **capital improvement projects (such as replacing the roof) of approximately \$350,000**, which does not include ongoing yearly required maintenance.
- We are experiencing a **shortage in nursing staff**, which is a widespread problem that is felt from coast to coast. As a result, Cedar Haven has a high reliance **on agency staffing and overtime.**

As we are in the midst of contract negotiations with the Union this year, our goals are no different than they have always been — we are dedicated to our employees, the well-being of our residents, and the long-term success of the facility. In addition to our ongoing work to restructure our debt and improve operational efficiency, we still need to reduce expenses and increase staffing. **To that end, we are seeking:**

- 1) to further reduce paid days off;**
- 2) for employees to make a greater contribution toward their health care benefits (the cost of which is increasing by 12% this year); and**
- 3) for employees to support our objective of hiring and retaining quality nursing staff, thereby improving care for our residents and reducing agency and overtime costs.**

These proposals will help Cedar Haven address, to some extent, the internal and external challenges it faces.

We are proud of how Cedar Haven has improved and where we are going, but there is a lot of work left to be done. We have been dealt a very difficult hand for the coming year. It was unforeseen, but Cedar Haven will continue to work to be an incredibly capable provider of skilled care for all who call our facility home. We hope to have your support in this endeavor.

If you have any questions regarding the information included in this letter, please contact us at questions@cedarhaven.healthcare.

Sincerely,

Chas B. Blalack