

EXAMINATION WARRANT # 10-CP-600

REPORT OF EXAMINATION

OF

**BEECHWOOD ASSOCIATES, L.P.
d/b/a BEECHWOOD COMMONS
ALLENTOWN, PENNSYLVANIA**

AS OF

DECEMBER 31, 2010

BEECHWOOD ASSOCIATES, L.P. d/b/a BEECHWOOD COMMONS

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Harrisburg, Pennsylvania
December 5, 2011

Honorable Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In compliance with instructions contained in Examination Warrant Number 10-CP-600 dated October 26, 2011, and in accordance with provisions of the Pennsylvania Continuing Care Provider and Registration and Disclosure Act, 40P.S. § 3219, an examination was conducted of the records and affairs of

BEECHWOOD ASSOCIATES, L.P.

a continuing care retirement community hereafter referred to as the "Provider". This examination was conducted at the Butler Valley Manor, located at 463 North Hunter Highway, Drums, Pennsylvania. The Provider's administrative office is located at 964 Marcon Boulevard, Suite 220, Allentown, Pennsylvania.

The report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

This is the first examination of the Provider. This examination covered the period from March 27, 2008 through December 31, 2010, and consisted of a general survey of the Provider's business practices and management, and an evaluation of the Provider's financial condition, based upon the results of their annual audits, as of the latter date. Material subsequent events were also reviewed.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Commonwealth of Pennsylvania Insurance Department ("Department").

The format of this report is consistent with the current practices of the Department and is limited to a description of the Provider, a discussion of key financial items that are of specific regulatory concern, and a disclosure of other significant regulatory information.

The objective of this examination was to determine the extent of the Provider's compliance with 40 P.S. § 3202 and 31 Pa. Code § 151.

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For the years under examination, the financial statements were audited by the Certified Public Accounting ("CPA") firm of Campbell, Rappold & Yurasits LLP. For all years covered by the examination, the CPA rendered an unqualified opinion of the financial statements based on generally accepted accounting principles.

HISTORY

The Provider became a Pennsylvania domiciled limited partnership ("L.P.") in January 1983 and received a Certificate of Authority to operate a Continuing Care Retirement Community from the Department on March 27, 2008.

The Provider is a for-profit Pennsylvania limited partnership.

DESCRIPTION OF FACILITY

The Provider operates one facility doing business as Beechwood Commons. Beechwood Commons has four individual cottages, each containing four units for a total of 16 independent living, cottage-style, single-floor apartments. The apartments contain a fully-equipped kitchen, living room, master bedroom and second bedroom or den, bath, laundry room and a private screened-in porch. The cottages are situated on fifteen acres of rural property overlooking Westminster College located at 520 New Castle Street, New Wilmington, Pennsylvania.

Beechwood Commons shares common ownership with Silver Oaks Nursing Center, New Castle, Pennsylvania and Whitecliff Nursing Home, Greenville, Pennsylvania. If a resident leases an independent living apartment, he or she is provided priority access to Overlook Medical Clinic, a 115 bed skilled nursing facility and a 22 bed personal care facility located on the Beechwood Campus. The independent living residents are also given priority admission to Silver Oaks Nursing Center, a 62 bed skilled nursing facility or the Whitecliff Nursing Home, a 154 bed skilled nursing facility. Both facilities are less than 30 miles away from Beechwood Commons.

As of December 31, 2010, there were 14 independent living residents each occupying one of the sixteen units. Five of the residents were on a continuing care basis and nine residents were on a rental basis.

FEES AND SERVICES

As of December 31, 2010, the entrance fee was \$10,800 for an independent living lease. An independent living lease is not a life-care contract. The monthly maintenance fee for a one person independent living lease is \$725 and \$775 for double occupancy. If a resident chooses the rental independent living option, the monthly maintenance fee for one person is \$950 and \$1,025 for double occupancy. Both options require a security deposit of \$1,025.

REFUND POLICY

Before Occupancy

A full refund will be paid if a resident rescinds the agreement within seven (7) days of its execution in accordance with the Notice of Right to Rescind. In the event of termination of an agreement by death of a resident before the Designated Occupancy Date, or in the event the resident prior to the Designated Occupancy Date is precluded from becoming a resident due to illness, injury, or incapacity, then the Provider will make a full refund of the reservation and entrance fees to the resident's legal representative or resident's estate less any amounts deducted to cover expenses incurred. If a resident does not terminate the agreement within the seven (7) day rescission period but terminates prior to the Designated Occupancy Date, for reasons not caused by illness, injury, incapacity, or death, the Provider will retain four (4%) of the entrance fee. Any additional payments less expenses incurred by the Provider shall be refunded. If the resident is precluded from taking residency due to death, illness, injury or incapacity, the agreement is automatically rescinded and a full refund shall be issued to resident, resident's legal representative or resident's estate.

After Occupancy

The resident may terminate the agreement with a written notice of sixty days prior to termination and the surrender of the living unit. The entrance fee will be amortized and accrue to the benefit of the Provider at the rate of twenty percent (20%) per year pro-rated monthly for a period of five years from the Designated Occupancy Date or Date of Occupancy, whichever is earlier. After the lapse of five years, the entrance fee is earned in full by the Provider and no part of it will be refunded. In the event of termination by reason other than death of a resident during the five year amortization period, any unamortized amounts are pro-rated on a monthly basis, less amounts deducted to cover costs incurred by the Provider to refurbish, restore or repair the living unit in the event of unreasonable wear and tear, or to cover costs incurred at the specific request of the resident or to satisfy unpaid charges, will be refunded to the resident in accordance with conditions of payment specified in the agreement.

No Accrual of Interest

The agreement states that no interest will accrue to the benefit of the resident on any amounts required to be refunded under the agreement, and no interest will be paid on termination.

Conditions and Due Date for Refund Payments

Prior to occupancy, all applicable refunds will be made after termination and within sixty days of the resident's request. After occupancy, all applicable refunds will be made only after the resident's, or in situations of double occupancy, both co-residents', vacated living unit has been reoccupied by another resident, and the entrance fee for the reoccupied living unit has been paid in full, and the agreement has been terminated. In the event the resident's vacated living unit is reoccupied by a then current resident of the Provider through an internal living unit

transfer, then only at such time as the Provider receives an entrance fee in full for the living unit vacated by the existing resident transferring to the resident's living unit under the agreement, will a refund be due. As long as the resident, or the case of double occupancy, a co-resident, continues to occupy any living accommodation with the Provider, including accommodations in the Assisted Care Residence or Health Centers, no refund will be due and no refund will be paid until the death, permanent transfer outside the Provider, discharge, or voluntary departure outside the Provider by the resident, or in situations of double occupancy, both co-residents, and or the termination of the agreement. The amount of any refund due will be calculated by reference to the date of surrender of the living unit. Where a living unit is occupied by co-residents, there will be no refund, partial or otherwise, upon the death, permanent transfer within or outside the Provider, discharge or voluntary departure from the Provider of only one of the co-residents.

Distribution of Refund Upon Death

In the case of single occupancy, refunds to the resident's estate will be paid to the duly appointed representative of the estate after proof of such appointment is provided to the Provider in the form of a certified copy of the testamentary letters confirming such appointment. In situations of double occupancy, any applicable refund will be paid by the Provider to the estate of the last surviving co-resident unless otherwise agreed in writing.

MANAGEMENT AND CONTROL

Beechwood Commons is owned by Beechwood Associates, LP, a Pennsylvania limited partnership. Francis A Hayman, Jr. is the sole limited partner of Beechwood Associates. The general partner of Beechwood Associates is Beechwood Partners, L.P, which owns the real estate where Beechwood Commons is situated. Francis A. Hayman, Jr. is the Managing General Partner of Beechwood Partners. The sole management company for Beechwood Commons is PennMed Consultants, Inc, which Francis A. Hayman, Jr. founded in 1986.

It is recommended, under "Good Business Practices", the Provider draft an administrative services/management agreement between Beechwood Associates, L.P. and PennMed Consultants, Inc., outlining the specific services, duties, responsibilities, fees, and related business affairs that govern the conduct of the company.

The business and affairs of the Provider is managed by Frances A. Hayman, Jr.

CORPORATE RECORDS

CERTIFICATE OF ORGANIZATION

As of December 31, 2010, there were no changes to the Provider's Certificate of Organization as a limited partnership during the period of the examination.

ANNUAL DISCLOSURE STATEMENT

A review was made of the 2010 Annual Disclosure Statement for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act (“the Act”), namely 40 P.S. § 3207, sections (a) through (d), and Pennsylvania Insurance Regulations (“the Regulations”), 31 Pa. Code § 151.7, sections (a) through (f) and 31 Pa. Code § 151.9, sections (a) through (f). The 2010 Disclosure Statement was found to contain all information required by the Act and the Regulations.

RESIDENT AGREEMENT

The most current Resident Agreement was reviewed for compliance with 40 P.S. § 3214, sections (a) through (f), of the Act, and 31 Pa. Code § 151.8 sections (a) through (g), and 31 Pa. Code § 151.9 sections (a) through (f), of the Regulations. The Resident Agreement contains the necessary information required of the Act and the Regulations.

PENDING LITIGATION

There was no known pending legal action or any known potential legal action which could have a materially adverse affect on the Provider’s financial condition as of the examination date.

FINANCIAL STATEMENTS

The financial condition of the Provider, as of December 31, 2010, and the results of its operations for the last two years under examination are reflected in the following statements:

Comparative Balance Sheet;
Comparative Statement of Earnings and Members’ Equity and;
Comparative Statement of Cash Flows

There were no changes made to the financial statements as a result of this examination.

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**Comparative Balance Sheet
as of December 31,**

| <u>ASSETS</u> | <u>2010</u> | <u>2009</u> |
|----------------------------------------------------------------|-------------------|-------------------|
| CURRENT ASSETS: | | |
| Cash | \$ 9,390 | \$ 15,477 |
| Resident Funds | 14,645 | 15,305 |
| Prepaid Expenses | <u>11,986</u> | <u>11,811</u> |
| Total Current Assets | 36,021 | 42,593 |
| PROPERTY AND EQUIPMENT | 178,046 | 186,466 |
| ASSETS WHOSE USE IS LIMITED UNDER STATUTORY LIQUID RESERVES | 16,810 | 13,206 |
| AMOUNTS DUE FROM AFFILIATES | 258 | 208 |
| DEFERRED FINANCING COSTS | <u>11,449</u> | <u>13,709</u> |
| TOTAL | <u>\$ 242,584</u> | <u>\$ 256,182</u> |
| <u>LIABILITIES AND PARTNERS' DEFICIT</u> | | |
| CURRENT LIABILITIES: | | |
| Current Maturities of Long-Term Debt | \$ 48,737 | \$ 47,101 |
| Accounts Payable | 10,546 | 13,834 |
| Accrued Expenses | 8,825 | 7,500 |
| Resident Funds | <u>14,645</u> | <u>15,305</u> |
| Total Current Liabilities | 82,753 | 83,740 |
| DEFERRED REVENUE - ENTRANCE FEES | 34,739 | 27,856 |
| LONG-TERM DEBT | 226,406 | 275,142 |
| AMOUNTS DUE TO AFFILIATES | <u>267,226</u> | <u>233,489</u> |
| Total Liabilities | 611,124 | 620,227 |
| PARTNERS' DEFICIT | <u>(368,540)</u> | <u>(364,045)</u> |
| TOTAL | <u>\$ 242,584</u> | <u>\$ 256,182</u> |

BEECHWOOD ASSOCIATES, L.P. d/b/a BEECHWOOD COMMONS**- 7 -****Comparative Statement of Earnings and Members' Equity
for the Year Ended December 31,**

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|---------------------|---------------------|
| REVENUES: | | |
| Net Resident Service Revenue | \$ 167,133 | \$ 176,353 |
| Amortization of Entrance Fees | 3,917 | 2,924 |
| Interest Income | 21 | 62 |
| | <u>171,071</u> | <u>179,339</u> |
| Total Revenues | | |
| EXPENSES: | | |
| Administration | 54,853 | 51,785 |
| Utilities | 43,135 | 49,795 |
| Interest | 9,641 | 16,165 |
| Taxes | 14,398 | 13,389 |
| Insurance | 9,508 | 9,285 |
| Professional Fees | 13,470 | 16,201 |
| Repairs and Maintenance | 3,515 | 4,878 |
| Advertising | - | 1,810 |
| Depreciation | 24,628 | 23,422 |
| Amortization | 2,260 | 2,260 |
| | <u>175,408</u> | <u>188,990</u> |
| Total Expenses | | |
| NET LOSS | (4,337) | (9,651) |
| PARTNERS' DISTRIBUTIONS | (158) | (280) |
| PARTNERS' DEFICIT, BEGINNING | <u>(364,045)</u> | <u>(354,114)</u> |
| PARTNERS' DEFICIT, ENDING | <u>\$ (368,540)</u> | <u>\$ (364,045)</u> |

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**Comparative Statement of Cash Flows
For the Year Ended December 31,**

| | <u>2010</u> | <u>2009</u> |
|------------------------------------------------------------------------------------|-----------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Loss | \$ (4,337) | \$ (9,651) |
| Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 26,888 | 25,682 |
| Proceeds from Entrance Fees | 10,800 | 7,800 |
| Amortization of Entrance Fees | (3,917) | (2,924) |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | - | 350 |
| Prepaid Expenses | (175) | (251) |
| Accounts Payable | (3,288) | 3,077 |
| Accrued Expenses | 1,325 | 3,500 |
| | <u>27,296</u> | <u>27,583</u> |
| Net Cash Provided by Operating Activities | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of Property and Equipment | (16,208) | (28,742) |
| Changes in Assets Whose Use is Limited | (3,604) | (2,927) |
| | <u>(19,812)</u> | <u>(31,669)</u> |
| Net Cash Used in Investing Activities | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on Notes Payable | (47,100) | (43,262) |
| Net Advances from Affiliates | 33,687 | 49,710 |
| Partners' Distributions | (158) | (280) |
| | <u>(13,571)</u> | <u>6,168</u> |
| Net Cash Provided (Used) by Financing Activities | | |
| NET (DECREASE) INCREASE IN CASH | (6,087) | 2,082 |
| CASH, BEGINNING | <u>15,477</u> | <u>13,395</u> |
| CASH, ENDING | <u>\$ 9,390</u> | <u>\$ 15,477</u> |

NOTES TO THE FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE **\$16,810**

The Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. § 3209, requires the Provider to establish and maintain a statutory liquid reserve in an amount equal to or exceeding the greater of:

- (1) The total of all principal and interest payments due during the next 12 months on account of any mortgage loan or other long-term financing of the facility;

or

- (2) Ten percent of the projected annual operating expenses of the facility exclusive of depreciation.

Of the above two requirements, number (1) is \$16,810 and number (2) is \$4,511 as of December 31, 2010. The Provider had funds set aside as assets whose use is limited of \$16,810 as of December 31, 2010. The Provider's current assets applied satisfied the statutory requirement.

RECOMMENDATIONS

PRIOR RECOMMENDATIONS

This is the Provider's first examination.

CURRENT RECOMMENDATIONS

As a result of the current examination, the following recommendations are being made:

1. It is recommended that under "Good Business Practices", the Provider draft an administrative management/service agreement between Beechwood Associates, L.P. and PennMed Consultants, Inc., outlining the specific services, duties, responsibilities, fees, and related business affairs that govern the conduct of the company. (See "Management and Control," page 4.)

CONCLUSION

The examination of Beechwood Associates, L.P.,d/b/a Beechwood Commons made as of December 31, 2010, has determined that it is in compliance with all applicable Pennsylvania laws and regulations as pertaining to Continuing Care Retirement Communities with the exceptions noted under "Current Recommendations."

This examination was conducted by Barbara Kowalski.

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Respectfully submitted,

Annette B. Szady, CPA
Director
Bureau of Financial Examinations

William M. Fedak, CFE
Examination Manager

Barbara Kowalski
Examiner