

EXAMINATION WARRANT # 13-770616109-CP

REPORT OF EXAMINATION

OF THE

BROOKMONT HEALTHCARE CENTER, LLC
EFFORT, PENNSYLVANIA

AS OF

DECEMBER 31, 2013

For Informational Purposes Only

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For Informational Purposes Only

Harrisburg, Pennsylvania
November 19, 2014

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 13-770616109-CP dated February 3, 2014, and in accordance with provisions of the Pennsylvania Continuing Care Provider Registration and Disclosure Act, 40 P.S. § 3219, an examination was conducted of the records and affairs of

BROOKMONT HEALTHCARE CENTER, LLC

a continuing care retirement community hereafter referred to as the "Provider." This examination was conducted at the administrative office of the Provider located at Brookmont Drive, Effort, Pennsylvania 18330.

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 June 29, 2009 through December 31, 2013, 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 its annual audits. 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.

For the years 2009 through 2013, the financial statements were audited by the certified public accounting ("CPA") firm of Padden, Guerrini & Associates, P.C. For all years covered by the examination, the CPA issued unqualified opinions of the financial statements based on generally accepted accounting principles.

HISTORY

The Provider became a Pennsylvania domiciled limited liability company ("LLC") on November 14, 2003 and began operating on January 1, 2004 offering skilled nursing, residential living and rehabilitation services. As of December 31, 2013, the Provider's skilled nursing facility operated 119 beds.

On June 29, 2009 the Provider received a Certificate of Authority from the Department to operate as continuing care retirement community and the Provider converted a single unit into a one bedroom independent living home which is used as the sole continuing care residence. The first and only continuing care agreement became effective May 31, 2010.

DESCRIPTION OF FACILITY

Brookmont Healthcare Center is located in Effort, Pennsylvania, a rural setting in the Pocono Mountains. The Provider operates a skilled nursing facility consisting of 119 licensed skilled nursing beds and a single independent living on its campus. The campus sits on a 14 acre wooded parcel. The skilled nursing facility is a single story brick building and independent living home is also a single story building.

As of December 31, 2013, there were two independent living residents occupying the single independent living home.

FEES AND SERVICES

As of December 31, 2013, the entrance fee was \$9,000 and monthly maintenance fees were \$450 per month for single occupancy and double occupancy. There are numerous services offered by the Provider as part of the monthly fee. The specific services are outlined in the resident agreement.

REFUND POLICY

Before Occupancy

If a resident rescinds an agreement within seven days of its execution in accordance with the Notice of Right to Rescind, the reservation fee and any entrance fee paid will be refunded to the applicant in full.

If a resident is precluded from occupying the residence due to the death of the resident or due to illness, injury, or incapacity of the resident after the rescission period, but prior to the designated occupancy date, then the Provider will make a full refund of the reservation fee and all entrance fee payments less any amounts deducted to cover expenses incurred by the Provider at the specific request of the resident.

If a resident does not terminate an agreement within the seven day rescission period but terminates prior to the designated occupancy date, for reasons not caused by illness, injury, incapacity, or death, then the Provider will retain four-percent (4%) of the entrance fee. Any additional payments would be refunded to a resident less any amounts deducted to cover expenses incurred by the Provider at the specific written request of a resident.

After Occupancy

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. At the end of the five-year amortization period, 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. Any refund is reduced to cover costs incurred by the Provider to refurbish, restore or repair a 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.

The agreement states that no interest will accrue to the benefit of a 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, applicable refunds are made only after the resident has terminated the agreement and the living unit has been reoccupied by another resident who has paid the entrance

fee in full. If the unit is reoccupied by a current resident of the Provider through an internal living unit transfer, then any refund will be paid only after that resident's vacated unit is occupied by a new resident who has paid the entrance fee in full.

As long as the resident or co-resident continues to occupy any living accommodation within the Provider, including accommodations in the health center, no refund is paid until the death or permanent transfer outside of the Provider's facility by the resident. The amount of any refund due is calculated by reference to the date of surrender of the living unit.

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

Brookmont Healthcare Center, LLC is a closely held limited liability company. Its sole owner, Chairman of the Board of Directors, CEO and President is Douglas C. Pomfret, Sr. The Chief Financial Officer is Colleen M. Pomfret.

The business and affairs of the Provider is managed by Douglas C. Pomfret, Sr.

The real estate upon which Brookmont Healthcare Center is situated is owned by DCP Realty of Effort, LLC. DCP Realty of Effort is 100% owned and managed by Douglas C. Pomfret, Sr.

CORPORATE RECORDS

Certificate of Organization

The Provider was issued a Certificate of Organization to operate as a limited liability company in Pennsylvania on November 14, 2003. As of December 31, 2013, there were no changes to the Provider's Certificate of Organization during the period of the examination.

By-Laws

The Provider is organized as a limited liability company and has a sole member. As such, the Provider did not prepare By-laws.

ANNUAL DISCLOSURE STATEMENT

A review was made of the 2013 annual disclosure statement for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act (“Act”), 40 P.S. §3207 and the Pennsylvania Insurance Regulations (“Regulations”), 31 Pa. Code § 151.7 and § 151.9. The 2013 disclosure statement was found to contain all information required by the Act and the Regulations.

RESIDENT AGREEMENT

The 2013 resident agreement was reviewed for compliance with the Pennsylvania Continuing Care Provider Registration and Disclosure Act (“Act”), 40 P.S. § 3214, and the Pennsylvania Insurance Regulations (“Regulations”), 31 Pa. Code § 151.8 and § 151.9. The 2013 resident agreement was found to contain all information required by 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 date of this examination report.

FINANCIAL STATEMENTS

The Provider reports its financial statements on a consolidated basis with DCP Reality. The following Comparative Balance Sheet and Comparative Statement of Operations reflects only supplemental segment information related to the Provider. The Statement of Cash Flows is reported on a consolidated basis with DCP Reality.

Comparative Balance Sheet;
Comparative Statement of Operations and;
Consolidated Statement of Cash Flows

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

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 587,879	\$ 575,122
Resident accounts receivable, net of allowance for doubtful accounts	1,210,841	1,265,495
Related party receivable	342,441	243,810
Third-party payor settlement receivable	292,750	306,000
Other receivables	66,199	-
Inventories of supplies	53,889	48,064
Prepaid expenses	103,482	31,681
Total Current Assets	<u>2,657,481</u>	<u>2,470,172</u>
Property, Plant and Equipment, Net	<u>1,010,933</u>	<u>641,290</u>
Assets Whose Use is Limited		
Continuing care minimum liquid reserve	<u>8,900</u>	<u>9,300</u>
Other Assets		
Deferred finance costs, net of amortization	6,300	-
Goodwill	425,000	425,000
Total Other Assets	<u>431,300</u>	<u>425,000</u>
Total Assets	<u>\$ 4,108,614</u>	<u>\$ 3,545,762</u>
<u>Liabilities and Owner's Equity</u>		
Current Liabilities		
Current maturities of Long-term debt	\$ -	\$ 43,926
Accounts payable	326,984	580,528
Accrued wages	150,715	175,641
Accrued payroll taxes and benefits	194,534	207,180
Accrued expenses	8,087	4,087
Due to related party	873,706	25,000
Residents' trust liability	67,794	88,954
Deferred Income, current portion	1,800	1,800
Total Current Liabilities	<u>1,623,620</u>	<u>1,127,116</u>
Long-Term Liabilities		
Long-term debt	-	632,263
Related party note payable	-	318,030
Deferred income	900	2,700
Total Long-Term Liabilities	<u>900</u>	<u>952,993</u>
Total Liabilities	1,624,520	2,080,109
Owners' Equity		
Additional paid-in-Capital	138,056	138,056
Retained earnings	2,346,038	1,327,597
Total Owners' Equity	<u>2,484,094</u>	<u>1,465,653</u>
Total Liabilities and Owner's Equity	<u>\$ 4,108,614</u>	<u>\$ 3,545,762</u>

**Comparative Statement of Operations
for the Year Ended December 31,**

	<u>2013</u>	<u>2012</u>
Operating Revenue		
Net resident service revenues	\$ 9,712,348	\$ 9,483,784
Other resident revenues	354,400	420,472
Other operating revenues	5,044	14,137
Total Operating Revenues	<u>10,071,792</u>	<u>9,918,393</u>
Operating Expense		
Nursing	4,577,852	4,954,037
Nursing administration	621,578	794,318
Dietary	762,560	720,213
Housekeeping	261,326	271,405
Laundry	94,391	100,903
Activities	154,612	166,231
Social services	93,032	106,397
Plant operations	350,914	348,035
General and administrative services	936,680	946,979
Depreciation	99,899	83,871
Interest	10,679	48,930
Rent	258,000	228,000
Bad debts	249,011	241,774
Real estate taxes	76,558	76,293
Total Operating Expenses	<u>8,547,092</u>	<u>9,087,386</u>
Net Income	\$ 1,524,700	\$ 831,007
Owners' Equity, Beginning of Year	1,465,653	1,287,822
Owners' Capital Distributions	<u>(506,259)</u>	<u>(653,176)</u>
Owners' Equity, End of Year	<u><u>\$ 2,484,094</u></u>	<u><u>\$ 1,465,653</u></u>

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

	2013	2012
<u>Cash Flows From Operating Activities:</u>		
Net Income	\$ 1,428,584	\$ 802,261
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	247,210	228,473
Amortization	4,105	2,796
Amortization of entrance fees	(1,800)	(1,800)
Provision for bad debts	249,011	241,774
Loss on extinguishment of debt	44,023	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(194,357)	(189,813)
Related party receivable	(132,674)	(12,361)
Third-party payor settlement receivable	13,250	(1,000)
Other receivables	(66,199)	-
Inventories for supplies	(5,825)	(6,533)
Prepaid expenses	(71,801)	(2,547)
(Increase) decrease in:		
Accounts payable	(251,643)	(144,318)
Due to related party	(25,000)	-
Accrued expenses	(26,076)	(73,824)
Resident trust funds	(21,160)	(7,308)
Net Cash Provided by Operating Activities	1,189,648	835,800
<u>Cash Flows From Investing Activities:</u>		
Purchases of equipment and building improvements	(539,666)	(241,383)
Increase (decrease) in assets whose use is limited	400	(100)
Net Cash Used in Investing Activities	(539,266)	(241,483)
<u>Cash Flows From Financing Activities:</u>		
Repayment of note payable	(3,961)	(56,631)
Repayment of mortgage payable	(39,870)	(102,133)
Deferred financing costs incurred	(92,430)	-
Member contributions	65,845	-
Member distributions	(536,259)	(685,176)
Net Cash Used in Financing Activities	(606,675)	(843,940)
Net Increase (Decrease) In Cash And Cash Equivalents	43,707	(249,623)
Cash And Cash Equivalents Beginning of Year	587,488	837,111
Cash And Cash Equivalents End of Year	\$ 631,195	\$ 587,488

NOTES TO THE FINANCIAL STATEMENTS

Statutory Minimum Liquid Reserve **\$8,866**

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 \$2,351 and number (2) is \$8,866 as of December 31, 2013. The Provider had funds established as “assets whose use is limited” in the amount of \$8,900 as of December 31, 2013. The Provider’s current assets satisfied the statutory requirement.

SUBSEQUENT EVENTS

The examiner was not made aware of any events that would have had a material effect on the solvency of the Provider as of the date of this examination report.

RECOMMENDATIONS

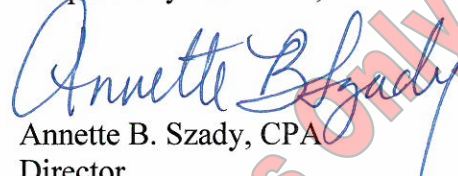
There are no prior recommendations since this is the first examination. There are no recommendations as a result of this examination.


CONCLUSION


As a result of our examination, we conclude that as of December 31, 2013 Brookmont Healthcare Center, LLC is in compliance with all applicable Pennsylvania laws and regulations as pertaining to continuing care retirement communities.

This examination was conducted by Barbara Kowalski.

Respectfully submitted,


Annette B. Szady, CPA
Director
Bureau of Financial Examinations


James Minder, CPA
Examination Manager
Bureau of Financial Examinations


Barbara Kowalski
Examiner-In-Charge
Bureau of Financial Examinations

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