

EXAMINATION WARRANT # 13-261810261-CP

BUCKINGHAM SNF, LLC  
d/b/a BUCKINGHAM VALLEY REHABILITATION AND NURSING CENTER  
BUCKINGHAM, PENNSYLVANIA

AS OF

DECEMBER 31, 2013

For Informational Purposes Only

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Harrisburg, Pennsylvania  
November 18, 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 13-261810261-CP dated July 29, 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

**BUCKINGHAM SNF, LLC**  
**d/b/a BUCKINGHAM VALLEY REHABILITATION AND NURSING CENTER**

a continuing care retirement community hereafter referred to as the "Provider." This examination was conducted at the administrative office of the Provider located at 820 Durham Road, Buckingham, Pennsylvania 18912.

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 May 27, 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 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 ending December 31, 2009 through December 31, 2013 the certified public accounting ("CPA") firm of Brand Sonnenschine, LLP issued qualified audit opinions on the Provider's financial statements based on generally accepted accounting principles. The qualification relates to the Provider's treatment of long term leases by expensing the lease payments on a monthly basis as opposed to recording the lease liability and expensing the lease payments using the straight line method as required under generally accepted accounting principles.

## HISTORY

Nathan Stern purchased an existing 130-bed skilled nursing facility in 2007. On November 1, 2007 the nursing home became a limited liability company, Buckingham SNF, LLC with Mr. Stern as the sole member.

The Provider was issued a certificate of authority from the Department to operate as a continuing care retirement community on May 27, 2009. The only resident to sign a continuing care agreement moved into one of the Provider's two continuing care units at Richboro SNF, LLC on December 1, 2009. The agreement was terminated on January 9, 2010.

On January 1, 2010, the Provider entered into an intercompany lease agreement with Richboro SNF, LLC. The lease agreement provided that Richboro would lease two rooms to the Provider which in turn would use these units as continuing care residences. The annual lease payment under each lease is \$9,000, payable monthly. The lease runs for 34 years and expires on June 30, 2043.

The Provider is a for-profit, limited liability company and is taxed in accordance with the Internal Revenue Code.

## DESCRIPTION OF FACILITY

The Provider leases two beds for its independent living residents at another facility, which is under common ownership, Richboro, SNF. Richboro SNF is located in Richboro, PA, which is approximately 10 miles south east of the Provider, which is located in Buckingham, PA. Both the Buckingham SNF and the Richboro SNF are located in the Philadelphia suburbs, in the south-east corner of Pennsylvania.

## FEES AND SERVICES

As of December 31, 2013, the entrance fee was \$13,500 and the monthly fees were \$650 and \$750 for single and double occupancy respectively. The entrance fee will be amortized at a rate of 20% for each year of residency.

Residents of the continuing care community receive three meals a day in the facility's main dining area or the resident may have meals delivered to their room. General lawn maintenance and snow removal are also include in the monthly fee.

## **REFUND POLICY**

On December 1, 2009, the Provider admitted its only resident during the period of examination. That resident vacated the unit on January 9, 2010. The provider refunded the resident the correct amount of refund due based on the resident agreement and its refund policy.

The following describes the Provider's refund policy as outlined in the resident agreement in place since inception. The Provider's refund policy is in compliance with the requirements set forth in 40 P.S. §3214.

### **Refund during the Rescission Period**

Any entrance fee payments, including the reservation fee, will be refunded in full if the resident rescinds the agreement within seven days in accordance with the Notice of Right to Rescind.

### **Refund after Rescission Period but Prior to Occupancy: Terminated By Resident**

If the resident does not terminate the agreement within the seven day rescission period, but terminates the agreement prior to occupancy, for reasons unrelated to the resident's health, the Provider will retain four (4%) percent of the entrance fee. The refund, less the 4% of the entrance fee retained by the Provider, will then be adjusted for any additional expenses incurred by the Provider at the resident's specific written request.

### **Refund after Occupancy: Terminated By Resident**

The entrance fee will be amortized at a rate of 20% per year. If the resident terminates the agreement for any reason other than the death of the resident during the five year amortization period, the unamortized portion of the entrance fee, less any amounts necessary to cover excessive wear and use, will be refunded to the resident, less any amounts deducted to cover expenses incurred by the Provider at the resident's specific written request.

## **Terms and Conditions for Payment of Refunds**

### **Termination Prior to Occupancy**

When an agreement is terminated prior to occupancy, the refund shall be made within 60 days of termination of the agreement.

### **Termination after Occupancy**

When an agreement is terminated after occupancy, any refund due to the resident shall be made after a new resident has been accepted and entered into a residence and care agreement for the unit vacated; and the seven day rescission period has expired; and the replacement entrance fee has been paid in full for the resident's previously occupied unit.

### **Refund Where Two Residents Execute the Agreement**

If one of two residents covered under the agreement remains in the residence after the other resident's death or relocation from the Provider's facility, no refund will be made.

### **Distribution of Refund upon the Death of the Resident**

In the case of the death of the resident, any refund payment shall be made to the former resident's estate.

## **MANAGEMENT AND CONTROL**

### **Director/Officer**

The business and affairs of the Provider are managed by its President and Chief Executive Officer, Mr. Nathan Stern.

## **CORPORATE RECORDS**

### **Certificate of Organization**

The Provider was formed as a Limited Liability Company (LLC) on November 1, 2007. There were no changes to the Provider's organization structure during the period under examination.

### **By-Laws**

The Provider's does not operate under a set of 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**

The examiner was not made aware of any pending legal action or any known potential legal action which could have a material adverse effect on the Provider’s financial condition as of the date of this examination report.

## **FINANCIAL STATEMENTS**

The financial condition of the Provider, as of December 31, 2013, and the results of its operations for the last two years under examination are reflected in its comparative financial statements:

Comparative Balance Sheets;  
Comparative Statements of Earnings and Members’ Equity;  
Comparative Statements of Cash Flows.

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

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

<b>ASSETS</b>	<u><b>2013</b></u>	<u><b>2012</b></u>
Current Assets		
Cash and cash equivalents	\$ 164,589	\$ 159,540
Cash – restricted (patient funds)	43,014	53,816
Cash – limited use – CCRC statutory liquid reserve	-	-
Accounts receivable – less allowances of \$173,000 and \$135,000 for 2013 and 2012, respectively	1,825,350	2,115,538
Prepaid expenses	77,470	74,298
Total Current Assets	<u>2,110,423</u>	<u>2,403,192</u>
Property and Equipment, net	<u>1,701,914</u>	<u>1,145,632</u>
<b>Total Assets</b>	<u><u>\$ 3,812,337</u></u>	<u><u>\$ 3,548,824</u></u>
 <b>LIABILITIES and MEMBERS' EQUITY</b>		
Current liabilities		
Accounts payable	2,010,577	1,344,857
Accrued expenses and taxes	184,494	179,553
Capital leases payable – current	9,460	9,157
Patients' funds and deposits payable	306,173	319,144
Total Current Liabilities	<u>2,510,704</u>	<u>1,852,711</u>
Capital Leases Payable	<u>12,292</u>	<u>20,976</u>
Total Liabilities	<u>2,522,996</u>	<u>1,873,687</u>
Members' Equity	<u>1,289,341</u>	<u>1,675,137</u>
<b>Totals Liabilities and Members' Equity</b>	<u><u>\$ 3,812,337</u></u>	<u><u>\$ 3,548,824</u></u>



**Comparative Statements of Earnings and Members' Equity  
for the Years Ended December 31,**

	<u>2013</u>	<u>2012</u>
Revenues	\$ 15,381,809	\$ 15,597,683
Operating expenses	14,155,306	13,865,350
Earnings from operations	<u>1,226,503</u>	<u>1,732,333</u>
Non-operating revenue (expenses):		
Interest income	20	8
Interest expense	(837)	(90)
Total Non-operating revenue (expenses):	<u>(817)</u>	<u>(82)</u>
Earnings before provisions for income taxes	1,225,686	1,732,251
Provisions for income taxes	(1,118)	(17,068)
<b>NET EARNINGS</b>	1,224,568	1,715,183
Members Equity – beginning of year	1,675,137	736,640
	2,899,705	2,451,823
Net members' equity distributed	<u>(1,610,364)</u>	<u>(776,686)</u>
<b>MEMBERS' EQUITY - END OF YEAR</b>	<u>\$ 1,289,341</u>	<u>\$ 1,675,137</u>

**Comparative Statements of Cash Flows  
for the Years Ended December 31,**

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities:</b>		
Net earnings	\$1,224,568	\$ 1,715,183
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	204,763	167,620
(Increase) decrease in assets:		
Accounts receivable	290,188	(479,657)
Prepaid expenses	(3,172)	(3,209)
Increase (decrease) in liabilities:		
Accounts payable	665,720	550,289
Accrued expenses and taxes	4,941	(92,251)
Patients' funds and deposits payable	(12,972)	(98,250)
<b>Net cash provided by operating activities</b>	<u>2,374,036</u>	<u>1,759,725</u>
<b>Cash flows from investing activities:</b>		
Purchase of improvements and equipment	(761,044)	(355,386)
<b>Net cash used in investing activities</b>	<u>(761,044)</u>	<u>(355,386)</u>
<b>Cash flows from financing activities:</b>		
Repayment of Line of credit	-	(910,000)
Members' equity contributed	-	910,000
Capital lease payments	(8,381)	(747)
Members' equity distributed	(1,610,364)	(1,686,686)
Payments to related entities	-	(9,000)
<b>Net cash used in financing activities</b>	<u>(1,618,745)</u>	<u>(1,696,433)</u>
<b>Net decrease in cash and cash equivalents</b>	(5,753)	(292,094)
<b>Cash and cash equivalents, beginning of year</b>	213,356	505,450
<b>Cash and cash equivalents, end of year</b>	<u>\$ 207,603</u>	<u>\$ 213,356</u>

## NOTES TO THE FINANCIAL STATEMENTS

### Statutory Minimum Liquid Reserve

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.

The minimum reserves were not calculated as the Provider did not have any residents with continuing care agreements in force at December 31, 2013.

### SUBSEQUENT EVENTS

The examination team was not made aware of any significant events that could have an adverse effect on the financial condition of the Provider as of the date of this examination report.

### ESCROW REQUIREMENTS

As of December 31, 2013, the provider had no deposits that were subject to escrow. The Provider must place any deposits it receives in excess of 5% of the then existing entrance fee into an escrow account to be released in accordance with 40 P.S. §3212.

### RECOMMENDATIONS

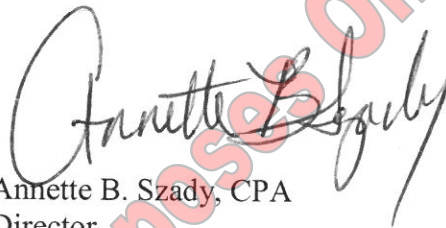
This is the first examination of the Provider, therefore there were no prior recommendations. There are no recommendations being made as a result of this examination.

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**CONCLUSION**

As a result of our examination, we conclude that Buckingham SNF, LLC, doing business as Buckingham Valley Rehabilitation and Nursing Center, is in compliance with all applicable Pennsylvania laws and regulations as they pertain to continuing care retirement communities as of December 31, 2013.

This examination was conducted by Robert A. Young.

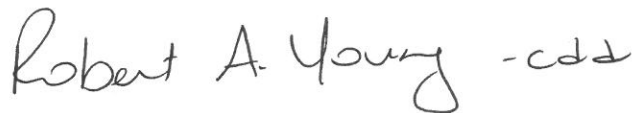
Respectfully submitted,



Annette B. Szady, CPA  
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 -cdd

Robert A. Young  
Examiner-In-Charge

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