

REPORT OF EXAMINATION

OF THE

**CHESTER VALLEY SNF, LLC
d/b/a CHESTER VALLEY REHABILITATION AND NURSING CENTER
MALVERN, PENNSYLVANIA**

AS OF

DECEMBER 31, 2014

For Informational Purposes Only

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
Salutation	1
Scope of Examination	1
History	2
Description of Facility	3
Fees and Services	4
Refund Policy	4
Management and Control	5
Corporate Records:	
Certificate of Organization	5
By-Laws	5
Annual Disclosure Statement	5
Resident Agreement	6
Pending Litigation	6
Financial Statements:	
Comparative Balance Sheet	7
Comparative Statement of Operations	8
Comparative Statement of Cash Flows	9
Statutory Minimum Liquid Reserve	10
Escrow Account Requirements	10
Subsequent Events	10
Recommendations	10
Conclusion	11

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Harrisburg, Pennsylvania
January 12, 2016

Honorable Joseph DiMemmo, 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 14-272300070-CP dated August 13, 2015, and in accordance with provisions of the Pennsylvania Continuing Care Provider Registration and Disclosure Act (the "Act"), as cited in 40 P.S. § 3219, an examination was conducted of the records and affairs of

CHESTER VALLEY SNF, LLC

d/b/a/ CHESTER VALLEY REHABILITATION AND NURSING CENTER

a continuing care retirement community hereafter referred to as the "Provider." This examination was conducted off-site at the Pennsylvania Insurance Department offices at the Norristown State Hospital at 1001 Sterigere Street, Norristown, Pennsylvania 19401.

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 30, 2010 through December 31, 2014, 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 the Act and 31 Pa. Code § 151 (the "Regulations").

For the years ending December 31, 2010 through December 31, 2014, 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 a long-term lease 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 ("GAAP").

According to 31 Pa. Code § 147.4(e)(2), "The annual audited financial report for a for-profit continuing-care provider shall reflect its financial condition as of the end of its most recent fiscal year and the results of its operations, cash flows and changes in shareholder's equity for the year then ended in conformity with generally accepted accounting principles."

It is recommended that the Provider comply with 31 Pa. Code § 147.4(e)(2) and prepare its financial statements in accordance with GAAP.

It was noted during the examination that the CPA firm issued engagement letters to perform the annual audit that contain an indemnity clause, which is in violation of 31 Pa. Code § 147.6(b)(4).

According to 31 Pa. Code § 147.6(b)(4), "Except for insurers organized in Canada or the United Kingdom of Great Britain and Northern Ireland, the Commissioner will not recognize a person or firm as a qualified independent certified public accountant nor accept an annual audited financial report prepared in whole or in part by the person or firm under any of the following conditions: (4) The person or firm has entered into an agreement of indemnity, or other release from liability, that would shift, transfer, or limit in any manner the potential liability of the person or firm for failure, whether by omission or commission, to adhere to applicable auditing or professional standards, whether or not the failure would result in whole or in part from misrepresentations made by the insurer or its representatives."

It is recommended that the Provider require its CPA to remove the indemnity clause in future CPA engagement letters, to be in compliance with 31 Pa. Code § 147.6(b)(4).

HISTORY

On March 24, 2010, the Provider was organized as a limited liability company, Chester Valley SNF, LLC. Mr. Nathan Stern is the sole member of the limited liability company.

On March 24, 2010, the Provider filed the fictitious name registration for the use of the name Chester Valley Rehabilitation and Nursing Center with the Department of State.

On June 30, 2010, the Provider was issued a Certificate of Authority from the Department to operate as a continuing care retirement community ("CCRC").

On July 1, 2010, Nathan Stern purchased the existing 184-bed skilled nursing facility.

On July 1, 2010, the Provider entered into a lease agreement with Caring Heart Rehabilitation and Nursing Center at 6445 Germantown Avenue, Philadelphia, Pennsylvania

19119. Under the agreement, the Provider is guaranteed leases for two rooms and the option to lease as many as four additional rooms for CCRC residences. The annual lease payment was \$9,000 payable at a rate of \$750 monthly. The lease agreement was initially scheduled to expire on June 30, 2046, but was terminated in July 2014.

On June 24, 2011, the Provider entered into its first and only CCRC contract; the contract was terminated as of March 11, 2014. The Provider will continue to market its leased apartments to potential residents under a CCRC agreement.

On July 1, 2014, the Provider entered into two one-year lease agreements with Penn Wynn, Inc. to lease two apartments for CCRC residents.

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

During the examination, it was found the Provider's CCRC is not the same facility as for the issued Certificate of Authority. According to the Regulations in § 151.3:

- (a) A provider shall apply for, and obtain, a certificate of authority for each separate facility operated by the provider in this Commonwealth.
- (b) A certificate of authority authorizes and empowers only the provider named therein to conduct the business of continuing-care, and may not be transferable.
- (c) Each applicant shall file an application for a certificate of authority on a prescribed form, which may be obtained from the Department.

It is recommended that the Provider shall apply for, and obtain, a new certificate of authority for the high-rise style apartment building, Penn Wynn House, located at 2201 Bryn Mawr Avenue, Philadelphia, Pennsylvania, 19131, as required by 31 Pa. Code § 151.3(a) (b) and (c).

DESCRIPTION OF FACILITY

The Provider's facility is situated on 12.3 acres in a suburban setting at 283 East Lancaster Avenue, Malvern, Pennsylvania, in Chester County. The skilled nursing facility is a three story brick structure. The skilled nursing facility consists of 184 licensed skilled nursing beds.

For the period under examination, the CCRC units were housed at a separate unaffiliated facility. For the first four years of the period under examination, the Caring Heart Rehabilitation and Nursing Center, in Philadelphia, Pennsylvania was initially used to house CCRC resident(s). The residents of the CCRC units had full use of the Caring Heart Rehabilitation and Nursing Center facilities, including its dining hall and other common areas. This lease arrangement was terminated in July 2014.

On July 1, 2014, the Provider entered into a lease agreement with the Penn Wynn House located at 2201 Bryn Mawr Avenue in Philadelphia, Pennsylvania to provide apartments for residents with a CCRC contract.

As of the examination date, the Provider did not have any residents under CCRC contracts.

It is recommended that the Provider submit to the Department a plan for enrolling CCRC residents into its community. If the Provider is unable to attract residents into the community through CCRC agreements, then the Provider should voluntarily surrender its Certificate of Authority.

FEES AND SERVICES

As of December 31, 2014, the entrance fee was \$8,400. There is no additional entrance fee for a second occupant. The monthly service fee at December 31, 2014 is \$650 for an individual. There is an additional monthly service fee of \$50 for a second occupant.

The Penn Wynn House provides some basic services for living in an apartment complex which include lawn care, snow removal, basic cable service and heat.

REFUND POLICY

Refund during the Rescission Period

A resident may terminate the agreement within seven (7) days of its execution (rescission period) and receive a full refund of the entrance fee paid, without interest.

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, 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 resident's estate.

MANAGEMENT AND CONTROL

Nathan Stern is the sole owner, President, and Chief Executive Officer of the Provider. Mr. Stern is also the owner of Global Healthcare Services Group, LLC ("Global"). Global is the sole management company of the Provider. The business and affairs of the Provider are managed by Mr. Stern.

CORPORATE RECORDS

CERTIFICATE OF ORGANIZATION

The Provider was organized as a limited liability company on March 24, 2010. There were no changes to the Provider's organizational structure during the period under examination.

BY-LAWS

The Provider, as a limited liability company, is not required by law to adopt by-laws.

ANNUAL DISCLOSURE STATEMENT

The 2014 annual disclosure statement was reviewed for compliance with the Act, 40 P.S. § 3207, the Regulations, and 31 Pa. Code § 151.7 and § 151.9. The 2014 disclosure statement was found to contain all information required by the Act and the Regulations.

RESIDENT AGREEMENT

The 2014 resident agreement was reviewed for compliance with the Act, 40 P.S. § 3214, the Regulations, and 31 Pa. Code § 151.8 and § 151.9. The 2014 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 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, 2014, 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

The financial information used to compile the following financial statements was presented in the audited financial statements as of December 31, 2014. There were no changes made to the financial statements as a result of this examination.

For Informational Purposes Only

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

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 141,961	\$ 92,914
Cash - restricted (patient funds)	110,091	130,983
Cash - limited use-CCRC Statutory Liquid Reserve	-	-
Accounts receivable - less allowance	2,110,887	2,791,504
Due from related party	-	35,809
Prepaid expenses and other	151,473	148,732
Total current assets	2,514,412	3,199,942
Property and equipment - net	2,409,756	2,390,332
Escrow deposits	-	43,256
TOTAL ASSETS	\$ 4,924,168	\$ 5,633,530
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Notes payable - bank	\$ -	\$ 550,000
Accounts payable	571,815	453,637
Notes payable	2,167	-
Accrued expenses and taxes	228,476	352,804
Due to related party	5,609	-
Patients' funds and deposits payable	398,413	247,936
Total liabilities	1,206,480	1,604,377
Members' equity	3,717,688	4,029,153
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 4,924,168	\$ 5,633,530

**Comparative Statement of Earnings and Members' Equity
for the Year Ended December 31,**

	<u>2014</u>	<u>2013</u>
Revenues	\$ 19,686,835	\$ 18,931,216
Operating expenses	<u>18,156,578</u>	<u>17,012,196</u>
Earning from operations	1,530,257	1,919,020
Non-operating revenue (expenses):		
Interest income	97	140
Interest expense	<u>(15,453)</u>	<u>(10,926)</u>
Earnings before provision for income taxes	1,514,901	1,908,234
Provision for income taxes	<u>(6,866)</u>	<u>2,461</u>
NET EARNINGS	1,508,035	1,910,695
Members' equity - beginning of year	<u>4,029,153</u>	<u>3,259,827</u>
	5,537,188	5,170,522
Members' equity distributed	<u>(1,819,500)</u>	<u>(1,141,369)</u>
MEMBERS' EQUITY - END OF YEAR	<u>\$ 3,717,688</u>	<u>\$ 4,029,153</u>

Comparative Statement of Cash Flows
for the Year Ended December 31,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Net earnings	\$ 1,508,035	\$ 1,910,695
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	234,832	189,419
(Increase) decrease in assets:		
Accounts receivable	680,617	(13,280)
Prepaid expenses	(2,741)	59,738
Escrow deposits	43,256	(21,963)
Increase (decrease) in liabilities:		
Accounts payable	118,178	(275,117)
Accrued expenses and withheld taxes	(124,328)	22,677
Patients' funds and deposits payable	150,477	39,211
	<u>2,608,326</u>	<u>1,911,380</u>
Cash flows from investing activities:		
Purchase of improvements and equipment	<u>(245,670)</u>	<u>(1,003,338)</u>
	<u>(245,670)</u>	<u>(1,003,338)</u>
Cash flows from financing activities:		
Members' equity contributed	150,000	-
Members' equity distributed	(1,969,500)	(1,141,369)
Proceeds from (payments to) related party	41,418	(35,809)
Repayments of note payable	(6,419)	-
Proceeds from notes payable	-	700,000
Repayments of notes payable - bank	<u>(550,000)</u>	<u>(700,000)</u>
	<u>(2,334,501)</u>	<u>(1,177,178)</u>
Net increase (decrease) in cash and cash equivalents	28,155	(269,136)
Cash and cash equivalents - beginning of year	<u>223,897</u>	<u>493,033</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 252,052</u>	<u>\$ 223,897</u>

STATUTORY MINIMUM LIQUID RESERVE

\$0

In accordance with 40 P.S. § 3209, the Provider must establish and maintain a 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 CCRC agreements in force at December 31, 2014.

ESGROW ACCOUNT REQUIREMENTS

As of December 31, 2014, 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.

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.

RECOMMENDATIONS

This is the first examination of the Provider. As a result of this examination, the following recommendations are being made:


1. ***It is recommended that the Provider comply with 31 Pa. Code § 147.4(e)(2) and prepare its financial statements in accordance with GAAP. (See "Scope of Examination," page 2)***
2. ***It is recommended that the Provider require its CPA to remove the indemnity clause in future CPA engagement letters, to be in compliance with 31 Pa. Code § 147.6(b)(4). (See "Scope of Examination," page 2)***
3. ***It is recommended that the Provider shall apply for, and obtain, a new certificate of authority for the high-rise style apartment building, Penn Wynn House, located at 2201 Bryn Mawr Avenue, Philadelphia, Pennsylvania, 19131, as required by 31 Pa. Code § 151.3(a) (b) and (c). (See "History," page 3)***
4. ***It is recommended that the Provider submit to the Department a plan for enrolling CCRC residents into its community. If the Provider is unable to attract residents into the community through CCRC agreements, then the Provider should voluntarily surrender its Certificate of Authority. (See "Description of Facility," page 4)***

CONCLUSION

As a result of our examination, we conclude that Chester Valley SNF, LLC, is in compliance with all applicable Pennsylvania laws and regulations as they pertain to continuing care retirement communities as of December 31, 2014, except as noted in the recommendations on page 10 of this report.

This examination was conducted by Bernard Mingo.

Respectfully submitted,



Melissa L. Greiner
Director
Bureau of Financial Examinations



Matthew C. Milford, CFE
Examination Manager



Bernard Mingo
Examiner-In-Charge

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