

EXAMINATION WARRANT # 15-272461143-CP

REPORT OF EXAMINATION

OF

**SMNRC, LP
d/b/a SHENANDOAH SENIOR LIVING COMMUNITY
SHENANDOAH, PENNSYLVANIA**

AS OF

DECEMBER 31, 2015

For Informational Purposes Only

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Harrisburg, Pennsylvania
April 13, 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 15-272461143-CP dated March 8, 2016, 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

SMNRC, LP

a continuing care retirement community hereafter referred to as the "Provider." This examination was conducted at the facility located at 101 East Washington Street, Shenandoah, Pennsylvania, 17976. The administrative office of the Provider is located at 1388 State Route 487, Bloomsburg, Pennsylvania, 17815.

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 24, 2011 through December 31, 2015, 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 the Act and 31 Pa. Code ("the Regulations").

For the years ending December 31, 2011 through December 31, 2015, the certified public accounting ("CPA") firm of Brewer & Company, LLC issued unmodified opinions on the

Provider's financial statements based on generally accepted accounting principles. The financial annual reports prepared by the CPA were reviewed during the examination and incorporated into the examination work papers.

HISTORY

Construction began on the Shenandoah Manor Nursing Center in 1982. Expansions began in 1989 to include the addition of a long term care wing and in 1992, a personal care wing was added. On November 26, 2008, a fictitious name registration was filed for Shenandoah Senior Living, and the Provider added Secure Health, LP as a party to its registration. On February 10, 2009, the Provider changed its fictitious name to Shenandoah Senior Living Community.

On April 20, 2010, SMNRC, LP, a for-profit Pennsylvania limited partnership was incorporated. On December 3, 2010, the Provider added SMNRC, LP as a party to its limited partnership registration and withdrew Secure Health, LP as a party.

The Provider was issued a Certificate of Authority from the Department to operate as a continuing care retirement community on March 24, 2011. The facility admitted their first continuing care resident in April 2009 under the Certificate of Authority previously issued to Secure Health, LP.

DESCRIPTION OF FACILITY

The Provider's facility is located in suburban Shenandoah, Schuylkill County. The Provider's campus includes a single story building situated on 3.7 acres of land.

The Provider offers a mix of independent living, rehabilitation care, personal care services and skilled nursing care conveniently located on one campus.

The Provider operates a 124-bed skilled nursing facility under the name Shenandoah Manor Nursing Center, a 23-bed personal care facility under the name the Birches at Shenandoah Manor, and two independent living apartments located on the same campus. Currently, the independent living apartments have one resident. The skilled nursing care census changes daily.

FEES AND SERVICES

As of December 31, 2015, entrance fees for existing units ranged from \$10,000 to \$14,400 for single occupancy and \$12,000 to \$18,000 for double occupancy.

In addition to the entrance fee, residents are charged a monthly service fee. The monthly service fee for the existing units are \$800 to \$1,200 for single occupancy and \$1,000 to \$1,500 for double occupancy.

Some of the services continuing-care residents are entitled to include utilities such as water, heat, electricity, air conditioning, sewer and refuse collection, cable and telephone access,

maintenance and repair of equipment and grounds maintenance, property taxes, communal washer and dryer, parking, and activities. Other services available at additional charges include meals, guest meals, and professional hair care.

REFUND POLICY

There was one continuing care agreement terminated during the period under examination, and a refund was issued to the resident in accordance with the respective resident agreement. The Provider's refund policy that follows complies with the Act.

Refund during the Rescission Period

A resident may terminate the agreement within seven days of its execution (rescission period) and receive a full refund of the entrance fee and any reservation fees paid, without interest, less any expense incurred by the Provider at the resident's specific request for custom improvements to the applicant's intended residential unit.

Refund after Rescission Period But Prior to Occupancy

After the lapse of the seven-day rescission period, but prior to occupancy, if a resident is precluded from becoming a resident because of death, illness, injury or incapacity, then the Provider shall make a full refund of the reservation fee and all entrance fee payments.

If the resident terminates the agreement, for reasons not due to illness, injury, incapacity or death, then the Provider shall retain fifteen percent of the entrance fee and any amounts owed to cover expenses incurred by the Provider at the specific written request of a resident.

Refund after Occupancy

After occupancy, residents are entitled to a refund of 100% of the entrance fee, less any deductions for amounts necessary to cover cost incurred by the provider to refurbish, restore or repair the Residence in the event of unreasonable wear and tear or amounts owed to the Provider due to unpaid charges.

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 of the fee will be paid until both residents have surrendered the living unit.

MANAGEMENT AND CONTROL

SMNRC, LP, is a limited partnership consisting of Shenandoah Manor Nursing and Rehabilitation Center, Inc. as general partner and five limited partners including David W. Klingerman, Sr., John D. Klingerman, John C. Klingerman, Brian D. Klingerman, and Daniel A. Klingerman.

As of December 31, 2015 the Provider's partners' ownership interest is as follows:

Shenandoah Manor Nursing and Rehabilitation Center, Inc.	(General Partner)	1.0%
David W. Klingerman, Sr.	(Limited Partner)	19.8%
John D. Klingerman	(Limited Partner)	19.8%
John C. Klingerman	(Limited Partner)	19.8%
Brian D. Klingerman	(Limited Partner)	19.8%
Daniel A. Klingerman	(Limited Partner)	19.8%

As of December 31, 2015, the day-to-day business affairs of the Provider are managed by JDK Management Company, LP under a management contract.

CORPORATE RECORDS

Certificate of Limited Partnership

The Provider was issued a Certificate of Limited Partnership April 20, 2010. No changes were made to the SMNRC, LP certificate during the examination period.

ANNUAL DISCLOSURE STATEMENT

The 2015 annual disclosure statement was reviewed for compliance with 40 P.S. § 3207 and 31 Pa. Code §§ 151.7 and 151.9. The 2015 annual disclosure statement was found to contain all required information.

RESIDENT AGREEMENT

The 2015 resident agreement was reviewed for compliance with 40 P.S. § 3214 and 31 Pa. Code §§ 151.8, and 151.9. The 2015 resident agreement was found to contain all required information.

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 examination date.

FINANCIAL STATEMENTS

The Provider files consolidated financial statements which include the accounts of SMNRC, LP and its consolidated subsidiaries, S.M. Partners, LP and Hometown Partners, LP; and MCNRC, LP and its consolidated subsidiary, Secure Health, LP (collectively, the "Companies").

All significant intercompany transactions and balances have been eliminated. The Companies are also related by common ownership.

The following Comparative Balance Sheet and Comparative Statement of Operations reflect only supplemental segment information related to the Provider. The Statement of Cash Flows is reported on a consolidated basis.

The financial condition of the Provider, as of December 31, 2015, and the results of its operations for the last two years under examination are reflected in the following statements:

Comparative Balance Sheet;
Comparative Statements of Operations and;
Consolidated Statements of Cash Flows:

The financial information used to compile the following financial statements was presented in the audited financial statements as of December 31, 2015. There were no changes made to the financial statements as a result of this examination.

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

ASSETS	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 997,403	\$ 927,105
Accounts receivable:		
Residents, net	3,438,368	2,732,305
Other	16,034	7,079
Due from related parties	338,507	381,945
Prepaid expenses	66,258	99,669
Restricted cash:		
Resident trust funds	147,418	69,757
	<u>5,003,988</u>	<u>4,217,860</u>
Total current assets		
PROPERTY AND EQUIPMENT, net	14,849,592	15,362,746
OTHER ASSETS		
Restricted cash:		
Statutory liquid reserve deposits	41,173	41,144
	<u>41,173</u>	<u>41,144</u>
TOTAL ASSETS	<u>\$ 19,894,753</u>	<u>\$ 19,621,750</u>
 LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES		
Current maturities of capital lease obligations	\$ 475,284	\$ 467,983
Accounts payable	397,504	376,119
Payroll and payroll taxes payable	542,828	519,119
Accrued management fees	92,939	84,369
Accrued expenses and other current liabilities	351,960	32,664
Resident trust fund deposits	114,299	88,739
	<u>1,974,814</u>	<u>1,568,993</u>
Total current liabilities		
REFUNDABLE ENTRANCE FEES	61,414	64,536
NOTES PAYABLE, RELATED PARTY	1,346,767	1,641,264
CAPITAL LEASE OBLIGATIONS	<u>14,447,833</u>	<u>14,923,117</u>
Total liabilities	17,830,828	18,197,910
PARTNERS' CAPITAL (DEFICIT)	<u>2,063,925</u>	<u>1,423,840</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$ 19,894,753</u>	<u>\$ 19,621,750</u>

**Combined Statements of Operations
for the Year Ended December 31,**

	<u>2015</u>	<u>2014</u>
REVENUES		
Resident services revenue, net of contractual allowances	\$ 23,527,187	\$ 23,592,028
Provision for bad debts	(591,429)	(1,038,736)
Net resident services revenue	22,935,758	22,553,292
Other resident revenues	146,132	155,686
Continuing care community revenues	24,616	24,462
Total revenues	23,106,506	22,733,440
OPERATING EXPENSES		
Personnel	11,930,908	11,903,701
Nursing and other contracted services	2,396,046	2,160,255
Drugs and medical supplies	1,959,154	1,743,984
Management Fees	1,118,989	1,098,618
Dietary	707,721	746,307
Plant operations and maintenance	713,619	789,544
Insurance	610,492	666,730
Nursing facility assessment	623,859	651,116
Legal and other professional fees	600,893	517,493
Depreciation	644,199	621,701
General and administrative	390,475	344,255
Real estate taxes	238,427	236,026
Laundry and linen	159,119	162,604
Rents	124,996	128,105
Total operation expenses	22,218,897	21,770,439
INCOME FROM OPERATIONS	<u>887,609</u>	<u>963,001</u>
OTHER INCOME (EXPENSE)		
Interest income	2,571	2,328
Interest expense	(250,095)	(260,990)
Other expense, net	(247,524)	(258,662)
NET INCOME (LOSS)	640,085	704,339
PARTNERS' CAPITAL, BEGINNING	<u>1,423,840</u>	<u>719,501</u>
PARTNERS' CAPITAL, ENDING	<u>\$ 2,063,925</u>	<u>\$ 1,423,840</u>

**Combined Statements of Cash Flows
For the Year Ended December 31,**

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (41,434)	\$ 374,786
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	1,052,233	1,393,545
Amortization	858,702	858,704
Depreciation	764,739	795,445
Interest added to notes payable, related party	5,503	-
Decrease (increase) in:		
Accounts receivable	(2,192,973)	588,633
Due from related parties	(1,532)	403,222
Prepaid expenses	34,334	(80,444)
Restricted cash, resident trust funds	(106,627)	24,059
Increase (decrease) in:		
Accounts payable	52,365	(251,623)
Payroll and payroll taxes payable	67,041	82,803
Accrued management fees	25,374	(17,900)
Accrued expenses and other liabilities	473,605	6,234
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>991,330</u>	<u>4,177,464</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in statutory liquid reserve deposits	(43)	(50)
Deposits to replacement reserves	(850)	(32,384)
Net increase in escrow deposits	(57,127)	(8,728)
Purchases of property and equipment	(223,311)	(225,498)
NET CASH USED BY INVESTING ACTIVITIES	<u>(281,331)</u>	<u>(266,660)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments on notes payable, related party	(300,000)	(298,268)
Principal repayments on long-term debt	(409,053)	(392,747)
Partners' withdrawals	(1,250,000)	(2,582,716)
NET CASH USED BY FINANCING ACTIVITIES	<u>(1,959,053)</u>	<u>(3,273,731)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,249,054)</u>	<u>637,073</u>
CASH AND CASH EQUIVALENTS, BEGINNING	<u>3,309,025</u>	<u>2,671,952</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 2,059,971</u>	<u>\$ 3,309,025</u>

NOTES TO THE FINANCIAL STATEMENTS

Statutory Liquid Reserve

\$41,173

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.

Of the above two requirements, the value of (1) is \$5,416 and the value of (2) is \$16,746. As of December 31, 2015, the Provider had established and reported a reserve of \$41,173 for this purpose. This reserve exceeds the minimum amount necessary for compliance.

Escrow Account Requirements

The Provider has established an escrow account as required by 40 P.S. § 3212. The Provider did not hold any resident deposits in the account as of December 31, 2015.

SUBSEQUENT EVENTS

The examiner was not aware of any events subsequent to December 31, 2015 through the date of the examination report that would have had a material effect on the solvency of the Provider.

RECOMMENDATIONS

There were no prior recommendations, as this is the Provider's initial examination. As a result of the current examination, no recommendations are being made.

CONCLUSION

As a result of our examination, we conclude that SMNRC, LP, is in compliance with all applicable Pennsylvania laws and regulations as they pertain to continuing care retirement communities as of December 31, 2015.

This examination was conducted by Barbara Kowalski.

Respectfully submitted,



Melissa L. Greiner
Director
Bureau of Financial Examinations



Matthew Milford, CFE
Examination Manager



Barbara Kowalski
Examiner-In-Charge

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