

Examination Warrant Number # 19-251701700-CP-2

Report of Examination of
South Western Alpha Housing and Healthcare, Inc. d/b/a
Avalon Springs Nursing Center
Mercer, Pennsylvania

As of December 31, 2019

For Informational Purposes Only

South Western Alpha Housing and Healthcare, Inc. d/b/a Avalon Springs Nursing Center

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For Informational Purposes Only

Harrisburg, Pennsylvania
October 8, 2020

Honorable Melissa L. Greiner
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 19-251701700-CP-2 dated April 1, 2020, 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 made of

**South Western Alpha Housing and Healthcare, Inc. dba Avalon Springs
Nursing Center**

a Pennsylvania domiciled continuing-care retirement community (“CCRC”), hereinafter referred to as the “Provider.” The examination was conducted at the Provider’s administrative office located at 745 Greenville Road, Mercer, Pennsylvania, 16137.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department (“Department”) has performed an examination of the Provider, which was last examined as of December 31, 2014. This examination covered the period from January 1, 2015 through December 31, 2019.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the 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 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 each year during the period under examination, the certified public accounting firm of Arnett, Carbis, Toothman, LLP (“CPA”) provided an unqualified audit opinion on the Provider’s year-end financial statements based on generally accepted accounting principles. Relevant work performed by the CPA, during its annual audit of the Provider, was reviewed during the examination and incorporated into the examination workpapers.

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HISTORY

The Provider was formed as a Pennsylvania non-profit corporation on June 10, 1992, for the purpose of providing housing, healthcare and other related services to area residents. On January 1, 2010, the Provider acquired the assets and liabilities of Woodland Place, which included a skilled nursing facility and an independent living facility. On June 10, 2010, the Department issued the Provider a Certificate of Authority to operate as a CCRC, effective April 1, 2017, the Provider entered into an affiliation agreement and became a wholly owned subsidiary of UPMC Senior Communities, Inc., and became known as South Western Alpha Housing and Healthcare, Inc. dba Avalon Springs Nursing Center.

The Provider properly notified the Department regarding the change in ownership noted above.

DESCRIPTION OF FACILITY

The Provider's facility is a two-story structure located on 40 acres in rural Mercer County and includes a 100-bed skilled nursing facility and 15 independent living apartments. The Provider's one CCRC resident resided in one of the independent living apartments during most of the exam period, however as of December 31, 2019 the Provider did not have any independent living residents occupying the CCRC units.

It is recommended that the Provider provide an update to the Department regarding CCRC resident enrollment, and/or a plan for enrolling CCRC residents into its facility. If the Provider is unable to attract residents into the facility through CCRC agreements, then the Provider should consider a voluntary surrender of its Certificate of Authority.

FEES AND SERVICES

As of December 31, 2019, the entrance fee was \$5,628 per unit for a traditional studio apartment and \$6,264 for a deluxe one bedroom apartment. The monthly maintenance fee was \$469 for the traditional studio apartment and \$522 for the deluxe one bedroom apartment.

Residents under CCRC agreements are entitled to 24-hour nursing assistance, all utilities including electric, water, sewage, and trash removal. The resident is also entitled to the use of common areas and facilities, including centrally located washer and dryers, the exercise room, and the community room. The apartment is furnished with a microwave and refrigerator, central air conditioning and wall to wall carpeting.

REFUND POLICY

The following describes the Provider's refund policy which does comply with Pennsylvania Act and Regulations. There were no refunds issued during the period under examination.

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Refund during the Rescission Period

The resident may terminate the agreement within seven days of its execution (rescission period) and receive a full refund of the entrance fee paid, without interest, less any expense incurred by the Provider at the resident's specific request for custom improvements to a residence as stated as an addendum to the agreement and the cost of removing the same, if needed.

Death or Incapacity of Resident Prior To Occupancy

If the resident dies before the occupancy date or through illness, injury or incapacity are precluded from becoming a resident under the terms of the agreement, the agreement is automatically rescinded and the prospective resident or their legal representatives shall receive a full refund of all moneys paid to the Provider, except those costs specifically incurred by the Provider at the request of the resident and set forth in writing.

Entrance Fee and Refund Policy

Residents shall be entitled to a 90% refund of the entrance fee, less 2.5% of the entrance fee for each month of residency for 36 months. After 36 months of residency there will be no refund of the entrance fee to the resident or resident's estate. Upon termination of the continuing care resident agreement, the Provider will refund any amount of the resident's entrance fee due within (60) days after the resident vacates the living unit. Any refund due will be reduced by any outstanding charges owed the Provider.

Termination of Agreement By Resident

Residents may terminate the agreement without cause upon thirty (30) days written notice to the Provider. There will be no refund of any previously paid monthly service fee if residents depart prior to the expiration of the thirty (30) days. Additional delay charges will be incurred by residents if all personal belongings, including resident's furniture are not removed from the unit on the date of departure. The entrance fee will be refunded consistent with the terms of the resident agreement.

Termination of Agreement By Provider

The Provider may terminate the agreement and dismiss or discharge resident from the facility for just cause. Just cause shall include, but not limited to a good faith determination in writing, signed by medical director of the Provider and the administrator of the Provider that the resident(s) are a danger to themselves or others while remaining in the facility.

The Provider shall provide the resident with (30) days written notice of the termination. If the agreement is terminated pursuant to the agreement, then only such notice as is reasonable under the circumstances shall be required.

There will be no refund of any previously paid monthly service fee if the resident departs prior to the expiration of the thirty (30) days. Additional delay charges will be incurred by the resident if all personal belongings, including resident's furniture are not removed from the unit on the date of departure. The entrance fee will be refunded consistent with the terms of the resident agreement.

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Cancellation Due To Death

The agreement shall terminate upon resident's death or upon the death of both residents under a joint resident agreement. Any refunds will be made to the resident's estate pursuant to the terms of the resident agreement.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

Management of the Provider is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2019:

Name and Address	Principal Occupation
John Sarandrea Sharon, Pennsylvania	Chairman UPMC
Mark Bondi Pittsburgh, Pennsylvania	President UPMC Senior Communities
Dan Grant Pittsburgh, Pennsylvania	COO UPMC Senior Communities
William Nigro Pittsburgh, Pennsylvania	CFO UPMC Senior Communities
Albert Boland Farrell, Pennsylvania	President UPMC Jameson & UPMC Horizon

OFFICERS

As of the examination date, December 31, 2019, the following officers were appointed and serving in accordance with the by-laws:

Name	Title
Mark Bondi	President
William Nigro	Treasurer
Bryant Wesley	Secretary
John Sarandrea	Chairman

CORPORATE RECORDS

ARTICLES OF INCORPORATION

Effective April 1, 2017 the Provider entered into an affiliation agreement and became a wholly owned subsidiary of UPMC Senior Communities, Inc. The Provider is known as South Western Alpha Housing and Healthcare, Inc. dba Avalon Springs Nursing Center. The restated Articles of Incorporation were properly filed with the Department.

BY-LAWS

During the examination period there were no amendments made to the Provider's By-Laws, which were material in nature relative to the overall operations.

In addition to the annual Board meetings, the Provider's By-Laws require a quorum of the board members to meet for two regular meetings each year. The Provider was unable to produce copies of aforementioned meetings.

It is recommended the Provider retain documentation of its Board meetings.

ANNUAL DISCLOSURE STATEMENT

The Provider's 2019 Annual Disclosure Statement was reviewed for compliance with the Act and Regulations, specifically § 151.7 and § 151.9. The 2019 Annual Disclosure Statement was not in compliance with all information required by the Act and the Regulations, as described below.

The examiner reviewed the Provider's Annual Disclosure Statement and noted the statement was not in compliance. According to 40 P.S. § 3207 (a)(4)(i), the Provider must state whether it has ever been affiliated with a religious, charitable or other nonprofit organization. The Provider failed to make this declaration in the Annual Disclosure Statement.

It is recommended the Provider amend its Annual Disclosure Statement pursuant to the requirements of P.S. § 3207 (a)(4)(i).

The examiner reviewed the Provider's Annual Disclosure Statement and noted the statement was not in compliance. According to 31 Pa Code § 151.7 (c)(5), the Provider must include a specific minimum age for admission, including exceptions for spouses/companions. The Provider failed to include this information in the Annual Disclosure Statement.

It is recommended the Provider amend its Annual Disclosure Statement pursuant to the requirements of 31 Pa. Code § 151.7 (c)(5).

The examiner reviewed the Provider's Annual Disclosure Statement and noted the statement was not in compliance. According to 31 Pa. Code § 151.7 (c)(7), the Provider must include the current resident population. The Provider failed to indicate its current resident population in the Annual Disclosure Statement.

It is recommended the Provider amend its Annual Disclosure Statement pursuant to the requirements of 31 Pa. Code § 151.7 (c)(7).

The Provider was unable to provide copies of any intercompany agreements between the Provider and UPMC, its parent company, which performs duties on behalf of the Provider.

It is recommended the Provider have committed to writing any intercompany arrangements between the Provider and any parent or affiliate and disclose these arrangements in the Annual Disclosure Statement.

RESIDENT AGREEMENT

The Provider's 2019 Resident Agreement was reviewed for compliance with the Act and the Regulations, specifically 31 PA Code § 151.8 and § 151.9. The 2019 Resident Agreement was in compliance with all information required by the Act and the Regulations.

PENDING LITIGATION

There are no known pending or potential legal actions that could have a materially adverse effect on the Provider's financial condition as of the examination date.

FINANCIAL STATEMENTS

The following financial statements were provided to the Department by the Provider, as of December 31, 2019*:

Comparative Balance Sheet;
Comparative Statement of Operations; and
Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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**Comparative Balance Sheet
For the Year Ended December 31,**

ASSETS	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 430,645	\$ 2,132,935
Accounts receivable	885,459	1,091,949
Estimated third-party payor settlements	181,241	184,384
Total current assets	1,497,345	3,409,268
ASSETS WHOSE USE IS LIMITED		
Resident funds	47,175	46,047
Statutory minimum liquid reserve	-	7,672
Total assets whose use is limited	47,175	53,719
PROPERTY, BUILDING, AND EQUIPMENT, net	4,429,028	4,136,140
Total assets	\$ 5,973,548	\$ 7,599,127
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ -	\$ 32,272
Accounts payable, trade	60,426	107,843
Related party payable	3,214,536	2,447,034
Other accrued expenses	-	23,008
Total current liabilities	3,274,962	2,610,157
LONG-TERM DEBT, less current maturities	-	943,544
DEFERRED REVENUE FROM ADVANCED FEES	-	6,718
RESIDENT FUNDS LIABILITY	47,175	46,047
Total liabilities	3,322,137	3,606,466
NET ASSETS	2,651,411	3,992,661
Total liabilities and net assets	\$ 5,973,548	\$ 7,599,127

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

	<u>2019</u>	<u>2018</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Operating revenue:		
Net resident revenue, including amortization of advanced fees 2019 \$6,718, 2018 \$605	\$ 7,056,257	\$ 6,807,107
Operating expenses:		
Salaries and wages	4,275,902	3,902,627
Other purchased services	1,759,930	1,637,641
Employee benefits	793,293	420,861
Nursing	744,881	785,358
Depreciation expense	418,967	583,292
Utilities expense	272,541	247,534
Interest expense	36,154	34,689
Professional fees	8,250	10,500
Loss from disposal	5,093	-
Other expenses	448,953	230,126
Total operating expenses	<u>8,763,964</u>	<u>7,852,628</u>
Operating (loss)	<u>(1,707,707)</u>	<u>(1,045,521)</u>
Non-operating income:		
Interest income	2,725	-
Rental income	123,125	174,482
Other miscellaneous income	240,607	73,754
Total non-operating income	<u>366,457</u>	<u>248,236</u>
Change in net assets	(1,341,250)	(797,285)
Net assets:		
Beginning	<u>3,992,661</u>	<u>4,789,946</u>
Ending	<u>\$ 2,651,411</u>	<u>\$ 3,992,661</u>

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

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,341,250)	\$ (797,285)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	418,967	583,292
Amortization of advanced fees	(6,718)	(605)
Loss on disposal of assets	5,093	-
(Increase) decrease in assets:		
Accounts receivable	206,490	(243,015)
Prepaid expenses	-	6,562
Estimated third-party payor settlements	3,143	166,536
Increase (decrease) in liabilities:		
Accounts payable, trade	(47,417)	(13,808)
Related party payable	767,502	1,712,699
Accrued salaries, wages, and payroll taxes	-	(157,468)
Other accrued expenses	(23,008)	(44,351)
Net cash provided by (used in) operating activities	(17,198)	1,212,557
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, building, and equipment	(716,948)	(579,944)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(975,816)	(30,579)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(1,709,962)	602,034
Cash, cash equivalents, and restricted cash:		
Beginning	2,140,607	1,538,573
Ending	\$ 430,645	\$ 2,140,607
Cash, cash equivalents, and restricted cash includes:		
Cash and cash equivalents	\$ 430,645	\$ 2,132,935
Statutory minimum liquid reserve	-	7,672
	<u>430,645</u>	<u>2,140,607</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$ 36,154	\$ 34,689

NOTES TO FINANCIAL STATEMENTS

STATUTORY MINIMUM LIQUID RESERVE

\$0

In accordance with 40 P.S. § 3209, the Provider must 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.

As of December 31, 2019, the Provider did not have a liquid reserve established.

It is recommended that the Provider calculate and establish a minimum liquid reserve pursuant to the requirements of 40 P.S. § 3209 in order to continue operations as a licensed CCRC provider.

ESCROW ACCOUNT REQUIREMENTS

The Provider does not accept deposits from residents and therefore maintains no escrow account. If the Provider were to begin to accept entrance fee deposits from potential residents prior to the residents' right to take occupancy of the designated unit, the Provider must then establish an escrow account with a bank as required by 40 P.S. § 3212.

SUBSEQUENT EVENTS

The examiner was not aware of any events subsequent to December 31, 2019 through the date of the examination report that would have had a material effect on the solvency of the Provider.

RECOMMENDATIONS

PRIOR EXAMINATION

As a result of the prior examination, there were no recommendations.

CURRENT EXAMINATION

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

1. *It is recommended that the Provider provide an update to the Department regarding CCRC resident enrollment, and/or a plan for enrolling CCRC residents into its facility. If the Provider is unable to attract residents into the facility through CCRC*

agreements, then the Provider should consider a voluntary surrender of its Certificate of Authority. (See “Description of Facility”, page 2)

2. *It is recommended the Provider retain documentation of its Board meetings.* (See “By-Laws”, page 4)
3. *It is recommended the Provider amend its Annual Disclosure Statement pursuant to the requirements of P.S. § 3207 (a)(4)(i).* (See “Annual Disclosure Statement”, page 5)
4. *It is recommended the Provider amend its Annual Disclosure Statement pursuant to the requirements of 31 Pa. Code § 151.7 (c)(5).* (See “Annual Disclosure Statement”, page 5)
5. *It is recommended the Provider amend its Annual Disclosure Statement pursuant to the requirements of 31 Pa. Code § 151.7 (c)(7).* (See “Annual Disclosure Statement”, page 5)
6. *It is recommended the Provider have committed to writing any intercompany arrangements between the Provider and any parent or affiliate and disclose these arrangements in the Annual Disclosure Statement.* (See “Annual Disclosure Statement”, page 5)
7. *It is recommended that the Provider calculate and establish a minimum liquid reserve pursuant to the requirements of 40 P.S. § 3209 in order to continue operations as a licensed CCRC provider.* (See “Statutory Minimum Liquid Reserve”, page 10)

CONCLUSION

The examination of the Provider as of December 31, 2019, was determined to be not in compliance with all applicable Pennsylvania laws and regulations as pertaining to CCRCs as described in the Recommendations section on pages 10 and 11 of this report. It is recommended that another examination of the Provider be performed within the next five-year period.

This examination was conducted by Ellamarie Durant.

Respectfully,



Matthew C. Milford, CFE
Acting Director
Bureau of Financial Examinations

William M. Fedak

William M. Fedak, CFE
Examination Manager

Ellamarie Durant

Ellamarie Durant
Examiner-in-Charge

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