



**SEARSTONE**  
RETIREMENT COMMUNITY

**Disclosure Statement**

**May 30, 2020**

**Searstone  
17001 Searstone Drive  
Cary, North Carolina 27513  
(919) 234-0400**

In accordance with Chapter 58, Article 64, of the North Carolina General Statutes:

- **This Disclosure Statement may be delivered until revised, but not after October 28, 2021;**
- **Delivery of the Disclosure Statement to a contracting party is required before execution of a continuing care contract; and**
- **This Disclosure Statement has not been reviewed or approved by any government agency or representative to ensure accuracy or completeness of the information set out.**

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**Table of Contents**

	<b>Page</b>
I. PROVIDER INTRODUCTION AND INFORMATION.....	1
II. COMMUNITY INTRODUCTION AND INFORMATION.....	2
A. Board of Directors.....	2
B. Executive Officers .....	4
C. Development, Management, and Consulting Professionals .....	4
1. Management and Marketing .....	4
2. Food Service .....	5
D. Ownership Interests, Conflicts of Interest, Disqualifications, etc. ....	6
E. Community Expansions .....	6
1. Phase II Development Consultant.....	7
2. Phase II Architects .....	7
III. POLICIES .....	8
A. Membership & Residency Agreements .....	8
B. Nature of Relationship .....	8
C. Admission Procedure and Criteria .....	8
D. Entrance Fee.....	9
E. Rescission/ Cancellation/ Termination .....	9
1. Rescission/ Cancellation/ Termination of Agreement by Member Prior to Occupancy: .....	9
2. Termination of Agreement by Member After Occupancy:.....	10
3. Termination of Agreement by Provider:.....	11
F. Moves and Transfers.....	11
G. New Double Occupants .....	13
H. Financial Hardship .....	14
I. Waiting List .....	14
J. Rules and Regulations.....	15
IV. SERVICES.....	16
A. Standard Services Available .....	16
B. Services Available for an Additional Cost.....	17
C. Health Care Services Available .....	17
V. ENTRANCE FEES AND MEMBERSHIP FEES .....	19
VI. FINANCIAL INFORMATION .....	26
A. Summary of Financing.....	26

B.	Audited Financial Statements .....	28
C.	Comparison of Material Differences between Forecasted Financial Statements and Actual Financial Statements .....	28
D.	Interim Financial Statements .....	28
E.	Financial Projections.....	29
F.	Operating Reserve.....	29

**Exhibits:**

Exhibit 1:	Membership & Residency Agreement
Exhibit 2:	Audited Financial Statements
Exhibit 3:	Comparison between Forecasted Financial Statements and Actual Financial Statements
Exhibit 4:	Interim Financial Statements
Exhibit 5:	Financial Projections
Exhibit 6:	Summary of Actuarial Study

## I. PROVIDER INTRODUCTION AND INFORMATION

This Disclosure Statement is being provided pursuant to North Carolina Law by Samaritan Housing Foundation, Inc. (the “**Provider**”), to a prospective Member (“**Member**”) of Searstone, a continuing care retirement community in Cary, North Carolina (“**Searstone**” or “**Community**”). North Carolina law requires Provider to provide the prospective Member with a Disclosure Statement before the initial transfer of funds and before the prospective Member consents to any agreement with Provider. This Disclosure Statement is subject to change for events and circumstances occurring after the effective date printed on the cover page.

Provider is a corporation organized pursuant to the Georgia Nonprofit Corporation Code. Provider has been authorized by the North Carolina Secretary of State to transact business in the State of North Carolina under the name “Searstone Retirement Community.” Provider’s business address in the State of North Carolina is located at 17001 Searstone Drive, Cary, North Carolina 27513. Provider has been determined by the United States Internal Revenue Service (the “**IRS**”) to be exempt from federal income tax, as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “**Code**”). No other organization is responsible for the financial or contractual obligations of Provider or Searstone. Provider has never misappropriated funds or breached the terms of any agreement with a Member.

Provider owns Searstone and operates Searstone as a “continuing care retirement community,” as defined in Article 64 of Chapter 58 of the North Carolina General Statutes (“**CCRC**”). Provider has received from the North Carolina Department of Insurance a Permanent License, authorizing Provider to offer and provide continuing care at Searstone. Provider has received from the North Carolina Department of Health and Human Services a license for the operation of a nursing facility within Searstone, known as “**Brittany Place**.” Provider has also received from the North Carolina Department of Health and Human Services a license for the provision of adult home services within Searstone.

The development, ownership and operation of Searstone are the only activities of Provider.

Provider is solely responsible for the financing, development, and management of Searstone. Pursuant to an Affiliation Agreement between Provider and Lutheran Services for the Aging, Inc., a North Carolina nonprofit corporation (“**Lutheran Services**”), Lutheran Services assists Provider in implementation and management of its Community Benefits Program. However, Lutheran Services has no responsibility for the financing, development, or management of Searstone.

## II. COMMUNITY INTRODUCTION AND INFORMATION

The Community is located in Cary, Wake County, North Carolina, within the Searstone Planned Development District encompassing approximately 76.88 acres fronting High House Road at Davis Drive (the “**PDD**”).<sup>1</sup> Provider does not own all the properties in the Searstone PDD. Cary is located in the “Research Triangle” or “Triangle” region of North Carolina. The Community is designed for people age 62 and older.

The Community opened for its first residents in the fall of 2013 as construction and licensing completed. The first phase of the Community (“**Phase I**”) includes 131 Lorraine Plaza, Calais Terrace, Lakeside Flats, and Clubhouse residences, and 38 attached Estate Homes (referred to as “**Independent Living Units**”), located on 24 acres of land within the PDD owned by Provider. The Community opened with 8 adult home care residences for assisted living (referred to as “**Assisted Living Units**”) and 16 skilled nursing residences (referred to as “**Skilled Nursing Beds**”). The Assisted Living Units and Skilled Nursing Beds are provided in a health center within Searstone known as Brittany Place. The Community expanded the health care center in 2019 (the “**Brittany Place Expansion**”), adding additional Assisted Living Units and Skilled Nursing Beds, bringing the total number to 14 Assisted Living Units and 25 Skilled Nursing Beds. The Community plans a maximum of approximately 294 Members at full occupancy of Phase I, which includes double occupants of a single Residential Living Unit or a single Assisted Living Unit. As of December 31, 2019, Searstone had 241 Independent Living residents, 8 Assisted Living residents, and 16 Skilled Nursing residents, for a total of 265 residents.

The Community includes common areas, such as dining venues, a grill and bar, lounge areas, a library and communications center, a gathering room, a health and fitness club, an aquatic center, and administrative areas. The Community is constructed in accordance with all applicable building codes. Its architecture emphasizes the residential character of the area surrounding Searstone. Outside amenities include gardens, walking trails, and an approximately 4.5-acre lake.

### A. Board of Directors

Provider is governed by a Board of Directors (the “**Board**”). The Board takes such actions and performs such duties and responsibilities as are authorized by law, and in so doing acts in accordance with Provider’s Articles of Incorporation and by-laws. The names and biographical summaries of the Directors follow:

Thomas A. Beebe, Director, 125 Hampton Pines Drive, Morrisville, NC 27560. Mr. Beebe is a long-time resident of the Cary area. He earned his A.B./L.L.B. (Pre-Law, emphasis in business) undergraduate degree and J.D. degree from the University of North Carolina at Chapel Hill. Mr. Beebe practiced real estate and business/estate planning law in private practice in Cary for nine years and then was active in the real estate development business in the Wake County area until his retirement in June 2018.

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<sup>1</sup> Note: Although both the Community and the PDD are named “Searstone,” Provider owns only the Phase I land and the Phase II land within the PDD, as referenced herein, and the balance of the land within the PDD is owned by unrelated third parties and is used or held by such third parties for purposes unrelated to the Community, including retail, office, hotel, and residential purposes.

Linda D. Coleman, Director. 201 Kirvin Court, Knightdale, NC 27545. Ms. Coleman has served as Chair of the Wake County Board of Commissioners, was elected three times to the North Carolina House of Representatives, and served as the Director of the North Carolina Office of State Human Resources from 2009 to 2012. Some of her past positions have included being a high school teacher and working for the State of North Carolina in the human resource field as the Human Resources Manager for the North Carolina Department of Community Colleges. Ms. Coleman is a native of Greenville, North Carolina and is a long-time resident of Knightdale, North Carolina. Ms. Coleman serves on a number of boards including Wake Technical Community College and the Methodist Home for Children.

Charles H. Henderson, Director. 106 East Wind Lane, Cary, North Carolina 27518. Mr. Henderson served as the Town Attorney for Town of Cary for 28 years before retiring in 2005. After retiring from Cary, he was employed by the law firm of Poyner & Spruill, LLP for one year. Prior to his work for the Town of Cary, he served as Assistant City Attorney for the City of Burlington, NC.

Marc C. Hewitt, Director. 2109 Bell Forest Trail, Raleigh, North Carolina 27615. Mr. Hewitt is a healthcare attorney with the law firm of Fox Rothschild LLP in Raleigh, focusing on healthcare-related regulatory and litigation matters, including representation of CCRCs, nursing and assisted living facilities. He is a lifelong resident of North Carolina, has served on the board of Habitat for Humanity of Wake County, and previously served in the U.S. Marine Corps.

Mack R. Leath, Jr., Director. 2859 Paces Ferry Road, Atlanta, Georgia 30339. Mr. Leath received his B.S. Degree in Business Administration from the North Carolina State University in 1979. He has been in the petro-chemical business for 30 years, owned MRL Associates in Atlanta, Georgia for 17 of those years, and now works with Chemicals Etc., a Houston, Texas based firm. He is a founder of: Araicom Life Sciences, LLC, a literature search software start-up; Medsoftccs, LLC, a software solution focused on assisting HR functions with nursing compliance issues; and W6, a scheduling and estimating software solution for the petro-chemical industry. Mr. Leath has been the past president as well as a board member of Provider since its inception.

Darryl F. Mills, Director. 4000 Winston Hill Drive, Apt 108, Cary, North Carolina 27513. Mr. Mills has been a resident of the Community since November 2013. He was born and educated in South Africa, where he obtained a B.S. in Mechanical Engineering and an M.B.A. degree. He and his late wife relocated to the United States in 1977 and he became a US citizen in 1985. Prior to retiring in 2009, Mr. Mills was Vice President for Finance and then President of various international mining equipment manufacturing companies. He is currently a member of the Searstone Residents' Association Executive Committee and for the last five years has been President of Cary Senior Technical Education, an organization with 50 volunteers that teaches seniors how to use technology.

Charles L. Norman, Director. 817 Nolstead Court, Raleigh, North Carolina 27614. Mr. Norman earned his Bachelor of Arts in Communication from North Carolina State University. He spent seven years with the Cary Chamber of Commerce as Vice President of Communication and Government Relations prior to joining Smith & Associates/Cherokee Publishing as Vice President and Director of Business Development.

James B. Pierce, Director. 115 Summerview Lane, Cary, North Carolina 27518. Mr. Pierce is a Certified Public Accountant and a retired partner at the accounting firm of Williams Overman Pierce, LLP. He graduated from the University of North Carolina, earning a Bachelor’s Degree in Accounting in 1969. Mr. Pierce has always and continues to be an active community volunteer. He has served as an officer and board member of numerous non-profit organizations, including the American Lung Association of North Carolina, Wake Education Partnership, Wake County Estate Planning Council, and Crabtree Rotary Club. He is currently the treasurer of Greenwood Forest Baptist Church.

## **B. Executive Officers**

The President of Provider is elected by the Board, and serves as an *ex officio* member of the Board and as the chief executive officer of Provider. The name and biographical summary of the President follows:

Stanley G. Brading, President and Director. 1201 W. Peachtree Street, NW, Suite 3250, Atlanta, Georgia 30309. Mr. Brading has been a practicing attorney for 40 years, focusing on tax exempt bond financing for Code Section 501(c)(3) organizations like Provider, including the acquisition and construction of health care facilities with such bond proceeds. Mr. Brading represented Provider as its attorney from 2005 until July 1, 2011, when he accepted his current position as President. He received his B.A. degree from Duke University in 1974, his J.D. degree from the Washington and Lee University School of Law in 1979, and his Masters of Laws in Taxation degree from Emory University in 1984. He has served as President of the national Duke University Alumni Association and on the Duke University Board of Trustees, and has been involved in a wide range of non-profit community organizations such as Chairman of the Board of the Atlanta Children’s Shelter, President of Buckhead Little League Baseball, as President of the Buckhead Lions Club, and as a member of the Buckhead Rotary Club.

## **C. Development, Management, and Consulting Professionals**

The Board has authorized Provider to engage the team (consultants, construction managers, architects, engineers, community managers, and other professionals) involved in the development and management of Searstone. The Board approves or authorizes contracts, recommendations of the development, management, and consulting team, building design, capital expenditures and operating budgets, and establishes criteria for residency. The Board has also established and approved operating policies and approved personnel policies for Searstone. The Directors carry out their responsibilities through review of reports and attendance at Board meetings. Other than the President, the Directors have no previous business experience in the operation or management of communities similar to Searstone.

### **1. Management and Marketing**

SearStone-RLA, Inc. (the “**Manager**”) is serving as the manager of the Community. The Manager is a privately held North Carolina corporation which was organized to manage the Community. The sole shareholder of the Manager is Mr. David Ammons. Mr. Ammons and his affiliated companies, including Retirement Living Associates, Inc. (“**RLA**”), manage and operate existing assisted living communities and CCRCs. RLA and its affiliates provide professional management,

marketing, development, consulting and advisory services to senior living communities throughout the State of North Carolina. The following are the executive officers and key personnel of the Manager:

David Ammons, Owner and Principal of SearStone-RLA, Inc. David Ammons is SearStone-RLA's owner, principal and project manager of the Community. Mr. Ammons and RLA also currently oversee the management and operations of Springmoor Life Care Retirement Community ("**Springmoor**") in Raleigh, North Carolina. Springmoor, which opened in 1984, has 400 independent living units, 18 assisted living units, and 173 skilled nursing beds, and is currently approximately 95% occupied. RLA also manages Legacy at Mills River, a full service Equity model continuing care retirement community that is planned to be developed in Mills River, North Carolina. RLA managed Methodist Manor of the Pee Dee, a 224-unit continuing care retirement community in Florence, South Carolina from 2011 to 2018; and Mars Hill Retirement Community, a 69 unit assisted living facility in Mars Hill, North Carolina. Mr. Ammons founded RLA in 1992 as a consulting firm and has expanded to include the development and management of senior care facilities including CCRCs, assisted living facilities and a nursing/rehabilitation facility. Mr. Ammons is an active member of LeadingAge and the Urban Land Institute, where he serves on the senior care committee. Mr. Ammons is a graduate of Wake Forest University with a degree in business and accounting.

Kyle Dilday, Vice President of Management/Operations. Mr. Dilday has worked in the long term care industry since 1982. In 1987, he joined the management staff at Springmoor. Prior to joining Springmoor, Mr. Dilday served as a nursing home administrator in free-standing nursing facilities for five years. At Springmoor, Mr. Dilday served as an Associate Director and, for 12 years, he served as the Executive Director. In his capacity as Vice President of Management and Operations, Mr. Dilday works with the Executive Directors and Administrators of the RLA managed facilities in order to provide quality services to the RLA managed facilities. Mr. Dilday is an active member of LeadingAge and is Vice Chair of the Board of Directors of the Raleigh Housing Authority.

Rusty Mizelle, CPA-Chief Financial Officer. Mr. Mizelle served for more than 13 years as the Chief Financial Officer and Controller of a CCRC, first at Springmoor (11 years) and then at Searstone (2 years). Mr. Mizelle has experienced retirement community management during all phases of development from start-up through maturity. At Springmoor, a notable accomplishment was the development of a 20-year capital improvement budget and the reserve funding requirements to meet long term organizational needs for a 500,000 square foot retirement community. At Searstone, Mr. Mizelle led the development of a successful financial team, systems, and processes featuring a unique financial structure.

## 2. Food Service

Pursuant to a Management Agreement with Sodexo Operations, LLC ("**Sodexo**"), a Delaware limited liability company, Sodexo has been engaged as the dining services provider for the Community (the "**Dining Services Provider**"). Sodexo provides integrated food and facilities management services for hospitals, senior living, school districts, corporate environments, military bases, remote sites, and conference centers, on a worldwide basis. Sodexo employs numerous personnel for the purpose of acting as Dining Services Provider, including a General Manager, Dining Room Manager, Dietician and Chef for the dining services. Among the duties of Searstone



- RLA as the Manager, as specified in the Management Agreement, is supervision of the Dining Services Provider.

**D. Ownership Interests, Conflicts of Interest, Disqualifications, etc.**

None of the officers or Directors of Provider, the persons involved in the construction or management of Searstone, or any other person: (1) has an ownership interest or an equitable or beneficial interest in Provider or its assets, including the Community; or (2) is entitled to share in any distribution of any of Provider’s assets upon dissolution of Provider.

No part of the net earnings of Provider may inure to the benefit of any Directors or officers of Provider or other private individuals, except that reasonable compensation may be paid for services rendered in carrying out one or more of Provider’s purposes.

With respect to the officers and Directors of Provider, and any person who will be managing the Community on a day-to-day basis:

1. The name and address of any professional service firm, association, trust, partnership, or corporation (a) in which any such person has, or which has in any such person, a 10% or greater interest, and (b) which it is presently intended shall currently or in the future provide goods, leases, or services to the Community, or to residents of the Community, of an aggregate value of \$500.00 or more within any year, and a description of the goods, leases, or services and the probable or anticipated cost thereof to the Community, provider, or residents, or a statement that this cost cannot presently be estimated, is as follows:

- None -

2. A description of any matter in which any such person (a) has been convicted of a felony or pleaded nolo contendere to a felony charge, or been held liable or enjoined in a civil action by final judgment, if the felony or civil action involved fraud, embezzlement, fraudulent conversion, or misappropriation of property; or (b) is subject to a currently effective injunctive or restrictive court order, or within the past five years, had any state or federal license or permit suspended or revoked as a result of an action brought by a governmental agency or department, if the order or action arose out of or related to business activity of health care, including actions affecting a license to operate a foster care facility, nursing home, retirement home, home for aged, or facility subject to Article 64 of Chapter 58 of the North Carolina General Statutes or similar law in another state, is as follows.

-None-

**E. Community Expansions**

In December 2016 Provider acquired approximately 16.01 acres of land within the PDD and located adjacent to the property currently comprising the Community, which Provider intends to use to expand the Community (“Phase II”). The acquisition of the Phase II land was financed with the proceeds of the sale of the 2016 Bonds described in Section VI.A of this Disclosure Statement, as well as the issuance of the Purchase Money Note described in Section VI.A of this Disclosure Statement. In 2019 Provider acquired an additional 0.78 lot which was surrounded by

other property already owned by the Corporation, and which the Corporation intends to be used as a part of the Phase II expansion. Prior to the acceptance of deposits or entrance fees for residences in Phase II, or the commencement of construction of Phase II, Provider must obtain from the North Carolina Department of Insurance certain amendments to its CCRC license. Provider has engaged a development consultant to implement the expansion plan for Phase II. Provider has also engaged an architectural firm to develop plans for construction of the Phase II improvements. Information concerning those firms follows:

1. Phase II Development Consultant

Greenbrier Development, LLC, a Delaware limited liability company (the “**Development Consultant**”), of Dallas, Texas, serves as the development consultant for Phase II. The Development Consultant served in a similar role in connection with the development of Phase I of the Community.

The principals of the Development Consultant are Michael D. Gilliam, Thomas J. Navin, Cole S. Gray, Barry Johnson, and Adam P. Heffernan. Mr. Gilliam is President and Chief Executive Officer and Mr. Navin is the Executive Vice President and Chief Operating Officer.

The Development Consultant currently has a staff of approximately 41 persons, and senior leadership has more than 150 years of combined experience in senior housing development. The Development Consultant is currently responsible for the development and/or marketing of approximately 22 senior living community development and expansion projects around the country. The Development Consultant has provided strategic consulting services to more than 75 senior living communities and providers since 2006.

2. Phase II Architects

Stewart & Connors Architects, PLLC, of Charlotte, North Carolina (the “**Phase II Architect**”), serves as the architectural firm for Phase II. The development of existing, occupied, senior living campuses is the core of the Phase II Architect’s experience.

The Phase II Architect and its principals have extensive experience in the development of senior living campuses, and in particular the expansion or redevelopment of existing, occupied campuses. The Phase II Architect and its principals have worked on numerous such projects located in the Eastern United States, including 15 such projects requiring approval by the North Carolina Department of Health and Human Services. Representative projects include: multiple expansion projects for Sharon Towers in Charlotte, North Carolina; and Presby’s Inspired Life Rydal Park in Rydal, Pennsylvania, which included renovation of Presby’s nursing, memory care, assisted living and dining components. The Phase II Architect’s work on the Messiah Lifeways at Messiah Village in Mechanicsburg, Pennsylvania included campus master planning, independent living and enhanced living, and skilled nursing additions.

### **III. POLICIES**

#### **A. Membership & Residency Agreements**

The terms of the agreement between a Member and Provider are set forth in a Membership & Residency Agreement between the Member and Provider (“**Membership & Residency Agreement**”). A copy of the current standard form of Membership & Residency Agreement is attached as Exhibit 1. Provider may from time-to-time enter into addenda to the standard form of Membership & Residency Agreement or revise the standard form of Membership & Residency Agreement.

#### **B. Nature of Relationship**

The Membership & Residency Agreement creates a contractual relationship between the Member and Provider. The Membership & Residency Agreement is not a lease or easement and does not transfer or grant to the Member any interest in real property, including the residence owned by Provider. The rights of Member under the Membership & Residency Agreement are not assignable, and no rights or benefits described in the Membership & Residency Agreement inure to the use or benefit of the heirs, legatees, assignees, representatives, or creditors of the Member, unless expressly provided in the Membership & Residency Agreement. The Member does not have any right to assign the residence for the use by another.

Although the Members are referred to as “members” of Searstone, they are not members in Provider within the meaning of the Georgia Nonprofit Corporation Code, and among other things have no right to appoint or vote for the election of members of the Board of Provider or to otherwise participate in the management of Provider. While one or more Members may from time-to-time be members of the Board of Provider, there is no fixed number of members of the Board of Provider reserved for Members.

#### **C. Admission Procedure and Criteria**

Individuals and couples deciding to apply for residency at Searstone will be provided with an Application for Membership, instructions for completion, and a copy of this Disclosure Statement. A residence may be chosen if the prospective Member(s) is ready to make a selection of an available unit. All residents at Searstone are required to live independently in their chosen Independent Living Unit at the time of admission and to have the financial resources to pay the Entrance Fee and monthly Membership Fees. Members must be 62 years of age at the time of admission. In the case of married couples, one spouse may be younger than 62 but must be older than 55 years of age. Members are required to subscribe to Medicare Parts A and B and to maintain supplemental health insurance acceptable to Provider as part of Provider’s Life Care Plan.

Prospective Members will complete an Application for Residency, including disclosure of certain financial and medical information, and sign a Membership & Residency Agreement to reserve the residence selected. At the time the Membership & Residency Agreement is signed by the prospective Member, the prospective Member will pay a deposit equal to 10% of the Entrance Fee for the residence selected. The deposit is refundable as outlined in Section III.D of this Disclosure Statement.

The Membership & Residency Agreement stipulates that a prospective Member agrees to pay the balance of the Entrance Fee (90%) prior to residency, and in no event later than 60 days following the date the prospective Member is notified by Provider that the residence is available for residency. The Membership & Residency Agreement further stipulates that a prospective Member agrees to pay a Membership Fee beginning upon the earlier of either residency or 60 days after the prospective Member is advised that the reserved residence is ready for residency.

Applications for Residency are subject to approval by the Residency Review Committee of Provider. At the time of the signing of a Membership & Residency Agreement, prospective Members will be asked to provide certain health and financial information. The Residency Review Committee of Provider will determine if the prospective Member has assets sufficient to pay the Entrance Fee and sufficient income after the payment of the Entrance Fee to pay the monthly Membership Fees plus other personal expenses. Income must also be sufficient to meet anticipated increases in the cost of living. The Residency Review Committee of Provider will also determine if the prospective Member is able to live independently in their chosen Independent Living Unit. Once a prospective Member has been accepted for admission, regardless of changes in their health status between the signing of the Membership & Residency Agreement and the date of occupancy, admission to Searstone is guaranteed. Members whose health status changes prior to occupancy such that they require direct admission to adult home care or skilled nursing care within Brittany Place are required to pay the Entrance Fee and the fees outlined in Article V of this Disclosure Statement.

Neither Provider nor Searstone will discriminate against any prospective Member on the basis of race, creed, color, sex, religion or national origin.

#### **D. Entrance Fee**

Provider's agreement requires that a prospective Member pay an Entrance Fee, (GS § 58-64-1(2) defines the entrance fee as a payment that assures the resident a place in a facility for a term of years or for life as long as all terms and conditions are met), consisting of a Residential Fee and a Life Care Fee. The Residential Fee portion of the Entrance Fee is 100% refundable. The Life Care portion of the Entrance Fee is refundable, with the refund reducing at a rate of 2% per month for 50 months starting in the month the balance of the Entrance Fee is paid. See Section III.E of this Disclosure Statement for additional information.

In the case of two joint Members, the Residential Fee portion of the Entrance Fee covers both Members, but each Member must pay the Life Care portion of the Entrance Fee.

#### **E. Rescission/ Cancellation/ Termination**

1. Rescission/ Cancellation/ Termination of Agreement by Member Prior to Occupancy: Articles I, V and XI of the Membership & Residency Agreement contain the following provisions regarding cancellation prior to occupancy:

*Rescission.* Member has the right to rescind, cancel and terminate the Membership & Residency Agreement, provided written notice of such a decision is given to Provider within 30 days from the later of the date the Membership & Residency Agreement is signed or Member's receipt of a Disclosure Statement (the "**Rescission Period**"). If Member

decides to rescind the Membership & Residency Agreement, Member must send written notice to Searstone Retirement Community, c/o Executive Director, 17001 Searstone Drive, Cary, North Carolina 27513. The Member to whom the Membership & Residency Agreement pertains is not required to move into the Community before the expiration of the Rescission Period.

If Member rescinds the Membership & Residency Agreement within 30 days of its execution in accordance with Article I, Provider shall return to Member or Member's estate Member's Entrance Fee Deposit, including interest earned thereon, less any nonstandard costs incurred by Provider at the request of Member as set forth in Appendix A [of the Membership & Residency Agreement], such amount to be returned within 30 days of receipt of Member's written rescission request.

*Cancellation.* If after the Rescission Period but before occupying a living unit at Searstone, Member dies or due to illness, injury or other incapacity Member would be precluded from occupying a living unit at Searstone under the terms of the Membership & Residency Agreement, the Membership & Residency Agreement is automatically canceled, and upon Provider's receipt of written notice of cancellation Provider shall return to Member or Member's estate Member's Entrance Fee Deposit, including interest earned thereon, less any nonstandard costs incurred by Provider at the request of Member as set forth in Appendix A [of the Membership & Residency Agreement], such amount to be returned within 60 days of receipt of Member's written notice of cancellation.

*Termination (balance not paid).* If, after the expiration of the Rescission Period but before paying the balance of the Entrance Fee, Member terminates the Membership & Residency Agreement for any reason other than a cancellation pursuant to Section 5.3(b) [of the Membership & Residency Agreement], Provider shall return to Member or Member's estate Member's Entrance Fee Deposit, including interest earned thereon, less any nonstandard costs incurred by Provider at the request of Member as set forth in Appendix A [of the Membership & Residency Agreement], on or before the first to occur of (i) that date which is 30 days following Provider's receipt of the then applicable Entrance Fee Deposit for a residence of the same type as Member's residence, or (ii) that date which is two years from the date in which Member's written termination request is received.

2. Termination of Agreement by Member After Occupancy: Articles V and XI of the Membership & Residency Agreement contain the following provisions regarding cancellation after occupancy:

*Termination (balance paid).* If the Membership & Residency Agreement is terminated by Member who dies after paying the balance of the Entrance Fee, or by Member who pays the balance of the Entrance Fee and who has not died but terminates for any reason other than a cancellation pursuant to Section 5.3(b) [of the Membership & Residency Agreement], Provider shall return to Member or Member's estate the amount determined below, on or before that date which is 30 days following Provider's receipt of the then applicable Entrance Fee for a residence of the same type as Member's residence (for this purpose, the residence type of a Member residing in Brittany Place at the time of termination shall be considered to be the Independent Living Unit residence type with

respect to which that Member paid the Entrance Fee to be refunded). The amount to be so returned shall equal the sum of: (i) 100% of the Residential Fee portion of the Entrance Fee; **plus** (ii) the unamortized percentage of the Life Care portion of the Entrance Fee, with the Life Care portion of the Entrance Fee to amortize at the rate of 2% per month for 50 months commencing with the month in which the balance of the Entrance Fee is paid; **less** (iii) amounts due for unpaid Membership Fees applicable only to the period a living unit was actually occupied by Member and the accrued interest on those unpaid Membership Fees; **less** (iv) advances made by Provider pursuant to Section 5.4(g) [of the Membership & Residency Agreement]; **less** (v) costs specifically incurred by Provider at the request of Member as set forth in Appendix A [of the Membership & Residency Agreement]; **less** (vi) the cost of refurbishing Member's residence for re-occupancy as defined in Section 5.3(f) [of the Membership & Residency Agreement]; and **less** (vii) any other amounts due Provider from Member.

If two persons signed the Membership & Residency Agreement and only one of such persons elects to terminate the Membership & Residency Agreement, the refund amounts will be calculated using the only the Second Person Life Care Fee. If at a later time the other of such persons elects to terminate this Agreement, the refund amounts will be calculated using the First Person Entrance Fee.

3. Termination of Agreement by Provider: Article XII of the Membership & Residency Agreement contains the following provisions regarding cancellation by Provider:

Provider may, upon notice and opportunity to cure as provided below, revoke Member's right to reside at Searstone and terminate the Membership & Residency Agreement upon the occurrence of any of the following events ("**Default**"):

- (a) Failure of Member to pay the unpaid balance of the Entrance Fee when due.
- (b) Member has intentionally mismanaged assets needed to pay the balance of the Entrance Fee or the Membership Fee.
- (c) Failure of Member to comply with any material covenant or agreement of Member contained in the Membership & Residency Agreement (including timely payment of the Membership Fee or the Other Charges) or a material breach of any representation made by Member in the Membership & Residency Agreement or in Member's Application for Membership.
- (d) For "**just cause**" presented to Member or Member's representative in writing by the Searstone medical director and administrator that Member is a danger to himself or others while remaining in the Searstone community.

#### **F. Moves and Transfers**

The Membership & Residency Agreement outlines the policies for moves and transfers in Articles VI and X. Article VI contains the following provisions for transfers to the adult care (assisted living) or skilled nursing care within Brittany Place:

Member shall relocate to Brittany Place from Member's Independent Living Unit when Provider's interdisciplinary team decides a relocation is necessary. A relocation would be necessary as a result of Member's physical or mental health decline, Member posing a risk to the safety or welfare of other Members or themselves, or other appropriate condition. The same rule would apply when the relocation is within Brittany Place. If a Member moves to Brittany Place and the interdisciplinary team determines Member is capable of living independently once again, Member shall assume residency in an appropriate Independent Living Unit.

If Member is relocated to Brittany Place, Provider shall have the right to assign Member's former residence for residency by others. If Member's condition subsequently changes, and Member can resume residency in accommodations equivalent to those he or she previously occupied, Member shall relocate to such equivalent accommodations as soon as they are available. If Member's residence is jointly occupied and one Member moves to Brittany Place and the other Member continues to reside in the residence, the residence would not be considered to have been vacated for purposes of this Section.

Article X of the Membership & Residency Agreement addresses the transfer of a Member to another establishment should the Member require care not provided by Provider. It is possible that Member may need specialized service which is beyond the capability of Provider. Such service would be needed if:

1. Member has been infected with a dangerous and/or contagious disease, service for which is not typically provided in a North Carolina nursing establishment or which Provider is not licensed to provide, or
2. Member has become mentally or emotionally disturbed to the degree that Member poses a danger to himself or herself or the health and welfare of other Members or staff, or
3. The physical or mental condition of Member materially changes so that he or she requires services not regularly provided by Provider.

In such cases, Searstone's medical director will consult with Searstone's interdisciplinary team, Member, Member's representative, and Member's personal physician. If Provider or Searstone's medical director determines that special service is needed, Searstone management will review Member's needs with Member, if he or she is competent, or Member's representative, if he or she is not competent, and arrange Member's relocation to another establishment.

All such relocations will be subject to and in accordance with applicable statutes, rules, and regulations. In the case of such relocation of Member, if Provider or Searstone's medical director determines that the relocation is temporary (usually 30 days or less but extendable at Provider's sole discretion), Provider will hold Member's residence available for reoccupancy by Member. If, in the opinion of Searstone's interdisciplinary team, the relocation is permanent, Member's residence will be available for occupancy by another person.

If the medical condition of Member permanently relocated improves to the point where Member, in the opinion of Provider or Searstone's medical director, is able to resume residing at Searstone, Member will relocate back to the living accommodation last resided in by Member. If the living

accommodation last resided in by Member is occupied by a new Member, Member will be entitled to reside in the next available living accommodation of the type previously occupied by Member. In the event no such similar living accommodation is available, Provider will make comparable living arrangements available until such a similar living accommodation becomes available. Provided Member continues to pay the Membership Fee, Provider will pay the cost of such comparable living arrangements.

If Member's residence is jointly occupied and one Member relocates to another establishment and the other Member continues to live in the residence, the residence would not be considered to have been vacated for purposes of the foregoing. If Provider or Searstone's medical director subsequently determines, in consultation with Member or Member's attending physician, that Member of a jointly occupied residence can return to that residence, Member must do so.

### **G. New Double Occupants**

In the event that a person who is not a party to the Membership & Residency Agreement (“**New Person**”) is accepted for Membership at a time subsequent to the date of the Membership & Residency Agreement (said acceptance to be in accordance with residency policies governing all other move-ins), the New Person must sign a Membership & Residency Agreement and pay the then applicable Life Care Fee. Such New Person will then become a Member for purposes of the Membership & Residency Agreement, and the then current Second Person Membership Fee will become payable.

No person other than Member may reside in the residence except for occasional visits or with the express written approval of Provider. In the event Member's spouse does not qualify or does not wish to qualify for entry into the Searstone community as a “Member”: (1) such non-Member spouse will be allowed to occupy Member's residence without payment of an Entrance Fee for a second person; (2) the Second Person Membership Fee will be payable with respect to such non-Member spouse; (3) such non-Member spouse will not be entitled to the approved home care services, assisted living services, and skilled nursing services described in Section 3.3(c) of Member's Membership & Residency Agreement; and (4) such non-Member spouse will be required to vacate Member's residence upon Member's termination of the Membership & Residency Agreement, death, or permanent move to Brittany Place or for care outside the Searstone community.

Should a Member decide to marry another Member and both Members decide to share a residence, the Members may move to a new separate residence which will terminate both Members' Membership & Residency Agreements or may move into one Member's existing residence which will terminate the relocating Member's Membership & Residency Agreement.

- If the Members select a new residence, the Members will then sign a new Membership & Residency Agreement and pay the then applicable Entrance Fee and the First Person and Second Person Membership Fee for the new residence. Provider will refund the Entrance Fees associated with each of the married Members' prior residences in accordance with Section 5.3 of the Membership & Residency Agreements for each residence vacated once new Entrance Fees are received from the married Members.



- If, instead of moving into a new residence, one of the Members moves into the other Member's existing residence, the relocating Member will sign the Membership & Residency Agreement for the existing residence and will pay the Second Person Membership Fee for that residence. Provider will refund the Entrance Fee associated with the vacated residence in accordance with Section 5.3 of the Membership & Residency Agreement once a new Entrance Fee is received from the Member moving into the other Member's existing residence.

## **H. Financial Hardship**

It is the intent and policy of Provider to operate as a not-for-profit corporation and not to terminate the residency of a Member solely by reason of the financial inability of the Member to pay the total Membership Fee. When a Member establishes the facts to justify the need for financial assistance as determined by Provider in its reasonable judgment, Provider may in its discretion, and subject to funds availability, advance funds to help the Member pay his or her Membership Fee. Such advances, plus simple interest at the prime rate, then noted in the "Money Rates" column of *The Wall Street Journal*, from the date when such advances are made to the date when such advances are repaid or otherwise satisfied, will be charged against the refundable portion of Member's Entrance Fee, as determined in accordance with Section 5.3 of the Membership & Residency Agreement. In the case where such advances exceed the amount of Member's Entrance Fee refund, as determined in accordance with Section 5.3 of the Membership & Residency Agreement, Provider may in its discretion and subject to funds availability waive some or all of Member's Membership Fee, if the Member has not intentionally depleted assets needed to pay his or her Membership Fee. If a Member is receiving financial assistance, copies of such Member's most recently filed federal income tax return must be provided to Provider within 30 days of receiving assistance, and as may thereafter be requested by Provider.

## **I. Waiting List**

Searstone has a Waiting List program for prospective Members who are not ready or able to select an Independent Living Unit type that meets their needs. The procedure is summarized below:

1. If a prospective resident expresses the desire to move to Searstone and there are no Independent Living Units available in the type desired, he or she may be placed on a Waiting List maintained by the Manager.
2. Placement on the Waiting List requires a completed Wait List Application, Wait List Contract, payment of a \$300 non-refundable wait list application fee, and payment of a \$5,000 refundable wait list deposit.
3. The Wait List Application will be reviewed by the Manager, and the prospective resident will be informed by the Manager as to whether the prospective resident will be placed on the Waiting List. If the prospective resident is not placed on the Waiting List, the \$5,000 refundable wait list deposit will be returned, but the \$300 non-refundable wait list application fee will not be returned.

4. If the prospective resident is placed on the Waiting List the prospective resident will be informed by the Manager of his or her placement location on the Waiting List (i.e., whether first, second, third, etc. in line for a certain type of Independent Living Unit) and will be updated periodically on the status of the list.
5. All prospective residents on the Waiting List will be periodically invited to special events at Searstone and to eat in the dining room at Searstone so they can begin to develop relationships with the staff and residents.
6. When an Independent Living Unit of the type desired by a prospective resident becomes available, the prospective resident will be informed and have a period of 48 hours after being so informed to accept or reject the available Independent Living Unit. If the prospective resident accepts the available Independent Living Unit the prospective resident will have three days following acceptance within which to execute an Application for Residency and a Membership & Residency Agreement and pay to Provider the balance of the Entrance Fee Deposit (to which the \$5,000 refundable wait list deposit will be applied).
7. If the prospective resident does not accept the available Independent Living Unit, the prospective resident will not lose the prospective resident's priority spot on the Waiting List. If the prospective resident accepts the available Independent Living Unit but fails to on a timely basis execute an Application for Residency and a Membership & Residency Agreement and pay to Provider the balance of the Entrance Fee Deposit for such Independent Living Unit, the prospective resident will lose the prospective resident's priority spot on the Wait List.
8. Following the prospective resident's execution of an Application for Residency and a Membership & Residency Agreement and payment to Provider of the balance of the Entrance Fee Deposit for the available Independent Living Unit, the Application for Residency and the prospective resident's eligibility for residency will be reviewed in accordance with Section III.C of this Disclosure Statement.

#### **J. Rules and Regulations**

Rules and regulations with respect to the use of common areas and amenities within Searstone have been established by Provider and are available in the Searstone Resident Manual. Provider may from time-to-time change the Rules and Regulations, which will require changes to the Searstone Resident Manual, and in such case these changes will be provided to Members.

## IV. SERVICES

### A. Standard Services Available

Searstone is a full-service retirement community. Members pay an Entrance Fee and a Monthly Membership Fee. The fees are designed to cover most living expenses incurred by residents of Searstone. Two service packages are offered. The **Platinum Option** offers more meal credits and more housekeeping services than does the **Gold Option**. Members can change their service package option on a monthly basis. The Monthly Membership Fee includes the following basic services:

- Scheduled dining in the dining venues. Under the Platinum Option, a monthly dining credit amount of \$434 per person is included as part of the Membership Fee. Under the Gold Option, a monthly dining credit amount of \$217 per person is included as part of the Membership Fee.
- Housekeeping services under the Platinum Option will be performed every week. Housekeeping under the Gold Option will be provided once per month.
- Utilities included in the Membership Fee are heating, air conditioning, water, sewer, electricity, basic cable television services, wireless internet access in common areas, and wiring for telephone.
- Driver services for local medical appointments, with proper scheduling by Member, as determined by Searstone.
- Interior and exterior maintenance of all residences, including all provided appliances, fixtures, systems, lawns, gutters, and windows. Appliances provided will include a range, microwave, refrigerator with icemaker, dishwasher, garbage disposal, washer, and dryer.
- Call system and response to calls for emergencies are available 24 hours per day.
- Recreational, social, and cultural events as scheduled and planned for those Members interested in participating. Searstone employs a Director of Resident Life & Wellness to plan and coordinate recreational, social, educational, and special events.
- Common areas for Members and their guests include a Clubhouse, restaurant, private dining for personal parties and special events, a bar and grill, lounge areas, a health and fitness club, an aquatic center, and administrative areas.
- Building and grounds maintenance and housekeeping of common areas.
- Additional storage for Lorraine Plaza, Calais Terrace, Lakeside Flats, and Clubhouse residences for Member's personal belongings.
- Smoke detection and sprinklers in all areas both common and multi-story residential. There are not sprinklers in Estate Homes. A generator is available to power the Clubhouse and a designated generator for Brittany Place is also available in case of emergency or power outage.

- For Members residing in Lakeside Flats or Estate Homes, covered parking is provided per residence. For Members residing in Calais Terrace, under-building parking is available. For Members residing in Lorraine Plaza, parking is provided adjacent to the Lorraine Plaza building. For Members residing in Winston Clubhouse, parking is provided adjacent to the Winston Clubhouse building. Valet parking is provided for Members residing in the Winston Clubhouse.

#### **B. Services Available for an Additional Cost**

Services available but not included in the Monthly Membership Fee include:

- Additional dining.
- Additional housekeeping.
- Additional maintenance.
- Personal transportation beyond that scheduled by Provider.
- Linen services.
- Non-emergency response calls to residences.
- Other concierge services.

#### **C. Health Care Services Available**

Searstone has designated as medical director a consulting physician licensed to practice medicine in the State of North Carolina.

A Member is responsible for, over and above the Membership Fee, the cost of Member's physician services, hospital services, prescription drugs, durable medical equipment, and prescribed therapies. Outside provider services are billed by the outside provider to Medicare and the Member, as appropriate.

For a Member under a Type A - Life Care Plan, normally the Member will receive required assisted living or required skilled nursing services at Searstone within Brittany Place.

If the Member requires assisted living services, as determined by Searstone's interdisciplinary team:

- The Member will be provided assistance with activities of daily living as typically provided by an assisted living establishment in the State of North Carolina. Such assisted living services will be provided by Provider at Brittany Place, but if the assisted living and skilled nursing units in Brittany Place are full Provider will provide home health services in the Member's Independent Living Unit at Provider's expense. In the event Provider provides to the Member home health services under such circumstances, the Member will relocate to Brittany Place once an assisted living or skilled nursing unit is available in Brittany Place, and if the Member declines a unit at Brittany Place under such circumstances the Member will be responsible for all home health service fees.
- In such case, Provider will provide access to prescription drugs, physical therapy, speech therapy, and occupational therapy, at an additional cost to the Member (possibly reimbursable

to the Member by Medicare or other insurance procured by the Member). Also, in such case, the Member will be responsible for the cost of private duty nurses if determined to be medically necessary or when requested by the Member or the Member's representative.

If the Member requires skilled nursing services, as determined by Searstone's interdisciplinary team:

- The Member will be provided those services typically provided by a skilled nursing establishment in the State of North Carolina. In such case, Provider will provide access to prescription drugs, physical therapy, speech therapy, and occupational therapy, at an additional cost to the Member (possibly reimbursable to the Member by Medicare or the other insurance procured by the Member). Also, in such case, the Member will be responsible for the cost of private duty nurses if determined to be medically necessary or when requested by the Member or the Member's representative.
- Such skilled nursing services will be provided by Provider at Brittany Place, but if the skilled nursing units in Brittany Place are full the Member will be provided temporary skilled nursing services at an appropriate area skilled nursing facility, as determined by Searstone. Any such offsite skilled nursing services will be at Provider's expense except for those items which would be at the Member's expense if the Member were in Brittany Place, such as the cost of additional meals. The decision to move a Member temporarily offsite under such circumstances is in the sole discretion of Provider.
- In the event a Member is moved temporarily offsite under such circumstances, the Member will relocate to Brittany Place once a skilled nursing unit is available in Brittany Place, and if the Member declines a unit at Brittany Place under such circumstances the Member will be responsible for all offsite location fees.

For a Member under a Type C – Fee-for-Service Plan, the Member, at the Member's expense, will be provided access to assisted living services or skilled nursing services at Searstone or at another provider. The Member will be responsible for the cost of any home care services, assisted living services, or skilled nursing services.

*The Fee-for-Service Plan is not available to new Members, except as provided in Article V of this Disclosure Statement.*

## **V. ENTRANCE FEES AND MEMBERSHIP FEES**

Members will pay an Entrance Fee and monthly Membership Fees that vary based on whether the Member signs-up under the Type A - Life Care Plan or the Type C – Fee-for-Service Plan, and the service package option selected. Under both plans the Entrance Fee assures a Member a place at Searstone for life, subject to the provisions of the Member’s Membership & Residency Agreement.

*The Fee-for-Service Plan is not available to new Members, except as provided in Article V of this Disclosure Statement.*

### Type A – Life Care Plan Fees

The Entrance Fee under the Type A - Life Care Plan has two components: A Residential Fee which is 100% refundable (and identical to the Entrance Fee for the Fee-for-Service Plan), and a Life Care Fee which is refundable to the extent not amortized. The Life Care Fee amortizes at the rate of 2% per month commencing with the month in which the balance of the Entrance Fee is paid, such that it will be fully amortized (and 0% refundable) after 50 months from the month in which the balance of the Entrance Fee is paid. Under the Type A - Life Care Plan a second occupant within a residence must pay a Second Person Entrance Fee, consisting only of a Life Care Fee which amortizes at 2% per month in the same manner.

Under the Type A - Life Care Plan, there are two monthly service package options; namely the Gold Option and the Platinum Option, with the Platinum Option providing more meals and housekeeping than provided with the Gold Option. There is a Second Person monthly Membership Fee for a second occupant within a residence.

### Type C – Fee-for-Service Plan Fees

The entire Entrance Fee under the Fee-for-Service Plan is 100% refundable. There is a Second Person Entrance Fee under this plan.

Under the Type C – Fee-for-Service Plan, there are two service package options; namely the Gold Option and the Platinum Option, with the Platinum Option providing more meals and housekeeping than provided with the Gold Option. There is a Second Person monthly Membership Fee for a second occupant within a residence.

*The-Fee-for-Service Plan is not available to new Members, except as provided in Article V of this Disclosure Statement.*

### Phase II – Additional Membership & Residency Agreement Contract Types

Provider anticipates offering the following Membership & Residency Agreement contract options for Members who will reside in the additional Independent Living Units to be developed as a part of the Phase II project:

- Type A – Life Care Plan with a 100% refundable Residential Fee, as described above for current Type A – Life Care Membership & Residency Agreement contracts;

- Type A – Life Care Plan with a 50% refundable Residential Fee amortizing at the rate of 2% per month commencing with the month in which the balance of the Entrance Fee is paid, such that it will amortize to be 50% refundable after 25 months from the month in which the Entrance Fee is Paid;
- Type A – Life Care Plan with a 0% refundable Residential Fee amortizing at the rate of 2% per month commencing with the month in which the balance of the Entrance Fee is paid, such that it will be fully amortized (and 0% refundable) after 50 months from the month in which the Entrance Fee is Paid; and
- Type C – Fee-for-Service Plan with a 90% refundable Residential Fee amortizing at the rate of 2% per month commencing with the month in which the balance of the Entrance Fee is paid, such that it will be 90% refundable after 5 months from the month in which the Entrance Fee is Paid.

All Type A – Life Care Membership & Residency Agreement contracts will also require payment of a Life Care Fee, with amortization provisions as described above for current Type A – Life Care Membership & Residency Agreement contracts. The Type C – Fee-for-Service Plan Membership & Residency Agreement contract will not require payment of a Life Care Fee.

Refunds of the Entrance Fee for Phase II Membership & Residency Agreement contracts will be based on the particular refund plan selected by the Member and will be paid within 30 days following Provider’s receipt of Entrance Fee proceeds (in the case of refunds with respect to Type C – Fee-for-Service Plan Membership & Residency Agreement contracts, the Residential Fee portion thereof) for any comparable residence in Phase II which is not occupied or reserved at the date of termination of the Membership & Residency Agreement, in an amount sufficient to fully satisfy the Entrance Fee refund amount due (with Entrance Fee proceeds for the comparable residences described above being allocated among refund claims with respect to such comparable residences in the order of the date of termination of the applicable Membership & Residency Agreements). Other than those specifically mentioned in this paragraph, all Phase II Membership & Residency Agreement contract provisions governing Entrance Fee refunds are consistent with those described in Section III.E. of this Disclosure Statement.

Prospective Phase II Members will not execute Membership & Residency Agreements until shortly prior to moving into their respective residence, currently estimated to occur in early 2024. Following appropriate North Carolina Department of Insurance approvals, prospective Phase II Members will execute a binding Reservation Agreement and place a deposit in the amount of 10% of the Entrance Fee. The Entrance Fee deposit will be held in escrow until either (1) such time as the qualifications for release are met by Provider, (2) Provider determines that the prospective Phase II Member does not meet the health and financial conditions of acceptance into a Phase II residence, or (3) the prospective Phase II Member elects to terminate their Reservation Agreement, in which case the amount deposited, plus accrued interest, will be refunded within 30 days of termination of the Reservation Agreement. In the event the prospective Phase II Member elects to terminate their Reservation Agreement, a \$500 processing fee will be deducted from the refund, unless such termination is due to the death of the prospective Phase II Member or is due to serious illness or incapacity of the prospective Phase II Member that precludes the prospective Phase II

Member from living in the Phase II residence for health reasons, as certified by a licensed physician.

The following table summarizes Entrance Fees and monthly Membership Fees by type of Independent Living Unit and plan type:

<b>SearStone Retirement Community</b>				
<b>2020 Independent Living Fees</b>				
<b>Floor Plan</b>	<b>Number Of Units</b>	<b>Square Footage</b>	<b>100% Refundable Residential Fee<sup>(1)(2)(3)</sup></b>	<b>Monthly Membership Fee - Type A<sup>(1)(2)(3)(4)</sup></b>
<b><u>One Bedroom</u></b>				
Asturian	14	931-1097	\$387,000-\$402,000	\$3,270-\$3,490
Breton	4	1,039	\$371,000	\$3,450
Galacian	6	1,165	\$387,000	\$4,040
Finnhorse	4	1,280	\$412,000	\$4,150
Belgian	4	1,194-1,356	\$422,000-\$438,000	\$4,040-\$4,250
Clydesdale	2	1,370	\$443,000	\$4,250
Danube	6	1,402	\$443,000	\$4,250
<b><u>Two Bedroom</u></b>				
Buckskin	16	1,204-1,760	\$451,000-\$561,000	\$4,040-\$5,890
Buckskin-Terrace	8	1,315	\$427,000	\$4,200
Hackney	5	1,478-1,500	\$485,000-\$495,000	\$5,240-\$5,250
Shetland	8	1,562	\$550,000	\$5,420
Dartmoor	12	1,765-1,793	\$572,000-\$588,000	\$5,890
Highland	8	1,866-1,924	\$598,000-\$603,000	\$5,980
<b><u>Two Bedroom/Den</u></b>				
Haflinger	5	1,578-1,636	\$516,000-\$521,000	\$5,420-\$5,450
Campolina	4	2,000	\$712,000	\$6,120
Highland II	8	1,945-2,006	\$608,000-\$628,000	\$6,000-\$6,170
Caspian	2	1,811-2,092	\$712,000-\$714,000	\$5,930-\$6,170
Pegasus	8	1,853	\$597,000	\$5,950
Appaloosa	1	2,085	\$654,000	\$6,170
Estonian	6	2,238-2,294	\$701,000	\$6,500
<b><u>Estate Homes</u></b>				
Under 2,500 Square Feet	30	1,766-2,394	\$550,000-\$834,000	\$5,890-\$6,710
Over 2,500 Square Feet	8	2,558-3,914	\$783,000-\$866,000	\$6,820-\$7,330
Total Units	169			
Weighted Average			\$573,127	\$4,805
Second Person - Monthly Membership Fees <sup>(1)(2)(3)(4)</sup>				\$1,350
Life Care Entrance Fee(per person)(Type A contracts only) <sup>(3)</sup>			\$65,000	
(1) Monthly Membership Fee pricing is effective as of January 1, 2019. Prices subject to change.				
(2) Provider offered Type A and Type C contracts to prospects who contracted prior to the start of construction. Subsequently, all contracts are Type A contracts.				
(3) Type A contracts require the payment of an additional LifeCare Entrance Fee per person of \$62,000. This fee amortizes pro-rata at a rate of 2% per month, and is fully amortized after 50 months. The Life Care Entrance Fee pricing is effective as of January 1, 2019.				
(4) SearStone offers two resident service packages: The "Gold Option" and the "Platinum Option":				
(5) Monthly Fees above for the Type A contract, reflect the Gold Plan <sup>(4)</sup> . Participation in the Platinum Option requires an additional first person fee of \$300/month. Second person fee for the Platinum Option is an additional \$200/month.				



### Health Center (Brittany Place) Fees

Members under Type A - Life Care Plans will pay the same monthly Membership Fee, plus the cost of additional meals, when residing in Brittany Place as they would pay in their Independent Living Unit.

Members under Type C – Fee-for-Service Plans will pay the following fees for Assisted Living services and Skilled Nursing services within Brittany Place:

Assisted Living Per Diem Fee in 2020 - \$ 223.00

Skilled Nursing Per Diem Fee in 2020 - \$ 417.00

*The Fee-for-Service Plan is no longer available to new Members.*

### Increases in Monthly Membership Fees

The Membership Fees are subject to periodic increases. Provider will provide the Members with 30 days' notice of any change in Membership Fees. Such notice will set forth the effective date of the new Membership Fee and the amount of the change. Provider intends to increase the Membership Fee on January 1 of each year, if Provider deems such increase to be necessary in order to meet the financial needs of operating Searstone or to provide services to Members. Provider reserves the right to increase Membership Fees more often than once each year if Provider deems such increase to be necessary to meet its obligations.

In most years since 2011 the annual increases in the monthly Membership Fee (taking as an example the monthly First Person Membership Fee under the Gold Option) have ranged between 4.0% to - 6.5%, and prospective Members should understand that similar percentage increases for all monthly Membership Fees are currently forecasted for future years. Prospective Members should also understand that actual percentage increases in monthly Membership Fees for future years may exceed the currently forecasted percentage increases. Since Searstone initiated pre-marketing activities in 2006, and began operations in October 2013, all increases in monthly Membership Fees are reflected in the following table:

**Increases in Weighted Average - Entrance Fees, and Monthly Membership Fees**

**Life Care Fees<sup>(2)</sup>**

100% Refundable Residential Fee		Non-Refundable LifeCare Fee Per Person	Monthly 1st Person Fee - Gold	Monthly 2nd Person Fee - Gold	Monthly 1st Person Platinum Package <sup>(1)</sup>	Monthly 2nd Person Platinum Package <sup>(1)</sup>
(Weighted Average Fees - All Independent Units)						
<u>Increases at 1/1 each year</u>		<u>Fee Schedule</u>	<u>Actual Weighted Average</u>	<u>Actual Weighted Average</u>	<u>Fee Schedule</u>	<u>Fee Schedule</u>
2012	\$479,832	\$45,427	\$3,712	\$841	\$249	\$144
2013	\$479,832	\$45,427	\$3,141	\$910	\$268	\$156
2014	\$479,832	\$45,427	\$3,146	\$770	\$242	\$125
2015	\$489,357	\$49,500	\$3,571	\$852	\$256	\$132
2016	\$515,331	\$52,225	\$3,848	\$921	\$270	\$150
2017	\$529,810	\$52,225	\$4,140	\$974	\$300	\$190
2018	\$541,770	\$60,000	\$4,365	\$1,026	\$300	\$200
2019	\$547,196	\$62,000	\$4,599	\$1,350	\$300	\$200
2020	\$558,450	\$65,000	\$5,268	\$1,470	\$300	\$200
	<u>Resident % Increase</u>	<u>Resident % Increase</u>	<u>Resident % Increase</u>	<u>Resident % Increase</u>	<u>Resident % Increase</u>	<u>Resident % Increase</u>
2012	0.00%	0.00%	4.01%	3.96%	4.18%	4.35%
2013	0.00%	0.00%	0.00%	8.20%	7.63%	8.33%
2014	0.00%	0.00%	0.00%	0.00%	-9.70%	-19.87%
2015	1.99%	8.97%	5.75%	5.75%	5.79%	5.60%
2016	5.31%	5.51%	5.50%	5.50%	5.47%	13.64%
2017	2.81%	0.00%	4.50%	4.50%	11.11%	26.67%
2018	2.26%	14.89%	4.50%	4.50%	0.00%	5.26%
2019	1.00%	4.5%	4.5%	4.5%	0.0%	0.0%
2020	2.00%	4.8%	4.5%	4.5%	0.0%	0.0%
	<u>Average \$ Increase</u>	<u>Average \$ Increase</u>	<u>Weighted Average \$ Increase</u>	<u>Weighted Average \$ Increase</u>	<u>Average \$ Increase</u>	<u>Average \$ Increase</u>
2012	\$0	\$0	\$143	\$32	\$10	\$6
2013	\$0	\$0	-\$571	\$69	\$19	\$12
2014	\$0	\$0	\$5	-\$140	-\$26	-\$31
2015	\$9,525	\$4,073	\$425	\$82	\$14	\$7
2016	\$25,974	\$2,725	\$277	\$69	\$14	\$18
2017	\$14,479	\$0	\$292	\$53	\$30	\$40
2018	\$11,960	\$7,775	\$225	\$52	\$0	\$10
2019	\$5,426	\$2,000	\$234	\$324	\$0	\$0
2020	\$11,254	\$3,000	\$669	\$120	\$0	\$0

(1) Platinum Package Fee is in addition to the Gold Package Fee shown for 1st and 2nd Person.

(2) Life Care residents pay the same monthly rate in Assisted Living and Skilled Nursing levels of care, as in independent. They also pay a monthly meal charge to cover the cost of extra meals eaten in the health care setting, as compared to the meals consumed in the independent setting. See the attached "SearStone Extra Cost List 2019".

(3) Pricing sheet - residents moved November 2013. Fill up in progress in FY2013 & FY2014.



## Searstone Extra Cost List 2020

**Below is the fee if you would like to receive a replacement or extra of the following items:**

Mail Key	\$ 10.00
Room Key	\$ 25.00
Emergency Pendant	\$ 135.00
Neck Lanyard	\$ 5.00
Photo ID Name Badge / Meal Card	\$ 15.00
Resident Name Tag	\$ 17.50

**Below is the fee for additional Housekeeping, Transportation, and Maintenance costs:**

Housekeeping Help* (Resident Handbook Part XIV, Part A)	\$26.00 per hour 1 hour minimum
Maintenance Help	\$26.00 per hour 1 hour minimum
Extra Carpet Cleaning	Fee based on size of residence
Transportation Personal Trips	\$26.00 per hour 1 hour minimum
Airport Transportation	\$19.00 Flat Rate – one way
Wheel Chair Transportation by other than Searstone	\$ vendor fees apply
Trip Charges	There may be times when scheduled bus trips and outings will carry a fee. These fees will be posted and communicated with specific trip information.
Calais Garage Parking Space (Limited Space Available)	\$37.50 per month (See Security & Transportation Dept. to apply for wait list)

### Brittany Place specific Additional Fees

LifeCare Contract Meals	\$939.00 per month
Non-medical Meal Delivery	\$5.00
Fee for Service Daily Rate – Skilled Nursing	\$417.00 +/- per day
Fee for Service Daily Rate – Assisted Living	\$223.00 +/- per day
Wheel Chair Transportation by other than Searstone.	\$ vendor fees
Medical Equipment Used in Care	If your doctor orders special equipment for your care or rehabilitation, you will be responsible for costs not covered by Medicare or other insurances. Personal Medical Equipment for personal use is the financial responsibility of the resident.
Laundry Services	\$30.00 per week per individual

\*Housekeeping help is periodic and as needed. It is not to be a set schedule of additional services. Residents can opt into the **Platinum** program for regular scheduled extra services.

Transportation time includes travel to and from destination, and any time at destination.

Extra fees may exist for special community life, wellness functions, classes and trips.

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### Taxes

All fees and other charges payable to Provider by a Member are net of all applicable sales, excise, and similar taxes imposed by governmental authorities with respect to the goods and services for which such fees and other charges are payable, and Provider will collect from each Member any such applicable sales, excise, and similar taxes to the extent required by applicable law and regulations.

### Late Payment Charge

Each Member is expected to make payment of the Membership Fee and other charges when due. Each Member is encouraged to make arrangements with Provider if the Member will be unable to make payments when due. Although a Member will have no right to delay payment without Provider's prior written consent, if any amount due is not paid when due, the Member must pay on demand interest on delinquent Membership Fees and other charges, computed at the rate of 18% per annum from the date when due until the date when paid, and such fees and late fees may be charged against the refundable portion of the Member's Entrance Fee.

## VI. FINANCIAL INFORMATION

### A. Summary of Financing

The initial development of the Community was financed in part through the issuance by the Public Finance Authority of \$117,450,000 of non-rated, tax-exempt, fixed rate, term bonds (the “**2012 Bonds**”), and the loan to Provider by the Public Finance Authority of the proceeds from the sale of the 2012 Bonds. The 2012 Bonds were comprised of \$56,135,000 of non-rated, tax-exempt, fixed rate, term bonds (the “**Series 2012A Bonds**”), \$60,375,000 of Series 2012B Bonds (the “**Series 2012 B Bonds**”), and \$940,000 of Series 2012C Bonds (the “**Series 2012C Bonds**”). The proceeds from the Series 2012 Bonds were used by Provider for purposes including to finance the cost of the development and construction of Phase I of the Community and to fund certain reserves. In December 2017 the Series 2012A Bonds were advance refunded and defeased (see discussion of Series 2017 Bonds, below), and consequently are deemed to have been paid in full. The Series 2012B Bonds and the 2012C Bonds have been paid in full and retired.

In December 2016 the Public Finance Authority issued \$8,000,000 of non-rated, tax-exempt, fixed rate, term bonds (the “**Series 2016 Bonds**”), and the Public Finance Authority loaned to Provider the proceeds from the sale of the Series 2016 Bonds. The Series 2016 Bonds are due in 2049, and bear interest at 6.000%. The proceeds from the Series 2016 Bonds were used by Provider (1) to finance a portion of the acquisition cost of the Phase II land, (2) to finance the \$2,500,000 cost of the Brittany Place Expansion, (3) to fund certain reserves, and (4) for other Community projects.

In December 2017, the Public Finance Authority issued \$77,745,000 of non-rated, tax-exempt, fixed rate, term bonds (the “**Series 2017 Bonds**”), and the Public Finance Authority loaned to Provider the proceeds from the sale of the Series 2017 Bonds. The Series 2017 Bonds were comprised of \$71,730,000 of Series 2017A refunding bonds (“**2017A Bonds**”) and \$6,015,000 of Series 2017B bonds (“**2017B Bonds**”). The proceeds from the Series 2017 Bonds were and will be used by Provider to (1) to advance refund and defease the Series 2012A Bonds, (2) to finance improvements and expansion of the facilities of the Community, (3) to fund a Debt Service Reserve Fund, and (4) to pay costs of issuance of the 2017 Bonds.

Existing bonds are often advance refunded and defeased, when by their contractual terms the existing bonds may not be called; i.e., prepaid, prior to a certain specified date. When existing bonds are advance refunded and defeased: (1) the proceeds from a new bond issue are used to purchase a portfolio of U.S. Treasury or similar approved securities; (2) that securities portfolio is placed in escrow with an escrow agent; (3) any property serving as security for the existing bonds is released, and the securities portfolio is substituted as security for the existing bonds; (4) the earnings from the securities portfolio are used to fund the annual debt service obligation on the existing bonds; and (5) the securities portfolio is used to retire the existing bonds when the existing bonds mature or may be called; i.e., prepaid. This is often done when due to favorable interest rates a reduced annual debt service obligation may be achieved through defeasance of the existing bonds.

The Series 2016 and Series 2017 Bonds are collateralized by substantially all of the assets of Provider, including the Community. Under the terms of a Second Amended and Restated Master

Trust Indenture entered into by Provider in favor of the trustee for the Series 2016 Bonds and the Series 2017 Bonds, Provider is required to comply with certain operating and financial covenants.

As of December 31, 2019, required principal payments of long-term debt for the next five years and thereafter are as follows:

<b>Fiscal Year</b>	<b>2016 Bonds</b>	<b>2017A Bonds</b>	<b>2017B Bonds</b>	<b>Total</b>
2020	\$ 0	\$ 55,000	\$ 1,005,000	\$ 1,060,000
2021	\$ 0	\$ 55,000	\$ 1,005,000	\$ 1,105,000
2022	\$ 0	\$ 65,000	\$ 1,090,000	\$ 1,155,000
2023	\$ 0	\$ 65,000	\$ 1,135,000	\$ 1,200,000
2024	\$ 0	\$ 70,000	\$ 1,185,000	\$ 1,255,000
Thereafter	\$ 8,000,000	\$ 71,420,000	\$ 0	\$ 79,420,000
<b>Total</b>	<b>\$ 8,000,000</b>	<b>\$ 71,730,000</b>	<b>\$ 5,426,000</b>	<b>\$ 85,195,000</b>

In addition to the Series 2016 Bonds and the Series 2017 Bonds, Provider has issued subordinated debt, consisting of pre-finance capital provided by MatchCap - Sears Farm, LLC (\$6,800,000) and by Sears Farm, LLC (\$2,390,000), which accrues simple interest at the rate of 6% per annum. The principal of the subordinated debt is subordinated to the repayment in full of the Series 2016 Bonds and the Series 2017 Bonds, and is payable only if the Community achieves certain occupancy milestones and Provider meets certain financial performance conditions.

Also subordinated to the Series 2016 Bonds and the Series 2017 Bonds are certain fees payable by Provider to: Sears Farm, LLC; Searstone - RLA; Sears Hackney Keener Williams, Inc. (an architectural firm that provided services in connection with Phase I); the Development Consultant; and RLA, and in the total amount of \$3,304,000.

A portion of the purchase price of the Phase II land was financed through the issuance by Provider of its Balance Purchase Money Note, which has a current balance \$2,000,000 (the “**Purchase Money Note**”). The Purchase Money Note is non-interest bearing. The Purchase Money Note matures, and is payable in full, on the earlier of (1) the date when Provider obtains construction funding for Phase II in an amount sufficient to construct approximately 152 independent living units, or (2) October 31, 2022. The Purchase Money Note is non-recourse as to Provider, and is secured by a deed of trust encumbering the Phase II land, which is subordinate to the deed of trust encumbering such land that serves as security for the Series 2016 Bonds and the Series 2017 Bonds.

Provider has borrowed from Truist Bank, a North Carolina banking corporation (the “**Lender**”), the sum of \$757,900 (the “**Loan**”) pursuant to the United States Small Business Administration Paycheck Protection Loan program, created pursuant to Sections 1102 and 1106 of the Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-36, as modified by the Paycheck Protection Program Flexibility Act of 2020 (H.R. 7010) (the “**Program**”), as evidenced by Provider’s Promissory Note dated May 7, 2020 and made payable to the order of the Lender in an amount equal to the Loan amount (the “**Note**”). The Loan was funded on May 13, 2020.

Pursuant to the Program, the Loan is an unsecured loan guaranteed by the United States Small Business Administration (the “**SBA**”) and bearing interest at the rate of 1.0% per annum, with all principal payable two years from the date of the Loan, but with such principal and all accrued interest thereon to be forgiven in their entirety (through payment to the Lender by the SBA of the forgiveness amount) provided an amount equal to the Loan proceeds is applied in payment of certain payroll costs (which must equal at least 60% of the Loan proceeds), interest on mortgages, rent, and utilities, during a forgiveness covered period from the date of the Loan until the earlier of 24 weeks from the date of the Loan or December 1, 2020 (the “**Forgiveness Covered Period**”). Any obligation to pay principal, interest, and fees with respect to the Loan is deferred until the earlier of the date the amount of loan forgiveness is remitted to the Lender by the SBA or ten months after the end of the Forgiveness Covered Period if Provider does not apply for forgiveness during that ten month period, such that the conditions for forgiveness of the principal amount of the Loan and all accrued interest thereon would be satisfied and the Loan would be forgiven prior to the due date of any payment under the Loan.

#### **B. Audited Financial Statements**

Provider operates on a calendar year basis. Financial statements for Provider, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and changes in net deficit and cash flows for the years then ended, and the related notes to the financial statements, as audited by the independent accounting firm of Dixon Hughes Goodman LLP, are attached as Exhibit 2.

#### **C. Comparison of Material Differences between Forecasted Financial Statements and Actual Financial Statements**

A comparison of the forecasted financial statements for Provider, and the actual financial statements for Provider, which comprise the balance sheet as of December 31, 2019, and the related statements of operations and changes in net deficit and cash flows for the year then ended, is attached as Exhibit 3. Variances greater than \$150,000 are considered material. An explanation of each of the material differences is contained in the narrative on Exhibit 3.

#### **D. Interim Financial Statements**

Unaudited interim financial statements for Provider, consisting of the balance sheet as of March 31, 2020, and the related statement of profit and loss (with comparison to budget) and cash flow statement for the period from January 1, 2020 through March 31, 2020 are attached as Exhibit 4.

## **E. Financial Projections**

Unaudited financial projections for Provider for each of the five years ending December 31, 2024, which comprise a projected statement of operations and changes in net assets, a projected statement of cash flows, and projected balance sheets, as compiled by the independent accounting firm of Dixon Hughes Goodman LLP, are attached as Exhibit 5. The financial projections are based in part on an actuarial study as of December 31, 2019, performed by Continuing Care Actuaries (the “**Actuarial Study**”). A summary of the Actuarial Study is attached as Exhibit 6.

## **F. Operating Reserve**

Pursuant to North Carolina General Statutes Section 58-64-33, after the opening of a continuing care retirement facility a provider must maintain on deposit with the North Carolina Department of Insurance an operating reserve equal to 50% of the total operating costs of the facility forecasted for the 12 month period following the period covered by the most recent disclosure statement filed by Provider with the North Carolina Department of Insurance. The forecast statements as required by North Carolina General Statutes Section 58-64-20(a)(12) serve as the basis for computing the operating reserve. For this purpose, in addition to total operating expenses, total operating costs will include debt service, consisting of principal and interest payments along with taxes and insurance on any mortgage loan or other long-term financing, but will exclude depreciation, amortized expenses, and extraordinary items as approved by the North Carolina Commissioner of Insurance (the “**Commissioner**”). If the debt service portion is accounted for by way of another reserve account, the debt service portion may be excluded. If a facility maintains an occupancy level in excess of 90%, Provider is only required to maintain on deposit with the North Carolina Department of Insurance a 25% operating reserve upon approval of the Commissioner, unless otherwise instructed by the Commissioner. The operating reserve must be funded by cash, by invested cash, or by investment grade securities, including bonds, stocks, U.S. Treasury obligations, or obligations of U.S. government agencies. Provider’s operating reserve is held at Branch Banking and Trust Company, and all funds are invested in a money market account with interest income reinvested. The monies are shown in the balance sheet which is a part of the unaudited interim financial statements attached as Exhibit 4, under “Escrows and Reserves / 11237 - Cash - Board Restricted”.

The following table reflects the calculation of the operating reserve required of Provider for each of the five years ending December 31, 2023:



**Samaritan Housing Foundation, Inc. d/b/a SearStone**  
 Operating Reserve Fund  
 Statutory Operating Reserve

<b>Operating Reserve Fund</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
IL Occupancy Projection	94.0%	94.0%	94.0%	94.0%	63.8%
<b>For the Subsequent Fiscal Year Ending December 31:</b>					
Income statement expenses	\$ 19,189	\$ 19,730	\$ 21,230	\$ 20,582	\$ 38,752
Plus: Capitalized interest	473	427	5,778	8,084	279
<b>Total Expenses</b>	<b>\$ 19,662</b>	<b>\$ 20,157</b>	<b>\$ 27,008</b>	<b>\$ 28,666</b>	<b>\$ 39,031</b>
Plus: Bond principal redemptions, schedule required	1,060	1,105	1,595	1,680	1,780
Less: Depreciation	(3,295)	(3,409)	(3,550)	(3,704)	(7,652)
Less: Amortization	(156)	(156)	(490)	(490)	(490)
Less: Extraordinary items approved by Commissioner	(1,194)	(1,194)	(1,880)	(870)	(12)
Less: Debt service portion, if provided for by way of a separate reserve account	(6,018)	(6,233)	(12,042)	(12,036)	(13,913)
<b>Total Operating Costs</b>	<b>\$ 10,059</b>	<b>\$ 10,270</b>	<b>\$ 10,641</b>	<b>\$ 13,246</b>	<b>\$ 18,744</b>
Occupancy Factor	25%	25%	25%	25%	50%
Operating Reserve Requirement	\$ 2,515	\$ 2,568	\$ 2,660	\$ 3,312	\$ 9,372

**Exhibit 1**

**Membership & Residency Agreement**

[see attached]

# **SEARSTONE**

## **Life Care (Type A) Membership & Residency Agreement**

**Searstone  
17001 Searstone Drive  
Cary, North Carolina 27513  
(919) 234-0400**

## Table of Contents

	<b>Page</b>
I. MEMBER'S RIGHT OF RESCISSION .....	1
II. OBLIGATIONS OF PROVIDER.....	1
III. DESCRIPTION OF SERVICES.....	2
IV. MEMBER PARTICIPATION .....	4
V. FEES AND ENTRANCE FEE REFUNDS .....	6
VI. TERMS OF MEMBERSHIP .....	10
VII. REPRESENTATIONS OF MEMBER.....	14
VIII. COVENANTS OF PROVIDER .....	14
IX. COVENANTS OF MEMBER.....	15
X. TRANSFER OF MEMBER TO ANOTHER ESTABLISHMENT .....	16
XI. TERMINATION BY MEMBER .....	18
XII. TERMINATION BY PROVIDER .....	20
XIII. DISPUTES.....	21
XIV. MISCELLANEOUS .....	21
XV. SIGNATURES.....	23

# Searstone

## Membership & Residency Agreement

### Recitals:

Samaritan Housing Foundation, Inc., a Georgia not for profit corporation operating in the State of North Carolina as Searstone Retirement Community ("**Provider**"), is the owner of a continuing care retirement community known as Searstone ("**Searstone**"), located at 17001 Searstone Drive in Cary, North Carolina. Through the development and ongoing management of Searstone, Provider plans to provide quality services as described here to residents ("**Members**") at costs commensurate with the services and amenities contemplated by this Agreement. It is the goal of Provider that Members continue to have an enjoyable lifestyle knowing that certain additional attention and personal service is available if ever needed.

The individual person or persons who sign this Membership & Residency Agreement ("**Agreement**") are referred to throughout this document as "**Member**" and this Agreement shall apply to both them and to the survivor. Member has decided to move to Searstone to enjoy the amenities and services contemplated by this Agreement. Searstone will include various styles of residences, common areas, skilled nursing accommodations and adult care home accommodations.

### Agreement:

In consideration of the mutual commitments made herein, the sufficiency of which is hereby acknowledged, this Agreement is made and entered into between Provider and Member, as an agreement to abide by the following terms and conditions:

#### I. MEMBER'S RIGHT OF RESCISSION

\_\_\_\_\_ (Member) has the right to rescind, cancel and terminate this Agreement, provided written notice of such a decision is given to Provider within thirty (30) days from the later of the date this Agreement is signed or Member's receipt of a Disclosure Statement (the "**Rescission Period**"). If Member decides to rescind the Agreement, Member must send written notice to Searstone Retirement Community, c/o Executive Director, 17001 Searstone Drive, Cary, North Carolina 27513. There is no requirement that Member move in during the Rescission Period.

#### II. OBLIGATIONS OF PROVIDER

Subject to Member's performance of his or her duties and obligations under this Agreement, Provider shall provide the services described in this Agreement. Provider shall also make (address) \_\_\_\_\_, which is \_\_\_\_\_, [description of residence] available to Member for Member use for life or until permanent transfer to any other residence at

Searstone including the Brittany Place Health Center (“**Brittany Place**” or the “**Health Center**”), or until termination of this Agreement in accordance with Articles XI or XII.

### III. DESCRIPTION OF SERVICES

- 3.1 Provider shall provide to Member services, as long as Member resides at Searstone, as follows:
- (a) Member will have the opportunity to select from one of two Service Package Options; namely, a Platinum Option and a Gold Option. Changing from the Platinum Option to the Gold Option, or vice versa, impacts both dining credits and housekeeping services. Member will be given the opportunity to change Member’s Service Package Option on a monthly basis (30 days notice).
  - (b) Provider will provide venues at Searstone for breakfast, lunch and dinner each day. The various dining venues at Searstone will be adaptable to many diet restrictions.
  - (c) Under the Platinum Option, a dollar credit amount of \$434 per month per person will be included as part of the Membership Fee. Under the Gold Option, a dollar credit amount of \$217 per month per person will be included as part of the Membership Fee. Members may also use their own monthly dining dollar credits for their guests and for private functions. Members who incur monthly dining charges, for themselves or guests, in excess of the monthly credit amount will either pay for such excess at the time such dining charges are incurred, or will be billed for such excess dining charges monthly. The Membership Fee will not be reduced for dining dollar credits not used unless Member is away from Searstone for more than thirty (30) consecutive days, with prior notification. If such prior notification is given, Member will be credited with a prorated dining dollar credit commencing with the thirty-first (31st) day of absence.
  - (d) Housekeeping services under the Platinum Option will be performed every week. Housekeeping under the Gold Option will be provided once per month. More frequent housekeeping services will be available at an extra charge.
  - (e) Utilities included in the Membership Fee are heating, air conditioning, water, sewer, electricity, basic cable television services, wireless internet access in common areas, and wiring for telephone. Member must contract with the telephone company, internet service provider and the cable company to pay for any service beyond basic cable and for all telephone and internet connection services within Member’s residence.
  - (f) Driver services for local medical appointments, with proper scheduling by Member, as determined by Provider.

- (g) Interior and exterior maintenance of all residences, including all provided appliances, fixtures, systems, lawns, gutters and windows. Appliances provided will include a range, microwave, refrigerator with icemaker, dishwasher, garbage disposal, washer and dryer. Member is responsible for the cost of repairing damage to any Searstone property or equipment caused by Member's misuse or neglect.
- (h) A call system and response to calls for emergencies will be available twenty-four (24) hours per day.
- (i) Recreational, social and cultural events will be scheduled and planned for those Members interested in participating. Provider will employ a Resident Life Director to plan and coordinate recreational, social, educational and special events.
- (j) Common areas for Members and their guests will include a Clubhouse, a restaurant, private dining for personal parties and special events, a bar and grill, lounge areas, a health and fitness club, an aquatic center, and administrative areas.
- (k) Building and grounds maintenance and housekeeping of common areas.
- (l) Additional storage for residents of Lorraine Plaza, Calais Terrace, Lakeside Flats, and Clubhouse residences for Member's personal belongings.
- (m) Smoke detectors and sprinklers in all areas both common and multi-story residential. There are not sprinklers in Estate Homes. A generator will be available to power the Clubhouse and Brittany Place in case of emergency or power outage.
- (n) For Members residing in Lakeside Flats or Estate Homes, covered parking is provided per residence. For Members residing in Calais Terrace, under-building parking is available. For Members residing in Lorraine Plaza, parking is provided adjacent to the Lorraine Plaza building. For Members residing in Winston Clubhouse, parking is provided adjacent to the Winston Clubhouse building. Valet parking is provided for Members residing in the Winston Clubhouse.

3.2 Provider will provide to Member services in addition to the services described in Section 3.1, for an additional charge. The amount of the additional charge will be established by Provider from time-to-time. Some examples of additional services may include, but are not limited to:

- (a) Additional dining.
- (b) Additional housekeeping.
- (c) Additional maintenance.

- (d) Personal transportation beyond that scheduled by Provider.
- (e) Linen services.
- (f) Non-emergency response calls to residences.
- (g) Other concierge services.

3.3 In addition to the residential services described above, certain health services will be offered by Provider to Member on the following basis:

- (a) Member, at Member's expense, will have the right to be treated by any physician of his or her choice while residing in Lorraine Plaza, Calais Terrace, Lakeside Flats, Clubhouse, or Estate Homes (the "**Independent Living Unit(s)**"). Upon residency at Searstone Member shall designate a physician as Member's attending physician and shall keep Provider informed of any changes.
- (b) Provider will designate as medical director for Searstone a consulting physician licensed to practice medicine in the State of North Carolina.
- (c) Assisted living services, in accordance with Article VI.
- (d) Skilled nursing services, in accordance with Article VI.
- (e) Member shall be responsible for, over and above the Membership Fee, the cost of Member's physician services, hospital services, temporary short-term home care services approved by Provider, prescription drugs, durable medical equipment, and prescribed therapies. Rehabilitation services will be provided by outside providers and will be billed by the outside provider to Medicare and Member, as appropriate.

3.4 Rules and regulations with respect to the use of common areas and amenities within Searstone have been established by Provider and are available in the Searstone Resident Manual. Provider may from time-to-time change the Rules and Regulations, which will require changes to the Searstone Resident Manual, and in such case these changes will be provided to Members.

#### **IV. MEMBER PARTICIPATION**

4.1 Searstone Residents Association is a member organization at Searstone. Member shall have the right to participate in this Member organization (or organizations) at Searstone. Any Member group organized pursuant to this section ("**Members Association**") shall have the following rights, subject to reasonable limitations deemed appropriate by Provider to maintain the integrity of the Searstone community:

- (a) The right to engage in group activities;



- (b) The right to use Searstone amenities to conduct private meetings;
- (c) The right to obtain current copies of the Disclosure Statement, Annual Report, Audit Reports and final results of any regulatory findings pertaining to the Searstone community as a whole or any of its component amenities;
- (d) The right to be represented by an individual of their choice in communications with Searstone management;
- (e) The right to engage in concerted activities for their own purposes; and
- (f) The right to obtain outside advice, consultation, and services of their own choosing and at their own expense on any matter, including, but not limited to, medical, legal and financial matters.

4.2 Member shall, subject to reasonable limitations as referenced above, have the right to independence, dignity, individuality, privacy, choice, a home environment, and self-determination, including, but not limited to:

- (a) Recognition of Member's rights, responsibilities, needs, and preferences;
- (b) Freedom to select or refuse services and accept responsibility for the consequences;
- (c) Freedom to develop and maintain social ties with opportunities for meaningful interaction and involvement in Searstone;
- (d) Acknowledgement of Member's personal space and right to furnish and decorate that personal space as private;
- (e) Freedom to set his/her own schedule, have visitors, and leave Searstone;
- (f) Freedom from abuse, neglect, and the use of chemical or physical restraints;
- (g) Access to means for resolving Member complaints; and
- (h) Assurance that methods of preventing and responding to incidents involving injury, loss of property, abuse, neglect, and exploitation will be identified and implemented.

4.3 In addition, Member shall be allowed communication with and access to persons and services inside and outside the Searstone community. Except to the extent otherwise provided herein, all Member communications will be with representatives of such management company as may from time-to-time be engaged by Provider to manage Searstone.

- 4.4 Searstone representatives will be available for meetings at least twice per year with Member or Member’s representative(s). The meetings will be for the purpose of providing a forum for free and open discussion of any point either wishes to discuss. The Members Association may request that a manager, director, or other official of Provider be present at such a meeting. Member will be given at least two (2) weeks notice of each such meeting.
- 4.5 If Member has a grievance or a dispute, Member has the right to present the grievance or dispute directly to Searstone management. If the grievance or dispute is not resolved in thirty (30) days, Member may appeal to Provider’s Board of Directors. Provider’s Board of Directors shall consider Member’s appeal within thirty (30) days. Member shall have no further appeal within Provider’s organization from the decision of Provider’s Board of Directors. This process does not preclude a Member from availing himself or herself of any other legal, statutory, and/or regulatory remedies available.
- 4.6 If Member moves to Brittany Place, Member may be entitled under State of North Carolina and/or federal law and regulations to one or more additional or different rights establishing Member’s rights and remedies as well as the procedures for bringing forward Member grievances and complaints provided by the North Carolina Long Term Care Ombudsman Program, the terms of which are available to Member upon request and which shall be provided to Member by Provider upon Member’s transfer or move to Brittany Place.

**V. FEES AND ENTRANCE FEE REFUNDS**

- 5.1 For the right to use the residence at Searstone, and to receive the services described in this Agreement, Member shall pay to Provider the following fees, which are due and payable as described below.
- 5.2 Entrance Fee:
- (a) *Amount.* The Entrance Fee shall be the Total Combined Fee in the table below, which equals the total of the Residential Fee(s) and the Life Care Fee(s) for the residence selected, as follows:

	<b>Refundable Residential Fee</b>	<b>Amortizable Life Care Fee</b>	<b>Total Combined Fee</b>
First Person	\$	\$	\$
Second Person	\$	\$	\$
Total	\$	\$	\$

- (b) *Entrance Fee Deposit.* The Entrance Fee Deposit shall equal ten percent (10%) of the Total Combined Fee (minus any previous deposit or \$\_\_\_\_\_ ) and is due upon signing of this Agreement. This Entrance Fee Deposit shall be paid by

Member's check made payable to Provider, and receipt of such ten percent (10%) Entrance Fee Deposit is hereby acknowledged by Provider. The Entrance Fee Deposit is subject to refund if Member exercises Member's right of rescission.

- (c) *Balance of Total Combined Fee.* The ninety percent (90%) balance of the Total Combined Fee (\$ \_\_\_\_\_) is to be paid to Provider prior to residency, but in no event later than sixty (60) days following the date upon which Member receives notice from Provider that Member's residence is available for commencement of residency. Provider will accept cash via a wire transfer or check as payment. Provider will not accept securities, goods, services, or any other form of payment.

### 5.3 Refunds:

- (a) *Rescission.* If Member rescinds this Agreement within the Rescission Period in accordance with Article I, Provider shall return to Member or Member's estate Member's Entrance Fee Deposit, including interest earned thereon, less any nonstandard costs incurred by Provider at the request of Member as set forth in Appendix A, such amount to be returned within thirty (30) days of receipt of Member's written rescission request.
- (b) *Cancellation.* If after the Rescission Period but before occupying a living unit at Searstone, Member dies or due to illness, injury, or other incapacity Member would be precluded from occupying a living unit at Searstone under the terms of this Agreement, this Agreement is automatically cancelled, and upon Provider's receipt of written notice of cancellation Provider shall return to Member or Member's estate Member's Entrance Fee Deposit, including interest earned thereon less any nonstandard costs incurred by Provider at the request of Member as set forth in Appendix A, such amount to be returned within sixty (60) days of receipt of Member's written notice of cancellation.
- (c) *Termination (balance not paid).* If, after the expiration of the Rescission Period but before paying the balance of the Entrance Fee, Member terminates this Agreement for any reason other than a cancellation pursuant to Section 5.3(b), Provider shall return to Member or Member's estate Member's Entrance Fee Deposit, including interest earned thereon less any nonstandard costs incurred by Provider at the request of Member as set forth in Appendix A, on or before the first to occur of (i) that date which is thirty (30) days following Provider's receipt of the then applicable Entrance Fee Deposit for a residence of the same type as Member's residence, or (ii) that date which is two (2) years from the date in which Member's written termination request is received.
- (d) *Termination (balance paid).* If this Agreement is terminated by Member who dies after paying the balance of the Entrance Fee, or by Member who pays the balance of the Entrance Fee and who has not died but terminates for any reason other than a cancellation pursuant to Section 5.3(b), Provider shall return to

Member or Member's estate the amount determined below, on or before that date which is thirty (30) days following Provider's receipt of the then applicable Entrance Fee for a residence of the same type as Member's residence (for this purpose, the residence type of a Member residing in Brittany Place at the time of termination shall be considered to be the Independent Living Unit residence type with respect to which that Member paid the Entrance Fee to be refunded). The amount to be so returned shall equal the sum of: (i) one hundred percent (100%) of the Residential Fee portion of the Entrance Fee; **plus** (ii) the unamortized percentage of the Life Care Fee portion of the Entrance Fee, with the Life Care Fee portion of the Entrance Fee to amortize at the rate of two percent (2%) per month for fifty (50) months commencing with the month in which the balance of the Entrance Fee is paid; **less** (iii) amounts due for unpaid Membership Fees applicable only to the period a living unit was actually occupied by Member and the accrued interest on those unpaid Membership Fees; **less** (iv) advances made by Provider pursuant to Section 5.4(h); **less** (v) costs specifically incurred by Provider at the request of Member as set forth in Appendix A; **less** (vi) the cost of refurbishing Member's residence for re-occupancy as defined in Section 5.3(f); and **less** (vii) any other amounts due Provider from Member.

- (e) *Multiple Persons.* If two persons sign this Agreement and only one of such persons elects to terminate this Agreement, the refund amounts will be calculated using only the Second Person Life Care Fee. If at a later time the other of such persons elects to terminate this Agreement, the refund amounts will be calculated using the First Person Total Combined Fee.
- (f) *Cost of Refurbishing.* The cost of refurbishing Member's residence for re-occupancy shall include (i) replacing or repairing damaged appliances, fixtures, walls, ceilings, floor coverings, cabinets, counter tops, windows, doors, lights and locks, exclusive of wear and tear; (ii) removing wall coverings installed at the request of Member; (iii) repainting rooms previously painted with nonstandard paint at the request of Member; and (iv) replacing nonstandard floor coverings installed at the request of Member. The cost of refurbishment shall not include the cost of repainting walls painted with standard paint, the cost of shampooing standard carpet, or other cleaning, repair, or replacement needed due to normal use.

#### 5.4 Monthly Membership Fee:

- (a) *Amount.* The monthly Membership Fee (the "**Membership Fee**") for Member's Searstone residence shall be the sum of the First Person Membership Fee and, if applicable, the Second Person Membership Fee. The "**First Person Membership Fee**" in effect through December 31, 20\_\_ is \$\_\_\_\_\_. The "**Second Person Membership Fee**" in effect through December 31, 20\_\_ is \$\_\_\_\_\_, which shall be applicable only if two persons reside in the same Searstone residence. Member shall pay the Membership Fee beginning on the earlier of the date Member assumes residency at Searstone or sixty (60) days

after the residence is available for residency, and continuing until this Agreement is terminated. Provider will accept cash via wire transfer or a check as payment. Provider will not accept securities, goods, services, or any other form of payment. The Membership Fee shall be billed in advance to Member at the beginning of each month and is due by the fifth (5th) day of the month.

- (b) *Increases in the Membership Fee.* The Membership Fee charged to all Members shall be subject to periodic increases. Provider shall provide Member with thirty (30) days notice of any change in the Membership Fees. Such notice shall set forth the effective date of the new Membership Fee and the amount or percent of the change. On January 1 of each year Provider intends to increase the Membership Fee, if Provider deems such increase is necessary to meet the financial needs of operating Searstone or to provide services to Members. Provider reserves the right to increase the Membership Fees more often than once each year if Provider deems such increase is necessary to meet its obligations.

*Provider notes that a table in Part V of Provider's Disclosure Statement provides detail concerning increases in the Membership Fee for the years since 2011. Provider notes that the Financial Projections attached to Provider's Disclosure Statement as Exhibit 5 assume the Membership Fee will increase 4.5% on January 1, 2021 and annually thereafter. Actual future Membership Fee increases could be greater or lesser than these amounts.*

- (c) *Brittany Place.* A change of residence of one or both Members to Brittany Place shall not change their Membership Fee.
- (d) *Death.* If one Member of a jointly occupied residence dies or terminates this Agreement in accordance with Article XI, or if Provider terminates this Agreement in accordance with Article XII, the remaining Member shall continue to pay the First Person Membership Fee. Payment of the Second Person Membership Fee shall terminate upon the date of death or termination of this Agreement by one Member of a jointly occupied residence, or relocation of a Member from a jointly occupied residence to another residence.
- (e) *Other Charges.* Member may voluntarily select optional services, such as guest dining, extra dining, or other optional services. The charges for such optional services ("**Other Charges**") shall be published by Provider and shall be the same for all Members. The Other Charges shall be billed to Member by Provider at the end of each month and are payable to Provider by Member by the fifth (5th) day of the following month. Such right to select optional services may be restricted by Provider if Member is in default of payment of the Membership Fees or Other Charges, unless Provider has approved the incurrence of Other Charges in advance.
- (f) *Taxes.* All fees and other charges payable to Provider by a Member are net of all applicable sales, excise, and similar taxes imposed by governmental authorities

with respect to the goods and services for which such fees and other charges are payable, and Provider will collect from the Member any such applicable sales, excise, and similar taxes to the extent required by applicable law and regulations.

- (g) *Late Payment Charge.* Member is expected to make payment of the Membership Fee and Other Charges when due. Member is encouraged to make arrangements with Provider if Member will be unable to make payments when due. Although Member shall have no right to delay payment without Provider's prior written consent, if any amount due is not paid when due, Member shall pay on demand interest on delinquent Membership Fees and Other Charges, computed at the rate of eighteen percent (18%) per annum from the date when due until the date when paid, and such fees and late fees may be charged against the refundable portion of Member's Entrance Fee.
- (h) *Entrance Fee Charge-Off.* If Member is unable to pay the Membership Fee and Other Charges when due, and Member desires financial assistance from Provider, Member must establish facts to justify the need for financial assistance, as determined by Provider in its reasonable judgment. In such cases, Provider may in its discretion and subject to funds availability, advance funds to help Member pay Member's Membership Fee. Such advances, plus simple interest at the prime rate then noted in the "Money Rates" column of *The Wall Street Journal* (the "**Prime Rate**") from the date when such advances are made to the date when such advances are repaid or otherwise satisfied, shall be charged against the refundable portion of Member's Entrance Fee, as determined in accordance with Section 5.3. In the case where such advances exceed the refundable portion of Member's Entrance Fee, as determined in accordance with Section 5.3, Provider may in its discretion and subject to funds availability waive some or all of Member's Membership Fee; *provided, however*, that Member has not intentionally depleted assets needed to pay Member's Membership Fee. If Member is receiving financial assistance pursuant to this section, copies of Member's most recently filed federal income tax return must be provided to Provider within thirty (30) days of receiving assistance, and as may thereafter be requested by Provider.
- (i) *Absences.* The Membership Fee shall not be reduced when Member is absent from Searstone for an extended period, except as set forth in Article III relating to the cost of dining not taken.

## **VI. TERMS OF MEMBERSHIP**

- 6.1 Provider's obligation to provide services under this Agreement begins when Member's residence is available for residency, Member pays the balance of the Entrance Fee, and begins payment of the Membership Fee.
- 6.2 Member's right to reside at Searstone shall exist and continue during Member's lifetime unless rescinded in accordance with Article I or terminated as provided for in Article XI

or Article XII. It is expressly understood and agreed by the parties signing this Agreement that this Agreement grants Member a right to reside in and use space at Searstone, subject to the terms of this Agreement. It is also understood that this Agreement is not a lease or easement and does not transfer or grant to Member any interest in real property, including the residence owned by Provider. Rights of Member under this Agreement are not assignable and no rights or benefits described here shall inure to the use or benefit of the heirs, legatees, assignees, representatives, or creditors of Member, unless expressly provided in this Agreement, and Member shall have no right to assign the residence for the use by another.

- 6.3 No person other than Member may reside in the residence except for occasional visits or with the express written approval of Provider. In the event Member's spouse does not qualify or does not wish to qualify for entry into the Searstone community as a "Member": (a) such non-Member spouse will be allowed to occupy Member's residence without payment of an Entrance Fee for a second person; (b) the Second Person Membership Fee shall be payable with respect to such non-Member spouse; (c) such non-Member spouse will not be entitled to the approved home care services, assisted living services, and skilled nursing services described in Section 3.3(c); and (d) such non-Member spouse will be required to vacate Member's residence upon Member's termination of the Residency Agreement, death, or permanent move to Brittany Place or for care outside the Searstone community.
- 6.4 In the event that a person who is not a party to this Agreement ("**New Person**") is accepted for Membership at a time subsequent to the date of this Agreement (said acceptance to be in accordance with residency policies governing all other move-ins), New Person shall sign this Residency Agreement and pay the then applicable Second Person Life Care Fee. Such New Person will then become a Member for purposes of this Agreement, and the then current Second Person Membership Fee will become payable.
- 6.5 Member's residence shall be used only for residential purposes and shall not be used for business or professional purposes, or in any manner in violation of zoning requirements or applicable law.
- 6.6 Provider will provide a locking device on each entry to residences located outside Brittany Place. Member agrees that emergency personnel of Searstone shall have access to Member's residence at all times, and that home care, housekeeping and maintenance personnel shall have access at scheduled times. Member shall not place any additional locking devices on entry doors to Member's residence.
- 6.7 Notwithstanding any other provisions in this Agreement, Provider may make alterations in Member's residence to meet the requirements of any applicable statute, law, or regulation of the federal, state or municipal government.
- 6.8 Member shall not make any alterations to Member's residence without the prior written approval of Provider. Provider will review and approve all appropriate requests.

- 6.9 Furnishings within Member's residence will be provided by Member. Furnishings provided by Member shall not be such as to interfere with the health, safety, and general welfare of other Members.
- 6.10 In the event removal of Member's property from Searstone is not completed within thirty (30) days after termination of Member's residency by reason of death or otherwise, Provider may remove and store such furniture, possessions, and property at the expense of Member or Member's estate.
- 6.11 Member shall relocate to Brittany Place from Member's Independent Living Unit when Provider's interdisciplinary team decides a relocation is necessary. A relocation would be necessary as a result of Member's physical or mental health decline, Member posing a risk to the safety or welfare of other Members or themselves, or other appropriate condition. The same rule would apply when the relocation is within Brittany Place. If a Member moves to Brittany Place and the interdisciplinary team determines Member is capable of living independently once again, Member shall assume residency in an appropriate Independent Living Unit.
- 6.12 The interdisciplinary team will consist of the Searstone medical director and selected Searstone staff professionals. In making such decisions, the Searstone medical director shall consult with Member, if competent, Member's representative, and Member's personal physician. All decisions to relocate or change a Member's accommodation shall be based on a current assessment of Member's condition and reasons why Member's health needs cannot be met at Member's present location. In the event of disagreement, the decision shall be referred to Provider as provided in Article XIII.
- 6.13 If Member is relocated to Brittany Place pursuant to Section 6.11, Provider shall have the right to assign Member's former residence for residency by others. If Member's condition subsequently changes, and pursuant to Section 6.11 Member can resume residency in accommodations equivalent to those he or she previously occupied, Member shall relocate to such equivalent accommodations as soon as they are available. If Member's residence is jointly occupied and one Member moves to Brittany Place and the other Member continues to reside in the residence, the residence would not be considered to have been vacated for purposes of this section.
- 6.14 If Member requires assisted living services as determined in accordance with this Article VI:
- (a) Member will be provided assistance with activities of daily living as typically provided by an assisted living establishment in the State of North Carolina. Such assisted living services will be provided by Provider at Brittany Place, but if the assisted living and skilled nursing units in Brittany Place are full Provider will provide home health services in Member's Independent Living Unit at Provider's expense. In the event Provider provides to Member home health services under such circumstances, Member will relocate to Brittany Place once an assisted living or skilled nursing unit is available in Brittany Place, and if Member



declines a unit at Brittany Place under such circumstances Member will be responsible for all home health service fees.

- (b) In such case, Provider will provide access to prescription drugs, physical therapy, speech therapy, and occupational therapy, at an additional cost to Member (possibly reimbursable to Member by Medicare or the other insurance referenced in Section 9.1(g)). Also, in such case, Member will be responsible for the cost of private duty nurses if determined to be medically necessary or when requested by Member or Member's representative.

6.15 If Member requires skilled nursing services as determined in accordance with this Article VI:

- (a) Member will be provided those services typically provided by a skilled nursing establishment in the State of North Carolina. In such case, Provider will provide access to prescription drugs, physical therapy, speech therapy, and occupational therapy, at an additional cost to Member (possibly reimbursable to Member by Medicare or the other insurance referenced in Section 9.1(g)). Also, in such case, Member will be responsible for the cost of private duty nurses if determined to be medically necessary or when requested by Member or Member's representative.
- (b) Such skilled nursing services will be provided by Provider at Brittany Place, but if the skilled nursing units in Brittany Place are full Member will be provided temporary skilled nursing services at an appropriate area skilled nursing facility, as determined by Provider. Any such offsite skilled nursing services will be at Provider's expense except for those items which would be at Member's expense if Member were in Brittany Place, such as the cost of additional meals. The decision to move Member temporarily offsite under such circumstances is in the sole discretion of Provider.
- (c) In the event Member is moved temporarily offsite under such circumstances, Member will relocate to Brittany Place once a skilled nursing unit is available in Brittany Place, and if Member declines a unit at Brittany Place under such circumstances Member will be responsible for all offsite location fees.

6.16 Provider shall not be liable for, and Member shall be liable for and pay for, all loss, liability, claims, damages, or expenses, including attorneys' fees and court costs, injury, or death to persons and any damages to property caused by a negligent or intentional act of Member.

6.17 Member acknowledges that Provider's property, plant, and equipment will be encumbered by a deed of trust, the proceeds of which will be used to pay for development, construction, or operation of Searstone or its refinancing. Member's rights under this Agreement are subordinate to all such deeds of trust. Member shall not have personal liability for any such deed of trust indebtedness. Member acknowledges that Member does not have any ownership interest or membership interest in Provider.

- 6.18 Pursuant to an Affiliation Agreement between Provider and Lutheran Services for the Aging, Inc., a North Carolina nonprofit corporation (“**Lutheran Services**”), Lutheran Services assists Provider in implementation and management of its Community Benefits program. However, Lutheran Services has no responsibility for the financing, development and management of Searstone.
- 6.19 Member shall abide by all rules and regulations relating to Searstone and Member’s use and occupancy as adopted by Provider from time-to-time.

## **VII. REPRESENTATIONS OF MEMBER**

- 7.1 Member represents to Provider that:
- (a) All facts stated on Member's Application for Membership are true and complete in all material respects as of the date made.
  - (b) Between the date of Member’s Application for Membership and the date Member commences residency in Searstone, Member has not made any gift, transferred any asset listed on Member's Application for Membership, or otherwise intentionally depleted his or her assets if making such gift or transfer will impair Member's ability to meet Member’s financial obligations under this Agreement.

## **VIII. COVENANTS OF PROVIDER**

- 8.1 Provider covenants and agrees with Member that:
- (a) Provider shall operate Searstone in accordance and compliance with all applicable State of North Carolina and federal laws and regulations relating to continuing care retirement communities, and the operation of Brittany Place shall be consistent with the regulations for licensing of adult home care and skilled nursing establishments in the State of North Carolina.
  - (b) It is the intent and policy of Provider to operate as a not-for-profit corporation, and Provider will not terminate the residency of Member solely by reason of the financial inability of Member to pay the total Membership Fee. The foregoing intent and policy will be implemented through the application of the provisions of Section 5.4(h).
  - (c) Provider shall make available annually to Member the annual Disclosure Statement provided by Provider to the North Carolina Department of Insurance.

## **IX. COVENANTS OF MEMBER**

9.1 Member covenants and agrees with Provider that Member will:

- (a) At all times act in a manner that is considered proper and courteous to fellow Members, to Searstone employees and contractors, and to Provider's directors, officers, and employees.
- (b) Comply with all reasonable operating procedures applicable to Searstone, and with all rules and regulations adopted by Provider from time-to-time, as published in the Searstone Resident Manual.
- (c) Pay when due the Entrance Fee, the Membership Fee, and the Other Charges as provided in this Agreement.
- (d) Within sixty (60) days following commencement of residency at Searstone, make provision by will or otherwise upon termination of this Agreement for the disposition of all furniture, possessions, and property of Member located on the premises of Searstone.
- (e) Not willfully mismanage assets necessary to meet Member's financial obligations under this Agreement.
- (f) Notify Provider of any change in Member's health or financial condition between the time this Agreement is signed and initial occupancy of Member's residence.
- (g) Purchase and maintain at Member's cost Medicare Part A, Medicare Part B (or equivalent), and one supplemental health insurance policy and to furnish Searstone evidence of coverage. Member shall be responsible for paying costs of hospital care, Medicare covered nursing services, prescription drugs, prescribed therapies, physician fees, and the like that are not covered by insurance. If Member does not maintain this insurance, Provider may acquire it on behalf of Member and charge Member for the cost thereof, with Member being obligated to reimburse Provider for the cost of such insurance. If Member does not maintain this insurance and Provider cannot purchase Medicare coverage and Medicare supplemental coverage or the equivalent for Member, Provider shall have the authority to require an adjustment in the Membership Fee to fund the additional risk. Member shall upon request provide Provider with written evidence that Member has paid Medicare and Medicare Supplemental Insurance premiums when due. Member will not be required to apply for Medicaid, public assistance, or other public benefit programs not noted in this Agreement.
- (h) Maintain automobile liability insurance in the amount of \$300,000/\$500,000 and uninsured motorist insurance in the amount of \$500,000 as long as Member owns or operates a motor vehicle. This coverage is necessary to ensure that a Member's assets are not depleted as a result of an uninsured claim arising from operation of

a motor vehicle. Member shall upon request provide Provider with proof of such insurance.

- (i) Maintain insurance covering damage or loss to Member's personal belongings and personal liability insurance in the amount of at least \$300,000/\$500,000. Provider shall not be responsible for and will not assume custody of any property of Member. Member shall upon request provide Provider with proof of such insurance.
- (j) Prior to moving into Searstone, sign and deliver a copy to Provider a Power of Attorney for health care and financial matters, which Power of Attorney shall designate a person and an alternate person to act as Member's representative under this Agreement.
- (k) Abide by all of the terms of residency set forth in Article VI and all other terms of this Agreement.

#### **X. TRANSFER OF MEMBER TO ANOTHER ESTABLISHMENT**

10.1 It is possible that Member may need specialized service which is beyond the capability of Provider. Such service would be needed if:

- (a) Member has been infected with a dangerous and/or contagious disease, service for which is not typically provided in a North Carolina nursing establishment or which Provider is not licensed to provide, or
- (b) Member has become mentally or emotionally disturbed to the degree that Member poses a danger to himself or herself or the health and welfare of other Members or staff, or
- (c) The physical or mental condition of Member materially changes so that he or she requires services not regularly provided by Provider.

10.2 In any of the circumstances described in Section 10.1, Searstone's medical director shall consult with Searstone's interdisciplinary team, Member, Member's representative identified in this Agreement, and Member's personal physician. If Provider or Searstone's medical director determines that special service is needed, Searstone management will review Member's needs with Member, if he or she is competent, or Member's representative, if he or she is not competent, and arrange Member's relocation to another establishment.

- (a) All such relocations shall be subject to and in accordance with applicable statutes, rules, and regulations. In the case of such relocation of Member, if Provider or Searstone's medical director determines that the relocation is temporary (usually thirty (30) days or less but extendable at Provider's sole discretion), Provider shall hold Member's residence available for reoccupancy by Member. If, in the opinion

of Searstone's interdisciplinary team, the relocation is permanent, Member's residence shall be available for occupancy by a person other than Member.

- (b) If the medical condition of Member permanently relocated under this Section 10.2 improves to the point where Member, in the opinion of Provider or Searstone's medical director, is able to resume residing at Searstone, Member shall relocate back to the living accommodation last resided in by Member. If the living accommodation last resided in by Member is occupied by a new Member, Member shall be entitled to reside in the next available living accommodation of the type previously occupied by Member. In the event no such similar living accommodation is available, Provider will make comparable living arrangements available until such a similar living accommodation becomes available. Provided Member continues to pay the Membership Fee due under this Agreement, Provider shall pay the cost of such comparable living arrangements.
- (c) If Member's residence is jointly occupied and one Member relocates to another establishment and the other Member continues to live in the residence, the residence would not be considered to have been vacated for purposes of this Section. If Provider or Searstone's medical director subsequently determines, in consultation with Member or Member's attending physician, that Member of a jointly occupied residence can return to that residence, Member shall do so.

10.3 In the event Member, if he or she is competent, or, if he or she is not competent, Member's representative, disagrees with the Searstone medical director's opinion under Section 10.2, such disagreement shall be submitted to Provider as provided in Article XIII. If Member is so relocated before such disagreement is resolved and, if after review in accordance with Article XIII, such relocation is found to have been unnecessary, (a) Provider shall be responsible for any additional costs incurred by Member as a result of such relocation, and (b) Member shall move back to Brittany Place, if appropriate, or to Member's previous residence unless it has been occupied by a new Member, in which case Member shall be entitled to reside in the next available residence of the type previously resided in by Member. In the event no such similar residence is available, Provider will make comparable living arrangements available until a similar residence becomes available.

10.4 When a Member permanently moves to another establishment under Section 10.2, Member's obligation to pay the Membership Fee shall cease and Provider shall refund to Member the Entrance Fee to the extent provided in Section 5.3. If, after Member has ceased paying the Membership Fee or has received a refund of his or her Entrance Fee and is able to resume occupancy, Member shall, prior to moving back to Searstone, pay Provider the amount of any Entrance Fee to the extent it was refunded pursuant to Section 5.3, and upon moving back to Searstone Member shall pay Provider the amount of the Membership Fee Member would have paid if the relocation had not taken place.

## **XI. TERMINATION BY MEMBER**

- 11.1 The date of residency, membership, or occupancy as used herein is considered as having occurred on the Member is obligated to pay to Provider the amount of the Entrance Fee and the first monthly Membership Fee due as specified in this Agreement. Prior to residency, in the event (a) of the death of Member, or (b) due to illness, injury, or other incapacity Member would be precluded from occupying a living unit at Searstone under the terms of this Agreement, this Agreement shall be automatically canceled, and upon Provider's receipt of written notice of cancellation Provider shall refund Member's Entrance Fee Deposit in accordance with Section 5.3(b). In the event a second person is a party to this Agreement, Member shall, in the event of the death of the second person as provided in clause (a) above or inability of the second person as provided in clause (b) above, irrevocably elect for this Agreement to remain in force or to cancel this Agreement, such election to be made in writing within thirty (30) days of the date of such event and in the event Member fails to timely make such a written election Member shall be considered to have elected for this Agreement to remain in force.
- 11.2 After the expiration of the Rescission Period but prior to payment of the balance of the Entrance Fee, Member may terminate this Agreement for any reason by providing to Provider written notice of termination. Such termination shall be effective upon Provider's receipt of such written notice of termination. In the event of such a termination, Provider shall refund to Member the amount of the Entrance Fee Deposit in accordance with Section 5.3(c).
- 11.3 In the event Member fails to move into Member's residence within sixty (60) days of the date the residence is ready for residency, this Agreement shall automatically be extended unless Member terminates this Agreement pursuant to this Article XI or Provider terminates this Agreement pursuant to Article XII.
- 11.4 If Member dies after Member has assumed residency, Member's Agreement shall terminate and an Entrance Fee refund shall be made in accordance with Section 5.3(d).
- 11.5 After Member has assumed residency, Member may terminate this Agreement for any reason for any reason by providing to Provider written notice of termination. Such termination shall be effective on the later of (a) the date specified in the written notice of termination, or (b) that day which is sixty (60) days after the date such written notice is delivered to Provider. In the event of a termination pursuant to this section, Member shall continue to be obligated to pay the Membership Fee with respect to periods prior to the effective date of the termination and the Other Charges, and an Entrance Fee refund shall be made in accordance with Section 5.3(d).

- 11.6 If, after becoming Members, joint Members of a single residence decide to live separately, the joint Members could request several alternative living arrangements. Those alternatives and the conditions associated with each follow:
- (a) *Both Members request continued residence at Searstone, with one continuing to reside in the current residence and one moving to another residence.* In such case, (i) Member residing in the new residence shall sign a new Residency Agreement, (ii) Member residing in the new residence will pay the then applicable Entrance Fee for the residence selected, and (iii) both Members will pay the then applicable First Person Membership Fee for the residence in which they reside.
  - (b) *One Member decides to leave Searstone.* In such case, (i) the remaining Member will pay the then applicable First Person Membership Fee, (ii) the terminating Member shall provide to Provider written notice of the termination, and (iii) Member may be entitled to a refund of part of the Entrance Fee in accordance with Section 5.3.
  - (c) *Both Members decide to leave Searstone.* In such case, (i) the terminating Members shall provide to Provider sixty (60) days written notice of the termination, shall pay the Membership Fee with respect to periods until the effective date of the termination, and shall pay the Other Charges, (ii) the termination shall be effective sixty (60) days after Provider receives such written notice of termination, and (iii) Members may be entitled to a refund in accordance with Section 5.3.
- 11.7 In the event a Member asks to move to a different residence and Provider approves such move, such move shall terminate the Residency Agreement as to the old residence. In such event, (a) Member or Members shall sign a new Residency Agreement and pay the then applicable Entrance Fee for the new residence, (b) Provider shall refund to Member or to Member's estate one hundred percent (100%) of the Residential Fee and the remaining unamortized Life Care Fee of the Entrance Fee for the residence vacated, such refund to be determined and paid in accordance with Section 5.3(d), and (c) Member or Members shall be obligated to pay the Membership Fee.
- 11.8 In the event Member terminates this Agreement and moves out of Searstone and then, before Provider refunds Member's Entrance Fee, Member decides to move back in to Searstone, Member may do so by paying all unpaid amounts, if any, due Provider at the time Member terminated this Agreement, plus the Membership Fee for all months beginning with the month following the effective termination date and ending on the date Member moves back in, plus simple interest at the prime rate then noted in the "Money Rates" column of *The Wall Street Journal* from the date when such unpaid amounts and Membership Fees were otherwise due until the date when such unpaid amounts and Membership Fees are paid or otherwise satisfied.

- 11.9 In the event Member terminates this Agreement and receives a refund of the Entrance Fee and then wishes to move back to Searstone, former Member must reapply for residency under the same procedures as any new person seeking to become a Member.

## **XII. TERMINATION BY PROVIDER**

- 12.1 Provider may, upon notice and opportunity to cure as provided below, revoke Member's right to reside at Searstone and terminate this Agreement upon the occurrence of any of the following events ("**Default**"):
- (a) Failure of Member to pay the unpaid balance of the Entrance Fee when due.
  - (b) Member has intentionally mismanaged assets needed to pay the balance of the Entrance Fee or the Membership Fee.
  - (c) Failure of Member to comply with any material covenant or agreement of Member contained in this Agreement (including timely payment of the Membership Fee or the Other Charges, and any covenant in Section 9.1, all of which are material) or a material breach of any representation made by Member in this Agreement or in Member's Application for Membership.
  - (d) For "**just cause**" presented to Member or Member's representative in writing by the Searstone medical director and administrator that Member is a danger to himself or others while remaining in the Searstone community.
- 12.2 In the event of a Default by Member, Provider shall give Member notice in writing of such Default and Member shall have sixty (60) days thereafter within which to correct such Default, with the exception of termination for just cause, which may provide for termination in less than sixty (60) days. If Member corrects such Default within such time, this Agreement shall not be terminated. If Member fails to correct such Default within such time, this Agreement shall terminate at the expiration of such sixty (60) days or shorter period for just cause and an Entrance Fee refund will be made in accordance with Section 5.3. If Member's Agreement is terminated, Member ceases residency at Searstone, and Member subsequently cures the reason for termination, former Member may be accepted for residency at Searstone upon compliance with the provisions set forth in Section 11.8.



### **XIII. DISPUTES**

- 13.1 It is possible that disputes will arise regarding any of the matters listed below.
- (a) Member, if Member is competent, or if Member is not competent, Member's representative or Member's attending physician disagrees with the opinion or determination of the interdisciplinary team as to the relocation of Member:
    - (i) From Member's residence to Brittany Place or back;
    - (ii) Within Brittany Place;
    - (iii) From Searstone or Brittany Place to another establishment or back.
  - (b) Member disputes the determination that a Default has occurred, which warrants termination under Section 12.2.
- 13.2 In such case, the matter shall be referred to the executive director of Searstone for resolution.
- 13.3 In reviewing the circumstances relating to any such dispute, the executive director will review any written policies or procedures established by Provider, and consult with (a) the Searstone medical director, if appropriate; (b) Member, if he or she is competent, or if he or she is not competent, with Member's representative; (c) Member's family, if desired by Member; (d) Member's attending physician, if appropriate; (e) the Members Association, if appropriate; (f) such other independent physicians, nurses and other professionals as the executive director may deem under the circumstances appropriate or required by applicable law or regulation; and (g) legal counsel.
- 13.4 Member (or Member's representative) and Provider shall each have the right in any dispute to include Members Association as an advisor to Member (or Member's representative) and Provider.
- 13.5 After considering all relevant factors, the executive director shall decide the dispute and inform Member or Member's representative(s), in writing, of the decision and of Member's right to appeal to the Board of Directors of Provider.
- 13.6 The Board of Directors of Provider shall consider all such appeals within thirty (30) days of receipt. The decision of the Board of Directors of Provider shall be final.

### **XIV. MISCELLANEOUS**

- 14.1 Under current provisions of the United States Internal Revenue Code, Members may be allowed certain tax benefits. The amortized Life Care Fee and a portion of the Membership Fee may qualify as a medical expense deduction. Early each year, Provider

will provide Members with the amount of each fee that has been determined to be attributable to the provision of medical services.

- 14.2 No act, agreement, or statement of Member or of an individual purchasing care for Member under any agreement to furnish care to Member shall constitute a valid waiver of any provision of North Carolina General Statutes Section 58-64, or of any regulation intended for the benefit or protection of Member or the individual purchasing care for Member.
- 14.3 If any condition, restriction, or other provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of such condition, restriction, or other provision to persons or circumstances other than to those as to which it is held invalid or unenforceable shall not be affected thereby and each condition, restriction, or other provision shall be valid and be enforced to the fullest extent permitted by law.
- 14.4 Provider shall construe all the provisions of this Agreement and shall determine all disputed matters in a manner consistent with the ideals set forth in the Recitals. Neither the Board of Directors of Provider nor Searstone management shall be liable for actions taken and decisions made in good faith and without malice. Nothing in this Agreement shall limit a Member's right to judicial review.
- 14.5 This Agreement shall be interpreted according to the laws of the State of North Carolina.
- 14.6 This Agreement: (a) supersedes all other understandings and agreements, oral or written, between the parties with respect to its subject matter; and (b) constitutes the sole agreement between the parties with respect to its subject matter. Each party acknowledges that: (i) no representations, inducements, promises, or agreements, oral or written, have been made by any party or by anyone acting on behalf of any party, which are not embodied in this Agreement; and (ii) no agreement, statement, or promise not contained in this Agreement shall be valid. No change or modification of this Agreement shall be valid or binding upon the parties unless such change or modification is in writing and is signed by the parties.
- 14.7 This Agreement has been signed on behalf of Provider by its duly authorized agent. No trustee, director, officer, employee, or agent of Provider shall have any personal liability hereunder to Member for the performance or failure to perform by Provider under any circumstance.

**XV. SIGNATURES**

In witness of this Agreement, the parties noted below have signed this Agreement on this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_. By their signatures, the Members acknowledge receipt of a Disclosure Statement dated \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Member

\_\_\_\_\_  
Member

\_\_\_\_\_  
Member's Representative

\_\_\_\_\_  
Member's Representative

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Witness

Samaritan Housing Foundation, Inc.

By: \_\_\_\_\_  
Print name:  
Title:

**Appendix A  
Searstone  
Optional Amenities**

Member has asked Provider to provide Member with the following optional amenities. Member understands that the cost of these amenities as set forth below is over and above the Entrance Fee and the Membership Fee and Member agrees to pay Provider the additional amounts shown below before this Request for Optional Amenities will be accepted. Member further understands the amount paid for these amenities is not refundable at any time, even if Member does not move into Searstone for any reason.

<b>Description of Amenity</b>	<b>Nonrefundable Charge</b>
	\$ _____
	\$ _____
	\$ _____
	\$ _____
	\$ _____
	\$ _____
<b>Total</b>	<b>\$ 0.00</b>

Samaritan Housing Foundation, Inc.

By: \_\_\_\_\_  
Print name:  
Title:

\_\_\_\_\_  
Member

\_\_\_\_\_  
Member

\_\_\_\_\_  
Residence Number

**Exhibit 2**

**Audited Financial Statements**

[see attached]

# **Samaritan Housing Foundation, Inc. d/b/a Searstone Retirement Community**

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**Financial Statements**

**Years Ended December 31, 2019 and 2018**

## **Table of Contents**

<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements:</b>	
Balance Sheets .....	3
Statements of Operations and Changes in Net Deficit.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements .....	7

## **Independent Auditors' Report**

Board of Directors  
Samaritan Housing Foundation, Inc.  
d/b/a Searstone Retirement Community

We have audited the accompanying financial statements of Samaritan Housing Foundation, Inc., d/b/a Searstone Retirement Community (the "Corporation"), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and changes in net deficit and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.





***Changes in Accounting Principles***

As described in Note 1 to the financial statements, the Company adopted several Accounting Standard Updates (“ASU’s”) in 2019. The primary impacts of adopting these ASU’s are further described in Note 1. Our opinion is not modified with respect to this matter.

*Dixon Hughes Goodman LLP*

**Raleigh, North Carolina  
May 15, 2020**

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Balance Sheets**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 704,651	\$ 3,413,536
Assets limited as to use, current portion	1,279,166	802,467
Accounts receivable	31,098	57,943
Sales tax receivable	37,931	77,015
Prepaid expenses	156,436	215,128
Short-term investments	2,005,225	408,459
Total current assets	<u>4,214,507</u>	<u>4,974,548</u>
Non-current assets:		
Assets limited as to use, less current portion	11,858,758	15,784,954
Property and equipment, net	108,001,806	107,094,903
Other receivables	2,861	1,721,818
Note receivable	500,000	645,151
Deferred marketing costs, net	152,823	160,528
Total non-current assets	<u>120,516,248</u>	<u>125,407,354</u>
Total assets	<u>\$ 124,730,755</u>	<u>\$ 130,381,902</u>
<b>LIABILITIES AND NET DEFICIT</b>		
Current liabilities:		
Bonds payable, current portion	\$ 1,060,000	\$ 550,000
Current portion of notes payable	-	11,207
Accounts payable	427,921	807,363
Accrued interest payable	393,344	426,329
Resident refunds payable	1,701,013	1,226,667
Resident deposits	885,822	376,138
Other liabilities	226,732	228,234
Total current liabilities	<u>4,694,832</u>	<u>3,625,938</u>
Long-term liabilities:		
Bonds payable, less current portion	80,947,966	82,357,947
Notes payable, less current portion	-	3,530
Subordinated obligations	18,753,547	21,489,677
Liquidity support deposits	-	2,000,000
Refundable entrance fees	83,573,364	83,020,600
Deferred revenue from advance fees	8,477,554	7,875,617
Total long-term liabilities	<u>191,752,431</u>	<u>196,747,371</u>
Total liabilities	<u>196,447,263</u>	<u>200,373,309</u>
Net deficit:		
Without donor restrictions	(71,819,604)	(70,035,199)
With donor restrictions	103,096	43,792
Total net deficit	<u>(71,716,508)</u>	<u>(69,991,407)</u>
Total liabilities and net deficit	<u>\$ 124,730,755</u>	<u>\$ 130,381,902</u>

The accompanying notes are an integral part of these financial statements.

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Statements of Operations and Changes in Net Deficit**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Revenues, gains and other support:		
Net residential service fees, including amortization of advance fees of approximately \$1,166,000 and \$1,104,000 in 2019 and 2018, respectively	<b>\$ 11,373,517</b>	\$ 10,883,952
Interest income	<b>350,874</b>	273,004
Other	<b>1,021,681</b>	1,044,876
Total revenues, gains, and other support	<b><u>12,746,072</u></b>	<u>12,201,832</u>
Expenses:		
General and administrative	<b>3,498,094</b>	3,363,015
Depreciation and amortization	<b>3,110,563</b>	3,065,377
Dining services	<b>1,784,959</b>	1,787,875
Marketing	<b>895,016</b>	475,552
Healthcare services	<b>1,799,998</b>	2,099,466
Transportation & security services	<b>493,894</b>	369,974
Building and grounds maintenance	<b>881,408</b>	738,430
Housekeeping	<b>287,111</b>	299,923
Resident Life	<b>249,011</b>	184,088
Other	<b>42,020</b>	146,740
Interest	<b>4,712,253</b>	4,453,420
Total expenses	<b><u>17,754,327</u></b>	<u>16,983,860</u>
Loss from operations	<b>(5,008,255)</b>	(4,782,028)
Non-operating gain (loss):		
Net unrealized and realized gain (loss) on short-term investments	<b>521,551</b>	(124,147)
Gain on settlement agreements	<b>2,702,299</b>	-
Net non-operating gain (loss)	<b><u>3,223,850</u></b>	<u>(124,147)</u>
Increase in net deficit without donor restrictions	<b>(1,784,405)</b>	(4,906,175)
Change in net assets with donor restrictions:		
Contributions	<b>59,304</b>	43,792
Increase in net deficit	<b>(1,725,101)</b>	(4,862,383)
Net deficit, beginning of year	<b>(69,991,407)</b>	(65,129,024)
Net deficit, end of year	<b><u>\$ (71,716,508)</u></b>	<u>\$ (69,991,407)</u>

The accompanying notes are an integral part of these financial statements.

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018 Adjusted</b>
Cash flows from operating activities:		
Increase in net deficit	\$ (1,725,101)	\$ (4,862,383)
Adjustments to reconcile increase in net deficit to net cash used by operating activities:		
Net unrealized (gain) loss on short-term investments	(492,369)	121,737
Net realized (gain) loss on short-term investments	(29,182)	2,410
Proceeds from non-refundable advance fees	1,160,778	1,550,905
Depreciation	3,084,558	3,033,964
Amortization of debt issuance costs and bond discount	127,270	109,113
Amortization of marketing costs	26,005	31,413
Amortization of advance fees	(1,166,070)	(1,103,678)
Interest accrued - note receivable	-	(30,000)
Interest and fee accrued - subordinate obligations	575,400	536,982
Gain on settlement agreements	(2,702,299)	-
Net change in:		
Accounts receivable	26,845	52,300
Entrance fees receivable	8,335	(11,196)
Sales tax receivable	39,084	(42,805)
Prepaid expenses	58,692	(85,872)
Deferred marketing costs	(18,300)	-
Accounts payable	(379,442)	171,602
Accrued interest payable	(32,985)	331,581
Other liabilities	(1,502)	25,762
Net cash used by operating activities	<u>(1,440,283)</u>	<u>(168,165)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(3,761,610)	(4,154,823)
Net change in assets limited as to use and short-term investments	906,446	3,916,709
Net cash used by investing activities	<u>(2,855,164)</u>	<u>(238,114)</u>
Cash flows from financing activities:		
Payment of deferred financing costs	(477,251)	-
Payment on subordinated obligations	(1,000,000)	-
Payment on bonds payable	(550,000)	-
Payment on notes payable	(14,737)	(25,477)
Refunds of entrance fees	(3,943,393)	(8,485,776)
Refundable entrance fees received	6,104,107	7,089,882
Net cash provided (used) by financing activities	<u>118,726</u>	<u>(1,421,371)</u>
Net change in cash	(4,176,721)	(1,827,650)
Cash and restricted cash, beginning of year	<u>15,415,423</u>	<u>17,243,073</u>
Cash and restricted cash, end of year	<u>\$ 11,238,702</u>	<u>\$ 15,415,423</u>

The accompanying notes are an integral part of these financial statements.

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

**(Continued)**

	<b>2019</b>	<b>2018 Adjusted</b>
Supplemental cash flow information:		
Cash paid during the year for interest	<u>\$ 4,567,106</u>	<u>\$ 4,187,942</u>
Non cash investing and financing activities:		
Refunds of entrance fees included in resident refunds payable	<u>\$ 1,701,012</u>	<u>\$ 1,226,667</u>
Property and equipment acquired through settlement agreements	<u>\$ 253,570</u>	<u>\$ -</u>
Forgiven debt from debt settlement	<u>\$ 2,311,530</u>	<u>\$ -</u>
Accrued proceeds from non-refundable advance fees	<u>\$ 751,000</u>	<u>\$ -</u>

## **Notes to Financial Statements**

### **1. Summary of Significant Accounting Policies**

#### ***Community***

Samaritan Housing Foundation, Inc. (the "Corporation") d/b/a Searstone Retirement Community, is a not-for-profit corporation that acquired real property to develop, market and operate as a continuing care retirement community in Cary, North Carolina (the "Community"). The Community consists of 131 apartments, 38 estate homes, 14 assisted living beds, and 25 skilled nursing beds. The Community also features common areas as well as a clubhouse, a spa/wellness center with an indoor pool, a library/business center, an arts and crafts studio, living areas, a club room and other spaces as appropriate. The first units in the Community were available for occupancy in November 2013.

#### ***Basis of Accounting and Presentation***

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

#### ***Cash and Cash Equivalents***

The Corporation's operating cash is placed with high credit quality institutions. The funds on deposit are in excess of federally insured amounts. Restricted cash is included with cash and cash equivalents in the statements of cash flows.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that sum to the total amounts shown in the statements of cash flows.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 704,651	\$ 3,413,536
Investments	104,041	-
Assets whose use is limited		
Held by trustee	9,980,716	11,946,910
Resident deposits	428,822	54,977
Other	<u>20,472</u>	<u>-</u>
Total cash, cash equivalents and restricted cash shown in statements of cash flows	<u>\$ 11,238,702</u>	<u>\$ 15,415,423</u>

#### ***Assets Limited as to Use***

Assets limited as to use include amounts held by a trustee which are limited as to use in accordance with certain bond documents to which the Corporation is a party, deposits of entrance fees paid by residents, and assets designated by the Board.

Reserves required by state statute represent an amount set aside to meet the requirements of North Carolina General Statute Chapter 58, Article 64. Under this legislation, the Corporation is required to maintain an operating reserve at least equal to 25% (50% if occupancy is less than 90%) of the upcoming year's total forecasted operating costs as defined by the statute. The Corporation's Board of Directors has designated approximately \$2,708,000 and \$2,517,000 at December 31, 2019 and 2018, respectively, as reserves required by state statute.

**Samaritan Housing Foundation, Inc.  
d/b/a Searstone Retirement Community  
Notes to Financial Statements**

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***Debt Issuance Costs***

Debt issuance costs include the costs incurred in relation to the issuance of debt. The debt issuance costs are being amortized over the life of the debt using the straight-line method.

***Deferred Marketing Costs***

The Corporation defers the costs incurred in acquiring initial continuing-care contracts that are expected to be recovered from future revenues. These costs include salaries and commissions paid to sales office personnel located at the Community, direct response advertising costs. The costs are amortized on a straight-line basis over the expected lives of the residents under the contract. Amortization expense related to deferred marketing costs were \$26,005 and \$31,413 for the years ended December 31, 2019 and 2018, respectively.

***Property and Equipment***

The Corporation capitalizes all expenditures in excess of \$1,500 for assets having a useful life greater than one year at cost. Contributed property and equipment is recorded at fair value at the date of the donation. If the donor stipulates how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Routine repairs and maintenance are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as shown below:

Buildings	5 to 40 years
Furniture and fixtures	2 to 25 years
Vehicles	5 to 7 years

***Net Assets***

Net assets of the Corporation and changes therein are classified and reported as follows:

***Net Assets Without Donor Restrictions-*** Net assets that are not subject to donor-imposed stipulations.

***Net Assets With Donor Restrictions*** - Net assets subject to donor-imposed stipulations that may or will be met either by action of the Corporation and/or the passage of time.

***Statement of Operations and Changes in Net Deficit***

For the purposes of presentation, transactions deemed by management to be ongoing, major, or central to providing long-term care to residents are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses. Changes in net deficit without donor restrictions which are excluded from the loss from operations, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

***Resident Deposits***

Each prospective Community resident is required to pay an entrance fee deposit. Entrance fee deposits are maintained in an escrow account at a financial institution. These funds will be applied to each prospective resident's total entrance fee due upon occupancy. Each prospective Community resident's entrance fee deposit is subject to refund at any time prior to occupying their unit.

**Samaritan Housing Foundation, Inc.  
d/b/a Searstone Retirement Community  
Notes to Financial Statements**

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Future Community residents who request upgrades and personalized features in their units are required to pay a deposit on these items. These funds will be applied to each future resident's total unit cost. Resident deposits are recorded as assets limited as to use, until the resident occupies the unit.

***Liquidity Support Deposits***

Liquidity support deposits were made (see Note 10) to ensure additional liquidity during the construction period of the Community. These funds were to be used to complete initial construction of the Community, if needed; in which case they would be replenished from entrance fees after a working capital fund held by the Trustee was funded when the Community opened. These funds have been used for additional working capital for operations. Interest is earned on the liquidity support deposits and is due, with the original principal, after certain conditions are met.

***Deposits on Unoccupied Units***

Deposits for living units to be occupied in the future are deferred when received. A portion of the deposit is refundable if the resident terminates the continuing care contract.

***Deferred Revenue from Advance Fees***

Deferred revenue from advance fees represent payments made by a resident in exchange for the use and privileges of the Community for life or until termination of the residency agreement. These advance fees may be partially refundable upon termination of the agreement and decline each month of occupancy straight-line over 50 months and are paid after termination of the residency agreement, provided the resident's unit is reoccupied.

Advance fees are recorded as deferred revenue and recognized as revenue earned on a straight-line basis over the estimated remaining life of each resident, actuarially adjusted annually. Any unrecognized deferred revenue at the date of death or termination of the contract is recorded as income in the period the death or termination of the contract occurs.

***Continuing Care Contracts***

The Corporation enters into continuing care contracts with various residents. A continuing care contract is an agreement between a resident and the Corporation specifying the services and facilities to be provided over the resident's remaining life. Under the contracts, the Corporation has the ability to increase fees as deemed necessary.

***Future Service Obligation***

At the end of the year, the Corporation calculates the present value of the estimated net cost of future services to be provided, including the cost of the facilities to current residents, and compares the amount with the deferred revenue from advance fees at that date. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from advance fees, a future service obligation is recorded. A liability of zero was recorded as of December 31, 2019 and 2018, because the present value of the estimated net costs of future services and use of facilities was less than deferred revenues from advance fees. The present value of the net cost of future services and use of facilities was discounted at 5.5% in 2019 and 2018.

***Net Deficit***

The Corporation has a significant net deficit as of December 31, 2019. Management continues on its plan to address the net asset deficiency. These plans include controlling operating expenses while maintaining quality and maintaining occupancy. These factors, along with the 2017 refinancing of the Series 2012 Bonds, will reduce the yearly operating losses. The Community's Brittany Place healthcare facility expansion opened in the second quarter of 2019 and includes 15 new healthcare beds (consisting of six assisted living beds and nine skilled nursing beds). The opening of the Brittany Place expansion has reduced the need to transfer some current healthcare residents to off-site facilities, and reduction of the resulting expense to the Corporation. It has also facilitated the transfer of some former independent living residents to the Brittany Place healthcare facility, thereby allowing their independent



**Samaritan Housing Foundation, Inc.  
d/b/a Searstone Retirement Community  
Notes to Financial Statements**

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living units to be resold and resulting in an increase in the revenue base. Long term, Phase II of the Community is in the planning stage, which once complete will almost double the number of units in both independent living and the healthcare. Through careful management and the additional units, the Corporation plans to decrease the yearly net losses with a goal to eventual show a net asset increase.

***Net Resident Service Revenue***

Net resident service revenue represents the estimated net realizable amounts from residents, third-party payers, and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. The Corporation does not accept the assignment of benefits from third party payers and is private pay.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Concentrations of Credit Risk***

The Community is located in Cary, North Carolina and substantially all of its residents are local residents. As of December 31, 2019, there were no entrance fees receivable.

***Income Taxes***

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Corporation has determined that it does not have any material unrecognized tax benefits or obligations as of 2019 or 2018.

***Investments***

Investments in mutual funds, exchange-traded funds, money markets, common stocks, corporate bonds, and US Treasury/Agency securities are measured at fair value based on quoted market prices. Net investment gain (loss) is reported in the statement of operations and consists of interest and investment income, realized and unrealized gains and losses, less external investment expenses. See Note 11 for further discussion of fair value measurements.

***Financial Assistance***

The Corporation currently maintains a financial assistance program and policy for Community residents holding continuing care residency agreements in the event the resident(s) should become unable to pay for services. The Corporation reserves the right to change the program and policy and does not guarantee future financial assistance. Since the Corporation does not expect to collect the normal charges for services provided for those residents who meet the financial assistance provisions, estimated charges for such assistance are not included in revenue. The cost of the charity care provided by the Corporation is based on the financial assistance that is disclosed in Note 12. No financial assistance was provided during year ended December 31, 2019 or 2018.

***New Accounting Pronouncements***

During 2019, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standard Update (“ASU”) No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. The primary impact of adopting ASU No. 2016-01 is the requirement to measure certain classes of equity securities at fair value with changes in fair value to be recognized in the performance

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Notes to Financial Statements**

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indicator. The Company has prospectively adopted the guidance in ASU No. 2016-01 to the 2019 financial statement information and disclosures.

During 2019, the Company adopted FASB ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is intended to improve the classification and presentation of changes in restricted cash on the statements of cash flows and will provide more consistent application of U.S. GAAP by reducing diversity in practice. The ASU also requires an entity to disclose information about the nature of restricted cash. The statement of cash flows for the year ended December 31, 2018 has been adjusted to reflect retrospective application of the new accounting guidance.

During 2019, the Company adopted FASB ASU. No 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU intended to clarify and improve current accounting guidance to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The Company adopted ASU-2018-08 on January 1, 2019, using a modified-prospective basis. The adoption of ASU 2018-08 did not have a material impact on the financial statements.

### **Reclassifications**

Certain amounts included in the 2018 financial statements have been reclassified to conform to the 2019 presentation. Changes in net deficit previously reported for 2018 were not affected by these reclassifications.

### **Subsequent Events**

The Corporation evaluated the effect subsequent events would have on the financial statements through May 15, 2020, which is the date the financial statements were issued. Subsequent to the balance sheet date, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of the outbreak on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors, and governmental, regulatory and private sector responses. The financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

## **2. Fair Value of Financial Instruments**

The carrying amounts of the Corporation's financial instruments, excluding bonds payable, approximate their fair values. The fair values of the Corporation's bonds payable are estimated based on the quoted market prices for the same or similar issues.

The carrying amount and fair value of the Corporation's bonds payable at December 31 follows:

	2019		2018	
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Bonds payable	<u>\$ 89,010,644</u>	<u>\$ 85,195,000</u>	<u>\$ 81,927,709</u>	<u>\$ 85,745,000</u>

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Notes to Financial Statements**

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**3. Revenue**

The Corporation generates revenues, primarily by providing housing and health services to Community residents. The following streams of revenue are recognized as follows:

Monthly service fees:

The life care contracts that residents select require an advanced fee and monthly fees based upon the type of space they are applying for. Resident fee revenue for recurring and routine monthly services is generally billed monthly in advance. Payment terms are usually due within 30 days. The services provided encompass social, recreational, dining along with assisted living and nursing care and these performance obligations are earned each month. Under ASC Topic 606, management has determined that the performance obligation for the standing obligation to provide the appropriate level of care is the predominate component and does not contain a lease component under ASC Topic 840. Resident fee revenue for non-routine or additional services are billed monthly in arrears and recognized when the service is provided.

Entrance fees:

The nonrefundable entrance fees are recognized as deferred revenue upon receipt of the payment and included in liabilities in the balance sheet until the performance obligations are satisfied. The refundable portion of an entrance fee is not considered part of the transaction price and as such is recorded as a liability in the balance sheet. Additionally, management has determined the contracts do not contain a significant financing component as the advanced payment assures residents the access to health care in the future. These deferred amounts are then amortized on a straight-line basis into revenue on a monthly basis over the life of the resident as the performance obligation is the material right associated with access to future services as described in FASB ASC 606-10-55 paragraph 42 and 51.

The disaggregated revenue from residential service revenue by service line for the years ended December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Independent living	\$ 11,142,987	\$ 10,422,135
Assisted living	400,689	518,610
Skilled nursing	<u>851,522</u>	<u>988,083</u>
Total residential revenue	<u>\$ 12,395,198</u>	<u>\$ 11,928,828</u>

The Corporation provides a fully refundable residential fee upon termination of the agreement in the event of move-out, death or termination by the Corporation. The fully refundable residential fee is in conjunction with the continuing care contracts, and the Corporation has both Life Care (Type A) and Fee for Service (Type C) contracts. The refundable amount will be equal to one hundred percent of the residential fee less any amounts due to the Corporation from the resident. The total amount of contractual refund obligations under existing contracts totaled approximately \$83,021,000 and \$79,637,000 at December 31, 2019 and 2018, respectively. There were no entrance fees receivable at December 31, 2019 and 2018, respectively. Refundable entrance fees become currently payable when the contract terminates. Resident refunds payable were approximately \$1,701,000 and \$1,227,000 at December 31, 2019 and 2018, respectively.

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Notes to Financial Statements**

**4. Assets Limited As To Use**

The composition of assets limited as to use at December 31 is set forth in the table below.

	<u>2019</u>	<u>2018</u>
Held by trustee	\$ 9,980,716	\$ 11,946,910
Reserves required by state statute	2,707,914	2,516,755
Resident deposits	428,822	76,138
Board designated	-	2,038,435
Other	<u>20,472</u>	<u>9,183</u>
Total assets limited as to use	<u>\$ 13,137,924</u>	<u>\$ 16,587,421</u>

**5. Property and Equipment**

Property and equipment at December 31 consists of:

	<u>2019</u>	<u>2018</u>
Land	\$ 21,089,426	\$ 20,835,856
Land improvements	1,166,081	373,552
Buildings	82,557,212	79,728,153
Furniture and fixtures	2,018,256	1,873,996
Vehicles	176,265	176,265
Construction in progress	3,344,291	3,999,926
Capitalized interest	<u>16,047,213</u>	<u>15,419,535</u>
Total property and equipment	126,398,744	122,407,283
Accumulated depreciation	<u>(18,396,938)</u>	<u>(15,312,380)</u>
Property and equipment, net	<u>\$ 108,001,806</u>	<u>\$ 107,094,903</u>

**6. Resident Deposits**

Resident deposits consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Resident deposits – reservations	\$ 428,822	\$ 76,138
Resident priority – Highview	67,000	-
Resident deposits – waiting list	<u>390,000</u>	<u>300,000</u>
Total resident deposits	<u>\$ 885,822</u>	<u>\$ 376,138</u>

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Notes to Financial Statements**

**7. Bonds Payable**

Bonds payable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Series 2016:		
Term bonds due 2049, interest rate of 6.312%	\$ 8,000,000	\$ 8,000,000
Series 2017A:		
Term bonds due 2027, interest rate of 4.562%	4,400,000	4,400,000
Term bonds due 2037, interest rate of 5.512%	19,055,000	19,055,000
Term bonds due 2047, interest rate of 5.612%	32,235,000	32,235,000
Term bonds due 2052, interest rate of 5.687%	16,040,000	16,040,000
Series 2017B:		
Term bonds due 2024, interest rate of 4.437%	<u>5,465,000</u>	<u>6,015,000</u>
Total bonds payable	<b>85,195,000</b>	85,745,000
Less: current portion	<b>(1,060,000)</b>	(550,000)
Less: unamortized debt issuance costs	<b>(1,599,854)</b>	(1,198,282)
Less: unamortized original issue discount	<u><b>(1,587,180)</b></u>	<u>(1,638,771)</u>
Total bonds payable, net	<u><b>\$ 80,947,966</b></u>	<u>\$ 82,357,947</u>

**Bond Issuances**

In June 2012, the Corporation issued \$56,135,000 of tax-exempt, fixed rate Revenue Bonds Series 2012A ("2012A Bonds"), \$60,375,000 of tax-exempt, fixed rate Revenue Bonds Series 2012B ("2012B Bonds") and \$940,000 taxable, fixed-rate Revenue Bonds Series 2012C ("2012C Bonds") through the Public Finance Authority of the State of Wisconsin (collectively, "2012 Bonds"). The proceeds of the 2012 Bonds were being used for the acquisition by the Corporation from Sears Farm of the Phase I Site, for construction of Phase I of the Community, to fund a Debt Service Reserve Fund securing the 2012 Bonds, to fund capitalized interest for the Series 2012 Bonds, and to pay costs of issuance of the 2012 Bonds. The Series 2012B Bonds were repaid with proceeds from initial entrance fees received. The Series 2012C Bonds were paid off in full in 2014 using entrance fees received. The Series 2012A Bonds were issued at a discount of \$49,484, which was being amortized as interest expense over the life of the bonds using the effective interest method. In December 2017, the Series 2012A Bonds were repaid with the proceeds of the Series 2017A and Series 2017B Bonds, in a bond defeasance.

In December 2016, the Corporation issued \$8,000,000 of tax-exempt, fixed rate Revenue Bonds Series 2016 ("2016 Bonds") through the Public Finance Authority of the State of Wisconsin. The proceeds of the 2016 Bonds were being used for purchase of the Phase II Expansion Site (other than one lot ("Lot 37")), landscaping, and the expansion of Community's Brittany Place nursing facility. The Series 2016 Bonds were issued at a discount of \$538,560, which is being amortized as interest expense over the life of the bonds using the effective interest method.

In December 2017, the Corporation issued \$71,730,000 of tax-exempt, fixed rate Revenue Refunding Bonds Series 2017A ("2017A Bonds") and \$6,015,000 of tax-exempt, fixed rate Revenue Bonds Series 2017B ("2017B Bonds") through the Public Finance Authority of the State of Wisconsin (collectively, "2017 Bonds"). The proceeds of the 2017 Bonds were to be used to advance refund and defease the Series 2012A Bonds, to finance improvements and expansion of the facilities of the Community, to fund a Debt Service Reserve Fund, and to pay costs of issuance of the 2017 Bonds. The Series 2017 Bonds were issued at a discount of \$1,166,175, which is being amortized as interest expense over the life of the bonds using the effective interest method.

### ***Bond Terms***

Interest on the 2016 Bonds and 2017 Bonds is due semi-annually, on each June 1 and December 1. The Series 2016 Bonds and Series 2017 Bonds are collateralized by substantially all of the assets of the Corporation, including all real property, personal property, and gross revenues of the Corporation. The Corporation's obligations associated with the Series 2016 Bonds were guaranteed by Sears Farm pursuant to an Amended and Restated Guaranty Agreement (the "Sears Farm Guaranty"). Performance by Sears Farm of its obligations pursuant to the Sears Farm Guaranty, and performance by the Corporation of the Corporation's obligations associated with the Series 2016 Bonds, was secured by an Amended and Restated Deed of Trust encumbering certain of the Sears Farm property (the "Sears Farm Deed of Trust"). As described below certain terms on the 2016 Bonds and 2017 Bonds were amended which included an increase to the interest rate on the 2016 Bond and 2017 Bonds by 0.3125% per annum.

### ***Sears Farm Bankruptcy***

On March 1, 2018 Sears Farm (which is not affiliated with the Corporation) commenced a Chapter 11 bankruptcy case, in the United States Bankruptcy Court for the Eastern District of North Carolina (the "Sears Farm Bankruptcy"). The Sears Farm Bankruptcy was an event of default on the part of Sears Farm under the Sears Farm Guaranty and the Sears Farm Deed of Trust. The bond trustee and master trustee under the Series 2016 Bonds and under the Series 2017 Bonds was of the view that the Sears Farm Bankruptcy was an event of default on the part of the Corporation under the Series 2016 Bonds, and that such default on the part of the Corporation under the Series 2016 Bonds was an event of default on the part of the Corporation under the Series 2017 Bonds (the "Alleged Defaults"), notwithstanding that the Corporation may be in compliance with all of its obligations under the Series 2016 Bonds and the Series 2017 Bonds. The Corporation disagreed with the bond trustee's and master trustee's view as to the effect of the Sears Farm Bankruptcy on the Series 2016 Bonds and the Series 2017 Bonds.

The parties' disputes were resolved, as reflected in a Mediated Settlement Agreement (and a more fulsome Settlement Agreement among Sears Farm, the Corporation, and the bond trustee and master trustee under the Series 2016 Bonds and under the Series 2017 Bonds, executed and delivered in April 2019) (the "Settlement Agreements"). In the Settlement Agreements the bond trustee and master trustee under the Series 2016 Bonds and under the Series 2017 Bonds waived the Alleged Defaults. A Plan of Reorganization for Sears Farm, which incorporated provisions of the Settlement Agreements, was confirmed by the Bankruptcy Court in May 2019 (the "Plan").

Pursuant to the Settlement Agreements and the Plan, among other things, in July 2019, the principal documents relating to the Series 2016 Bonds and Series 2017 Bonds were amended and restated, including the following:

- Amended and Restated Indenture of Trust, dated July 31, 2019 (the "2016 Bond Indenture"), between the Public Finance Authority (the "Authority") and UMB Bank, National Association, as Bond Trustee (the "Bond Trustee");
- Amended and Restated Bond Trust Indenture, dated July 31, 2019 (the "2017 Bond Indenture"), between the Public Finance Authority (the "Authority") and UMB Bank, National Association, as Bond Trustee (the "Bond Trustee");
- Amended and Restated Loan Agreement dated July 31, 2019 (the "2016 Loan Agreement"), between the Authority and the Corporation;
- Amended and Restated Loan Agreement dated July 31, 2019 (the "2017 Loan Agreement"), between the Authority and the Corporation;
- Second Amended and Restated Master Trust Indenture, dated July 31, 2019 (as supplemented, the "Master Indenture"), between the Corporation and UMB Bank, National Association, as Master Trustee (the "Master Trustee"), as supplemented by Amended and Restated Supplemental Indenture Number 1, dated July 31, 2019 ("Supplemental Indenture Number 1"), between the Corporation and the Master Trustee, as supplemented by Amended and Restated Supplemental Indenture Number 2, dated July 31, 2019 ("Supplemental Indenture Number 2"), between the Corporation and the Master Trustee, and

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Notes to Financial Statements**

as further supplemented by Amended and Restated Supplemental Indenture Number 3, dated July 31, 2019 (“Supplemental Indenture Number 3”), between the Corporation and the Master Trustee;

- Third Amended and Restated Deed of Trust dated July 31, 2019 (the “Corporation Deed of Trust”) from the Corporation to the deed of trust trustee named therein for the benefit of the Master Trustee;
- Second Amended and Restated Guaranty Agreement dated July 31, 2019 (the “Second Amended and Restated Sears Farm Guaranty”) from Sears Farm to the Master Trustee, which amended and restated the terms of the Sears Farm Guaranty, which as amended and restated (i) guarantees payment of the Series 2016 Bonds but not the Series 2017 Bonds, and (ii) guarantees performance of all of the Corporation’s obligations under the Master Indenture and the 2016 Loan Agreement; and
- Second Amended and Restated Deed of Trust dated July 31, 2019 (the “Second Amended and Restated Sears Farm Deed of Trust”) from Sears Farm to the deed of trust trustee named therein for the benefit of the Master Trustee, which amended and restated the terms of the Sears Farm Deed of Trust, which as amended and restated secures performance by Sears Farm of its obligations pursuant to the Second Amended and Restated Sears Farm Guaranty, and performance by the Corporation of the Corporation’s obligations associated with the Series 2016 Bonds.

As of December 31, 2019, required principal payments of long-term debt for the next five years and thereafter are as follows:

<u>Fiscal Year</u>	<u>2017A Bonds</u>	<u>2017B Bonds</u>	<u>2016 Bonds</u>	<u>Total</u>
2020	\$ 55,000	\$ 1,005,000	\$ -	\$ 1,060,000
2021	55,000	1,050,000	-	1,105,000
2022	65,000	1,090,000	-	1,155,000
2023	65,000	1,135,000	-	1,200,000
2024	70,000	1,185,000	-	1,255,000
Thereafter	<u>71,420,000</u>	<u>-</u>	<u>8,000,000</u>	<u>79,420,000</u>
	<u>\$ 71,730,000</u>	<u>\$ 5,465,000</u>	<u>\$ 8,000,000</u>	<u>\$ 85,195,000</u>

The Corporation is required to comply with certain financial covenants, which include debt service coverage and liquidity ratios. The Corporation was in compliance with these covenants at December 31, 2019.

## **8. Subordinate Obligations**

The Corporation obtained pre-finance capital from MatchCap and Sears Farm of \$6,800,000 and \$2,390,000, respectively. The subordinated obligations accrue interest at 6% per annum, with a maximum amount of interest to be paid on the obligations equal to the amount of the original obligation, \$6,800,000 and \$2,390,000, respectively.

Certain fees in completion of the Community construction project are recorded as deferred fees that are also subordinated obligations. The Corporation owes approximately \$993,000 to Sears Farm, in connection with rezoning the Community site and other construction services at December 31, 2019 and 2018. The Corporation owes approximately \$501,000 and \$477,000 to Searstone – RLA, Inc. for management services at December 31, 2019 and 2018, respectively. The Corporation owes approximately \$711,000 to Sears, Hackney, Keener & Williams, Incorporated (“SHKW”) at December 31, 2019 and 2018 as disclosed in more detail in Note 9. The deferred fees to Searstone – RLA, Inc. accrue simple interest monthly at a 6% annual rate. The other deferred fees do not accrue interest.

The Corporation entered into a balance purchase money note with Sears Farm in December 2016 for \$5,311,530 (the “Purchase Money Note”) for the purchase of the Phase II Expansion Site (other than Lot 37). The Purchase Money Note incurred simple interest payable quarterly at a 3% annual rate. The Purchase Money Note was payable

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Notes to Financial Statements**

in full due on the earlier of the date of closing or the sale of bonds in a Phase II expansion bond financing or October 31, 2021. The Purchase Money Note is secured by a purchase money deed of trust which encumbers the Phase II Expansion Site (other than Lot 37) (the "Purchase Money Deed of Trust"). Per North Carolina law, the Purchase Money Note is non-recourse as to the Corporation.

Pursuant to the Settlement Agreements and the Plan noted in Note 7 ("Sears Farm Bankruptcy"), among other things:

- The Corporation paid to Sears Farm the sum of \$1,000,000
- Sears Farm conveyed to the Corporation Lot 37;
- The Purchase Money Note was modified, to (i) reflect the \$1 million Payment as a credit against the principal balance thereof, (ii) reduce the principal balance thereof by an additional \$2,311,530 (such that the remaining principal balance thereof was reduced to \$2,000,000), (iii) eliminate any obligation for interest to accrue on the unpaid principal balance of the Note from its inception, and (iv) extend for one year; i.e., until October 31, 2022, the "outside" maturity date of the Note; and
- The principal balance of the Purchase Money Note is to be credited with an amount equal to the monthly "Membership Fee" and up to \$600 per year of "Other Charges" otherwise payable by Mr. Sears or his spouse Rita Sears, pursuant to their Membership & Residency Agreement with the Corporation, from March 27, 2019 and for so long as either may reside in their Residence within the Community pursuant to that Membership & Residency Agreement (this was because the Settlement Agreements eliminated any obligation on the part of Mr. Sears or his spouse Rita Sears to pay those amounts).

As modified, the principal balance of the Purchase Money Note, after reduction for the above credits, is payable in full, without interest, in a single payment due on the earlier of (i) October 31, 2022, or (ii) the closing of a financing providing construction funding for a Phase II expansion in an amount sufficient to construct approximately 152 independent living units.

A summary of the principal and accrued interest amounts owed related to the subordinate obligations at December 31, 2019 and 2018, respectively, follows:

	<b>2019</b>			
	<u>Match Cap</u>	<u>Sears Farm</u>	<u>Deferred Fees</u>	<u>Total</u>
Original obligation	\$ 6,800,000	\$ 7,701,530	\$ 3,304,074	\$ 17,805,604
Less payment from debt settlement	-	(1,000,000)	-	(1,000,000)
Less forgone debt from debt settlement	-	(2,311,530)	-	(2,311,530)
Accrued interest	<u>3,077,000</u>	<u>1,081,475</u>	<u>100,998</u>	<u>4,259,473</u>
Total	<u>\$ 9,877,000</u>	<u>\$ 5,471,475</u>	<u>\$ 3,405,072</u>	<u>\$ 18,753,547</u>
	<b>2018</b>			
	<u>Match Cap</u>	<u>Sears Farm</u>	<u>Deferred Fees</u>	<u>Total</u>
Original obligation	\$ 6,800,000	\$ 7,701,530	\$ 3,304,074	\$ 17,805,604
Accrued interest	<u>2,669,000</u>	<u>938,075</u>	<u>76,998</u>	<u>3,684,073</u>
Total	<u>\$ 9,469,000</u>	<u>\$ 8,639,605</u>	<u>\$ 3,381,072</u>	<u>\$ 21,489,677</u>



**9. Notes Payable**

The Corporation had a note payable due in monthly installments of \$982 which included interest at 6.00% and was secured by a vehicle. At December 31, 2018, the balance due on the note payable was \$14,737 which was due in March 2020. The note payable was paid in full in 2019.

**10. Development, Management, and Marketing Agreements and Other Receivables**

***Greenbrier Development, LLC***

The Corporation and Greenbrier Development, LLC (“Greenbrier”) entered into a development consulting services agreement, pursuant to which Greenbrier provided development, consulting, marketing and pre-opening services in connection with the development of Phase I of the Community (the “Phase I Development Consulting Services Agreement”). Of the fees earned in prior years, approximately \$500,000 has been earned but deferred and is included within subordinate obligations on the balance sheets and payment thereof will be deferred until certain parameters are met. See Subordinate Obligations - Deferred Fees at Note 1. Greenbrier has performed all services to be performed by it pursuant to the Phase I Development Consulting Services Agreement, and no additional fees will be earned by Greenbrier pursuant to the Phase I Development Consulting Services Agreement.

The Corporation and Greenbrier are parties to a development consulting services agreement entered into during 2019, pursuant to which Greenbrier provides development, consulting, marketing and pre-opening services in connection with the Phase II Development. There were \$306,620 in fees paid to Greenbrier for the year ended December 31, 2019.

***Sears, Hackney, Keener & Williams***

SHKW is a full-service architectural firm located in Cary, North Carolina. The Corporation has entered into development services and architectural services agreements with SHKW. Under the development services and architectural services agreements, SHKW provided consulting services related to permits and real estate approval and to provide support to Greenbrier for the design and construction, regulatory, financing and project management of the construction of the Community, as well as monitor the construction of the Community on behalf of the Corporation. SHKW has earned or will earn the fees set forth in the following chart:

	<u>Development Services</u>	<u>Architectural Services</u>	<u>Total</u>
Fees:			
Earned prior to closing of Series 2012 Bonds	\$ 70,000	\$ 130,000	\$ 200,000
Earned upon closing of Series 2012 Bonds	296,667	1,040,971	1,337,638
Earned during construction period	400,000	504,935	904,935
Earned upon obtaining certificate of occupancy	<u>673,333</u>	<u>37,741</u>	<u>711,074</u>
Total fees	<u>\$ 1,440,000</u>	<u>\$ 1,713,647</u>	<u>\$ 3,153,647</u>

There were no fees earned by SHKW for the years ended December 31, 2019 and 2018. Of the fees earned in prior years, approximately \$711,000 has been earned but deferred and is included within subordinate obligations on the balance sheets. SHKW has performed all services to be performed by it pursuant to the development services and architectural services agreements, and no additional fees will be earned by SHKW pursuant to those agreements.

**Samaritan Housing Foundation, Inc.  
d/b/a Searstone Retirement Community  
Notes to Financial Statements**

---

***Searstone – RLA, Inc. and Retirement Living Associates, Inc.***

Searstone – RLA, Inc. (the “Manager”) is organized under the laws of the State of North Carolina as a for-profit corporation for the purpose of providing management services for retirement living options including retirement housing and community development. The Manager is affiliated with Retirement Living Associates, Inc., (“RLA”) which provides professional management, marketing, development, consulting and advisory services to senior living communities throughout North Carolina. The Manager provided \$50,000, included within liquidity support in the balance sheet at December 31, 2018, of liquidity support to initial construction of the Community to be paid from initial entrance fees. As of December 31, 2019, the liquidity support deposit was returned by the Corporation to the Manager.

The Corporation entered into a management agreement with the Manager. Pursuant to the terms of the management agreement, the Manager is responsible for the management of the Community’s Independent Living Units, Healthcare Center, and non-clinical aspects of the Community, including staffing, accounting and general administrative services. The Manager is paid a base monthly fee for the first eight years following completion of initial construction, plus a percentage of the previous year’s billable income from the Independent Living Units. As compensation for services rendered pursuant to the management agreement, the Manager earned management fees of approximately \$522,000 and \$549,000 in fiscal year 2019 and 2018 respectively. Of the fees earned under the management agreement, approximately \$400,000 and \$400,000 at December 31, 2019 and 2018, respectively, are subordinate to the outstanding bonds and will be deferred until certain parameters are met.

The Corporation entered into a marketing consulting services agreement with RLA. Pursuant to the terms of the marketing consulting services agreement, RLA provided certain services to the Corporation including coordinating and managing the marketing staff of the Community, develop and supervise the implementation of a marketing and sales plan, assist the Corporation in training and monitoring of the Community’s marketing and sales staff, provide and coordinate administrative support in the managing of admission criteria for residents to the Community, provide and coordinate administrative support for the Community’s processing of applications including maintaining appropriate records, and attending resident presentations, meetings, and marketing events as RLA shall determine are needed and as reasonably requested by the Corporation. As compensation for the services provided under the marketing consulting services agreement, the Corporation agreed to pay RLA a fee of \$700,000 and reimburse RLA for certain expenses. The fee is subordinate to the outstanding bonds and is deferred until the Community meets certain occupancy parameters. This fee was considered to be earned as of December 31, 2015. RLA has performed all services to be performed by it pursuant to the marketing consulting services agreement, and no additional fees will be earned by RLA pursuant to the marketing consulting services agreement.

***Sears Farm, SHKW, and the Sears Family***

Sears Farm was the owner of the entire approximately 75 acre Searstone Planned Development District, which includes the 24 acre site on which Phase I of the Community is located. In June 2012 Sears Farm sold to the Corporation that 24 acre site in the amount of \$11,570,000.

In June 2012, at the time of the closing of the Series 2012 Bonds that financed the acquisition by the Corporation of the 24 acre site on which Phase I of the Community is located, as a condition to the purchase of the Series 2012 Bonds by the bond buyers, Sears Farm transferred to the Corporation the approximate sum of \$779,000, to serve as additional construction contingency funds for the initial construction of the Community, to be repaid to the extent that upon completion of construction there remained construction contingency funds. At December 31, 2013, these funds were recorded on the balance sheets as due to a related party. Upon completion of construction of the Community there remained no construction contingency funds, and at December 31, 2014 these funds were removed as due to a related party and were recorded as a capital contribution.

In June 2012, at the time of the closing of the Series 2012 Bonds that financed the acquisition by the Corporation from Sears Farm of the 23.98 acre site on which Phase I of the Community is located, Sears Farm transferred to the Corporation the sum of \$950,000, as a contribution to the Liquidity Support Fund. Also, in June 2012, Mr. Sears’ parents transferred to the Corporation \$1,000,000, as a contribution to the Liquidity Support Fund. In 2019 the

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Notes to Financial Statements**

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liquidity support deposits were either returned by the Corporation to the contributors or credited against obligations owed to the Corporation by the contributors. See Note 7.

In March 2014 the Corporation loaned to Sears Farm the sum of \$500,000, from the balance within the Liquidity Support Fund, with the understanding that the loan proceeds would be used by Sears Farm to pay for the cost of construction of a parking lot located on land owned by Sears Farm, to be used by Community residents. The unpaid principal balance of the loan was to bear interest at 6% per annum. The principal amount of the loan was to be discharged in full in the event certain conditions were satisfied, including the release of the Liquidity Support Fund. Accrued interest on the loan totaled approximately \$145,000 at December 31, 2018. In 2019, pursuant to the Settlement Agreements, and in recognition that Liquidity Support Fund had been released, the Corporation released Sears Farm from any obligation to repay the principal amount of or interest on the loan.

In June 2012, at the time of the closing of the Series 2012 Bonds that financed the acquisition by the Corporation of the 24 acre site on which Phase I of the Community is located, Sears Farm agreed to defer fees payable by the Corporation and related to rezoning and construction in the amount of \$993,000. Also, in June 2012, at the time of the closing of the Series 2012 Bonds that financed the acquisition by the Corporation of the 24 acre site on which the Community is located, SHKW agreed to defer fees payable by the Corporation and related to architectural services in the amount of \$711,000. For additional detail, see Note 8.

Sears Farm held subordinated debt due from the Corporation in the approximate sums of \$5,471,000 and \$8,640,000 at December 31, 2019 and 2018, respectively. For additional detail, see Note 8.

SHKW did not provide to the Corporation any architectural and management services during the years ended December 31, 2019 and 2018.

## **11. Fair Value Measurements on a Recurring Basis**

Fair value, as defined under U.S. GAAP is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Corporation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

### **Assets Measured at Fair Value on a Recurring Basis**

When quoted prices are available in active markets for identical instruments, investment securities are classified within Level 1 of the fair value hierarchy. Level 1 investments include money market funds, mutual funds, common stocks, exchange-traded funds and U.S. Treasury/Agency securities which are valued based on prices readily available in the active markets in which those securities are traded, and money market funds which are based on their transacted value. Level 2 investments include corporate bonds which are valued on a recurring basis on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets.

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Notes to Financial Statements**

The Corporation does not have any financial assets or liabilities measured on a recurring basis categorized as Level 3, and there were no transfers in or out of Level 3 for year ended December 31, 2019 and 2018.

The tables below present the balances of assets measured at fair value on a recurring basis.

	<b>December 31, 2019</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Money market funds	<b>\$ 10,014,183</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,014,183</b>
Common stocks	<b>1,577,976</b>	<b>-</b>	<b>-</b>	<b>1,577,976</b>
Corporate bonds	<b>-</b>	<b>1,224,700</b>	<b>-</b>	<b>1,224,700</b>
US Treasury/Agency securities	<b>737,640</b>	<b>-</b>	<b>-</b>	<b>737,640</b>
Mutual funds – fixed income	<b>747,854</b>	<b>-</b>	<b>-</b>	<b>747,854</b>
Mutual funds – equities	<b>287,969</b>	<b>-</b>	<b>-</b>	<b>287,969</b>
Exchange-traded funds	<b>19,575</b>	<b>-</b>	<b>-</b>	<b>19,575</b>
Total	<b><u>\$ 13,385,197</u></b>	<b><u>\$ 1,224,700</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 14,609,897</u></b>

The Corporation had \$13,384 of accrued interest and \$519,868 in cash included within investments and assets limited as to use which are not included in the fair value hierarchy.

Marketable equity securities have a market value of \$2,633,374 with a cost of \$2,326,724 in 2019. This resulted in a net unrealized gain on marketable equity securities of \$306,650.

	<b>December 31, 2018</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Money market funds	<b>\$ 11,864,369</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,864,369</b>
Common stocks	<b>1,379,618</b>	<b>-</b>	<b>-</b>	<b>1,379,618</b>
Corporate bonds	<b>-</b>	<b>1,157,556</b>	<b>-</b>	<b>1,157,556</b>
US Treasury/Agency securities	<b>960,923</b>	<b>-</b>	<b>-</b>	<b>960,923</b>
Mutual funds – fixed income	<b>1,216,250</b>	<b>-</b>	<b>-</b>	<b>1,216,250</b>
Mutual funds – equities	<b>244,365</b>	<b>-</b>	<b>-</b>	<b>244,365</b>
Exchange-traded funds	<b>22,122</b>	<b>-</b>	<b>-</b>	<b>22,122</b>
Total	<b><u>\$ 15,687,647</u></b>	<b><u>\$ 1,157,556</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 16,845,203</u></b>

The Corporation had \$13,159 of accrued interest and \$137,518 in cash included within investments and assets limited as to use which are not included in the fair value hierarchy.

Marketable equity securities have a market value of \$2,862,355 with a cost of \$3,014,792 in 2018. This resulted in a net unrealized loss on marketable equity securities of \$152,437.

**12. Net Assets with Donor Restrictions**

Net assets with donor restrictions that are temporary in nature consist of the following at December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Financial assistance	<b><u>\$ 103,096</u></b>	<b><u>\$ 43,792</u></b>

**Samaritan Housing Foundation, Inc.**  
**d/b/a Searstone Retirement Community**  
**Notes to Financial Statements**

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**13. Liquidity and Availability**

As part of its liquidity management, the Corporation has a policy to structure its financial assets to be available as its general expenses, liabilities, and other obligations come due. In addition, the Corporation invests cash in excess of daily operating funds in short-term investments such as stocks, bonds, money market funds, and mutual funds.

The following schedule reflects the Corporation's financial assets to meet cash needs for general expenses within one year. The financial assets were derived from the total assets on the balance sheets by excluding the assets that are unavailable for general expenses in the next 12 months. Board designated amounts for projects have been included in the schedule below as the board could release these funds for liquidity purposes if needed.

The Corporation seeks to maintain sufficient liquid assets to cover three months' operating and capital expenses.

<b>Asset Categories</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 704,651	\$ 3,413,536
Accounts receivable	31,098	57,943
Sales tax receivable	37,931	77,015
Investments and assets limited as to use	15,143,149	16,995,880
Less: Held by trustee	(9,980,716)	(11,946,910)
Less: Reserves required by state statute	(2,707,914)	(2,516,755)
Less: Resident deposits	(428,822)	(76,138)
Less: Other	(20,472)	(9,183)
	<b>\$ 2,778,905</b>	<b>\$ 5,995,388</b>

#### 14. Schedule of Expenses by Natural Classification and Function

The following is a schedule of expenses by both natural classification and function for the years ended December 31, 2019 and 2018:

	2019					2018							
	Independent	Program Services			Total	Administrative and General	Marketing	Total	Independent	Program Services			Total
		Assisted Living	Skilled Nursing							Assisted Living	Skilled Nursing		
General and administrative	\$ -	\$ -	\$ -	\$ -	\$ 806,347	\$ 129,564	\$ 935,911	\$ -	\$ -	\$ -	\$ -	\$ 803,878	
Marketing and advertising	-	-	-	-	-	507,815	507,815	-	-	-	-	258,668	
Payroll and related expense	59,472	552,381	1,043,105	1,654,958	3,098,050	239,505	4,992,513	2,207,054	517,979	1,035,957	2,207,054	4,906,756	
Utilities and facilities	88,792	16,291	208,436	313,519	1,329,982	647	1,644,148	264,773	16,549	174,725	264,773	1,406,422	
Operating and maintenance	1,876	83,514	34,941	120,331	1,514,455	17,485	1,652,271	390,003	264,229	47,082	390,003	1,950,823	
Taxes and insurance	-	-	-	-	198,853	-	198,853	-	-	-	-	160,796	
Interest expense	-	-	-	-	4,584,983	-	4,584,983	-	-	-	-	4,344,307	
Depreciation	2,714,411	185,073	185,074	3,084,558	-	-	3,084,558	-	121,359	242,717	3,033,964	3,033,964	
Amortization	-	-	-	-	153,275	-	153,275	-	-	-	-	118,246	
Total expenses	\$ 2,864,551	\$ 837,259	\$ 1,471,556	\$ 5,173,366	\$ 11,685,945	\$ 895,016	\$ 17,754,327	\$ 3,475,197	\$ 920,116	\$ 1,500,481	\$ 5,895,794	\$ 16,983,860	
General and administrative	\$ -	\$ -	\$ -	\$ -	\$ 790,466	\$ 13,412	\$ 803,878	\$ -	\$ -	\$ -	\$ -	\$ 803,878	
Marketing and advertising	-	-	-	-	-	258,668	258,668	-	-	-	-	258,668	
Payroll and related expense	653,118	517,979	1,035,957	2,207,054	2,510,750	188,952	4,906,756	2,207,054	517,979	1,035,957	2,207,054	4,906,756	
Utilities and facilities	73,499	16,549	174,725	264,773	1,141,083	566	1,406,422	264,773	16,549	174,725	264,773	1,406,422	
Operating and maintenance	78,692	264,229	47,082	390,003	1,546,866	13,954	1,950,823	390,003	264,229	47,082	390,003	1,950,823	
Taxes and insurance	-	-	-	-	160,796	-	160,796	-	-	-	-	160,796	
Interest expense	-	-	-	-	4,344,307	-	4,344,307	-	-	-	-	4,344,307	
Depreciation	2,669,888	121,359	242,717	3,033,964	-	-	3,033,964	-	-	-	-	3,033,964	
Amortization	-	-	-	-	118,246	-	118,246	-	-	-	-	118,246	
Total expenses	\$ 3,475,197	\$ 920,116	\$ 1,500,481	\$ 5,895,794	\$ 10,612,514	\$ 475,552	\$ 16,983,860	\$ 3,475,197	\$ 920,116	\$ 1,500,481	\$ 5,895,794	\$ 16,983,860	

**Exhibit 3**

**Comparison between Forecasted Financial Statements and Actual Financial Statements**

[see attached]

## Explanation of Material Differences between the Forecast Financial Statements and Actual Audited Financial Statements

The following is a comparison of the forecast financial statements for Samaritan Housing Foundation d/b/a Searstone Retirement Community (Searstone), and the actual financial statements for Searstone, which comprise the balance sheet as of December 31, 2019, and the related statements of operations and changes in net deficit and cash flows for the year ending December 31, 2019.

Variances greater than \$150,000 are considered material and are explained in the following narrative.

### Balance Sheet - Comparison

- (a) Cash and Cash Equivalents/Investments (under Assets limited as to use), in the aggregate, were less than forecast by \$2.2 million. During 2019, \$1 million was used to pay down on the Phase II land note and \$1.8 million was spent on Phase II (Highview). Both items were planned, but originally were to be in future years.

	2019 Audit	2019 Forecast	Difference	
Cash and cash equivalents	704,651.00	1,558,000.00	(853,349.00)	Balance Sheet
Assets limited as to use, current portion	1,279,166.00	378,000.00	901,166.00	Balance Sheet
Short-term investments	2,005,225.00	3,300,000.00	(1,294,775.00)	Balance Sheet
Assets limited as to use, less current portion	11,858,758.00	12,094,000.00	(235,242.00)	Balance Sheet
Resident deposits	885,822.00	1,603,000.00	(717,178.00)	Balance Sheet
	<u>16,733,622.00</u>	<u>18,933,000.00</u>	<u>(2,199,378.00)</u>	
Net change in assets limited as to use	906,446.00	4,117,000.00	(3,210,554.00)	Cashflow
Purchase of Investments	-	(2,893,000.00)	2,893,000.00	Cashflow

- (b) Resident Refunds payable, combined with Deferred Revenue Refundable and Non-Refundable Deposits, were lower than forecast by \$1.2 million. This is a natural variation in the cumulative deposits. Resident Refunds Payable reverts to the residents whose contracts are completed but their refunds have not been processed. The forecast assumes the refund would have occurred in the same fiscal year as the end of the contract. The refund does not process until a like unit has contracted.

	2019 Audit	2019 Forecast	Difference	
Resident Refunds Payable	1,701,013.00	-	1,701,013.00	Balance Sheet
Deferred Revenue - Refundable Entrance Fees	83,573,364.00	87,100,000.00	(3,526,636.00)	Balance Sheet
Deferred Revenue - Advanced Fees	8,477,554.00	7,837,000.00	640,554.00	Balance Sheet
	<u>93,751,931.00</u>	<u>94,937,000.00</u>	<u>(1,185,069.00)</u>	
Refunds on entrance fees	(5,797,738.00)	(4,631,000.00)	(1,166,738.00)	Cashflow
Refundable entrance fees received	7,922,806.00	9,339,000.00	(1,416,194.00)	Cashflow

- (c) Not all items budgeted for PP&E were processed. The capital work to the Calais Terrace Garage roof was moved from 2019 to 2020, Balance sheet and cashflow.
- (d) The Bonds payable end of year number in the forecast was off.
- (e) Net Assets is a factor of several different items in the statements. Please note the changes in unrealized gains of \$680,425 and the unusual gain on settlement of \$257,000.



- (f) The forecasted Accounts payable had the retainage from the health care expansion. That was paid when the expansion was completed. (Balance Sheet and Cashflow Statement)

Statement of Operations – Comparison

- (g) The Independent Living (IL) revenue is over forecast by \$313,306. The forecast for IL assumes 95% occupancy when the actual occupancy averaged was 97%.
- (h) Unrealized gain / interest income was positive in 2020 due to strong returns from the investment portfolio.

Interest Income	350,874.00	192,000.00	158,874.00	Balance Sheet
Net unrealized & realized loss on ST invest.	521,551.00	-	521,551.00	Balance Sheet and Cashflow
	<u>872,425.00</u>	<u>192,000.00</u>	<u>680,425.00</u>	

- (i) Marketing expenses were higher than forecast due to new accounting requirements. The marketing expenses for Phase II, now called the Highview, had to be expensed, not capitalized. Marketing expense for Highview in 2019 were \$536,000.
- (j) During 2019, a settlement was reached with Sear Farm LLC. Several items occurred which were not completely know at the time the forecast was prepared. The settlement absorbed the liquidity support funds, the 2016 and 2017 bonds were revised thus financing cost occurred, one million dollars was paid on the land note and \$2.3 million was forgiven.

	2019 Audit	2019 Forecast	Difference	
Unusual Gain on Settlement	2,702,299.00	2,445,000.00	257,299.00	Income Statement
Payment of Deferred Financing Cost	(477,251.00)	-	(477,251.00)	Cashflow
Payment of subordinated obligations	(1,000,000.00)	(1,000,000.00)	-	Cashflow

Cash Flow

- (k) Definition of cash now includes cash held in restricted investments cash, thus the beginning and ending balances are larger.

**Samaritan Housing Foundation, Inc. d/b/a Searstone Retirement Community**  
**Comparison of Audit to Forecast Statements**  
**Year Ending December 31, 2019**

	Audit	Forecast	Variance
<b>Balance Sheet</b>	<b>2019</b>	<b>2019</b>	<b>+(-)</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents			
Unrestricted Cash	\$ 704,651	\$ 1,558,000	\$ (853,349) a
Assets limited as to use, current portion	1,279,166	378,000	901,166 a
Accounts receivable	31,098	74,000	(42,902)
Sales tax receivable	37,931	77,000	(39,069)
Prepaid expenses	156,436	177,000	(20,564)
Short-term investments	2,005,225	3,300,000	(1,294,775) a
Total current assets	4,214,507	5,564,000	(1,349,493)
Non-current assets:			
Assets limited as to use, less current portion	11,858,758	12,094,000	(235,242) a
Property, Plant and equipment, net	108,001,806	108,233,000	(231,194) c
Other Receivables	2,861	-	2,861
Note Receivable	500,000	500,000	-
Deferred marketing costs, net	152,823	130,000	22,823
Total non-current assets	120,516,248	120,957,000	(440,752)
<b>Total assets</b>	\$ 124,730,755	\$ 126,521,000	\$ (1,790,245)
<b>Liabilities and Net Deficits</b>			
Current liabilities:			
Bonds payable, current portion	\$ 1,060,000	\$ 1,060,000	-
Accounts payable	427,921	745,000	(317,079) f
Accrued interest payable	393,344	413,000	(19,656)
Resident refunds payable	1,701,013		1,701,013 b
Resident deposits	885,822	1,603,000	(717,178) a
Current portion of notes payable	-	4,000	(4,000)
Other liabilities	226,732	228,000	(1,268)
Total current liabilities	4,694,832	4,053,000	641,832
Long-term liabilities:			
Bonds Payable, less current portion	80,947,966	81,395,000	(447,034) d
Subordinate Obligations	18,753,547	18,754,000	(453)
Deferred Revenue - Refundable Entrance Fees	83,573,364	87,100,000	(3,526,636) b
Deferred revenue from advance fees	8,477,554	7,837,000	640,554 b
Total long-term liabilities	191,752,431	195,086,000	(3,333,569)
<b>Total liabilities</b>	196,447,263	199,139,000	(2,691,737)
Net Assets (deficits)			
Without donor restrictions	(71,819,604)	(72,618,000)	798,396 e
With donor restrictions	103,096	-	103,096
Net deficits	(71,716,508)	(72,618,000)	901,492
<b>Total liabilities and net deficit</b>	\$ 124,730,755	\$ 126,521,000	\$ (1,790,245)

**Samaritan Housing Foundation, Inc. d/b/a Searstone Retirement Community**  
**Comparison of Audit to Forecast Statements**  
**Year Ending December 31, 2019**

<b>Statements of Operations</b>	<b>Audit 2019</b>	<b>Forecast 2019</b>	<b>Variance +(-)</b>
Revenues:			
Monthly Service Fees:			
Independent Living	\$ 8,955,306	\$ 8,642,000	\$ 313,306 g
Assisted Living	400,689	409,000	(8,311)
Skilled Nursing Services	851,522	834,000	17,522
Advance fee amortization	1,166,000	1,076,000	90,000
Interest Income	350,874	192,000	158,874 h
Contributions	56,305	-	56,305
Other	965,376	948,000	17,376
Total Revenues	12,746,072	12,101,000	645,072
Expenses:			
General and administrative	3,498,094	3,518,000	(19,906)
Depreciation & amortization	3,110,563	3,146,000	(35,437)
Dining Services	1,784,959	1,933,000	(148,041)
Marketing	895,016	405,000	490,016 i
Health Care Services	1,799,998	1,762,000	37,998
Transportation & security services	493,894	534,000	(40,106)
Building & grounds maintenance	881,408	798,000	83,408
Housekeeping	287,111	309,000	(21,889)
Resident Life & wellness	249,011	206,000	43,011
Other	42,020	-	42,020
Interest	4,712,253	4,562,000	150,253
Total Operating Expenses	17,754,327	17,173,000	581,327
Net Loss from Operations	(5,008,255)	(5,072,000)	63,745
Non-Operating gains (losses)			
Unusual Gain on Settlement	2,702,299	2,445,000	257,299 j
Net unrealized & realized loss on short-term investments	521,551	-	521,551 h
Net Non Operating losses	3,223,850	-	3,223,850
Increase in unrestricted net deficit	(1,784,405)	(2,627,000)	842,595
Change in net assets with donor restrictions	59,304	-	59,304
Increase in net deficit	(1,725,101)	(2,627,000)	901,899
Net deficit, beginning of year	(69,991,407)	(69,991,000)	(407)
Net Deficit, end of year	\$ (71,716,508)	\$ (72,618,000)	\$ 901,492

**Samaritan Housing Foundation, Inc. d/b/a Searstone Retirement Community**  
**Comparison of Audit to Forecast Statements**  
**Year Ending December 31, 2019**

<b>Statements of Cash Flows</b>	<b>Audit 2019</b>	<b>Forecast 2019</b>	<b>Variance +(-)</b>
Cash flows from Operating activities:			
Change in net deficit	\$ (1,725,101)	\$ (2,627,000)	\$ 901,899
Adjustments to reconcile increase in net deficit to net cash provided (used) by operating activities			
Net unrealized and realized loss on short-term investments	(521,551)	0	(521,551) h
Proceeds from non-refundable advance fees	1,179,732	1,038,000	141,732 b
Depreciation	3,084,558	3,115,000	(30,442)
Amortization of debt issuance costs & bond discount	127,270	97,000	30,270
Amortization of marketing cost	26,005	31,000	(4,995)
Amortization of advance fees	(1,166,070)	(1,076,000)	(90,070)
Interest and fee accrued - subordinate obligations	575,400	575,000	400
Gain on settlement agreements	(2,702,299)	(3,074,000)	371,701 j
Net change in:			
Accounts receivable	26,845	(16,000)	42,845
Entrance fees receivable	8,335	0	8,335 b
Sales tax receivable	39,084	0	39,084
Prepaid expenses	58,692	38,000	20,692
Deferred marketing cost	(18,300)	0	(18,300)
Accounts payable	(379,442)	(62,000)	(317,442) f
Accrued interest payable	(32,985)	(13,000)	(19,985)
Other liabilities	(1,502)	0	(1,502)
Net cash provided by operating activities	<u>(1,421,329)</u>	<u>(1,974,000)</u>	<u>552,671</u>
Investing activities:			
Purchase of property and equipment	(3,250,500)	(3,625,000)	374,500 c
Capitalized Interest & Routine Capital Additions	(494,419)	(628,000)	133,581
Net change in assets limited as to use	906,446	4,117,000	(3,210,554) a
Purchase of Investments	-	(2,893,000)	2,893,000 a
Net cash used by investing activities	<u>(2,838,473)</u>	<u>(3,029,000)</u>	<u>190,527</u>
Financing activities:			
Payment of Deferred Financing Cost	(477,251)		(477,251) j
Payment of subordinated obligations	(1,000,000)	(1,000,000)	-
Payment on Bonds Payable	(550,000)	(550,000)	-
Payments on Notes Payable	(14,737)	(11,000)	(3,737)
Refunds on entrance fees	(5,797,738)	(4,631,000)	(1,166,738) b
Refundable entrance fees received	7,922,806	9,339,000	(1,416,194) b
Net cash provided by financing activities	<u>83,080</u>	<u>3,147,000</u>	<u>(3,063,920)</u>
Net change in cash	\$ (4,176,722)	\$ (1,856,000)	\$ (2,320,722)
Cash and cash equivalents, beginning of year	<u>15,415,423</u>	<u>3,414,000</u>	<u>12,001,423 k</u>
Cash and cash equivalents, end of year	<u>\$ 11,238,701</u>	<u>\$ 1,558,000</u>	<u>\$ 9,680,701 k</u>

**Exhibit 4**

**Interim Financial Statements**

[see attached]

**Samaritan Housing Foundation, Inc**  
**Balance Sheet - YTD and Prior YTD**  
**Detail**

	Month Ending 03/31/2020	Month Ending 03/31/2019
<b>Assets</b>		
Current Assets		
Cash and Cash Equivalents		
10100 - Cash (Petty Cash)	200	500
10115 - BB&T - Operating - Samaritan Housing dba SearStone	1,361,047	182,944
10125 - BB&T - Payroll - SearStone-RLA, Inc.	26,026	62,843
10135 - BB&T - SHF Endowment Fund	24,475	10,812
10137 - BB&T - Temp Restricted Donations	2,620	0
10138 - BB&T - Highview Priority Club Deposits Escrow	81,912	0
10141 - BB&T - Checking Highview 500 holding	14,493	0
10155 - BB&T - Money Market	12,487	2,870,377
Total Cash and Cash Equivalents	<u>1,523,260</u>	<u>3,127,476</u>
Accounts Receivable, Net		
Accounts Receivable		
13005 - Accounts Receivable - MSF	(303)	51,384
13010 - Accounts Receivable - Trade	2,361	50
13015 - Accounts Receivable - Sears Family	0	1,710,623
13016 - Accounts Receivable - Sears Parking	0	396,200
13017 - Allowance for Doubtful Accounts - Sears Parking	0	(396,200)
13020 - Liquidity Support Note & Interest - Sears Farm	0	652,795
13021 - Note Receivable - Sears Farm	500,000	0
13070 - Sales Tax Receivable	16,722	59,758
Total Accounts Receivable	<u>518,780</u>	<u>2,474,610</u>
Total Accounts Receivable, Net	<u>518,780</u>	<u>2,474,610</u>
Other Current Assets		
13040 - Prepaid Insurance	118,342	87,034
13060 - Prepaid Expenses	(14,072)	73,065
Total Other Current Assets	<u>104,270</u>	<u>160,099</u>
Total Current Assets	<u>2,146,310</u>	<u>5,762,185</u>
Fixed Assets, Net		
Fixed Assets		
11180 - Capitalized Interest	13,886,977	13,886,978
11260 - Brittany Place Debt Financing	96,570	96,569
11270 - Phase II Exploration Debt Financing	123,653	123,653
16000 - Land - Phase 1	12,285,856	12,285,856
16001 - Land - Phase 2	8,803,570	8,550,000
16005 - Land - Phase 1 Improvements	1,004,439	174,708
16006 - Land - Phase 2 Improvements and BP Expansion	161,641	198,844
16007 - Buildings - Phase II & BP Expansion - CIP	3,892,585	4,827,846
16020 - Buildings: Winston Clubhouse	16,450,932	16,450,932
16025 - Buildings: Winston Clubhouse - Modifications	184,705	127,415
16030 - Buildings: Brittany Place	3,368,898	3,368,898
16031 - Buildings: Brittany Place Expansion	2,691,755	18,916
16040 - Buildings: Lorraine Plaza	6,539,893	6,539,893
16045 - Buildings: Lorraine Plaza - Modifications	66,042	60,962
16050 - Buildings: Calais Terrace	11,974,332	11,974,332
16055 - Buildings: Calais Terrace - Modifications	215,523	170,320
16060 - Buildings: Estate Homes	8,931,889	8,931,889
16065 - Buildings - Estate Homes - Modifications	552,996	512,197
16070 - Buildings: LakeSide Flats	4,280,430	4,280,430
16075 - Buildings: Lakeside Flats - Modifications	193,652	154,387
16110 - Grading and Sitework	8,014,468	8,014,468
16120 - Planning, Design, Engineering & Other Costs	19,148,197	19,148,197
17000 - Furniture And Equipment	2,033,536	1,874,056
17300 - Vehicles	176,265	176,265
Total Fixed Assets	<u>125,078,804</u>	<u>121,948,011</u>
Accumulated Depreciation		
18000 - Allowance For Depreciation	19,171,430	16,108,461

**Samaritan Housing Foundation, Inc**  
**Balance Sheet - YTD and Prior YTD**  
**Detail**

	Month Ending 03/31/2020	Month Ending 03/31/2019
Total Accumulated Depreciation	19,171,430	16,108,461
Total Fixed Assets, Net	105,907,374	105,839,550
<b>Investments</b>		
Long Term Investments		
10101 - Board Restricted - Held in MM - Limited Use	(2,707,914)	(4,555,191)
10310 - Fidelity Investment Account - Primary	4,335,401	5,067,828
10311 - Fidelity Investment Account - Secondary	80,923	36,273
10312 - Fidelity Account MKT - Primary	(80,269)	166,182
10313 - Fidelity Account MKT - Secondary	(6,714)	233
11237 - Cash - Board Restricted	2,707,925	4,555,190
Total Long Term Investments	4,329,352	5,270,515
Total Investments	4,329,352	5,270,515
<b>Other Assets</b>		
Deposits and Prepayments		
11130 - Limited Use - Deposits (ie: Utilities)	70,531	80,115
11140 - Limited Use - Resident Deposits - Reservation - Binding	304,999	269,259
Total Deposits and Prepayments	375,530	349,374
Escrows and Reserves		
11200 - Limited Use - 2016 Construction Fund	0	337,691
11202 - Limited Use - 2019 - Interest Reserve (Additional) Fund	1,515,000	0
11210 - Limited Use - 2016 Debt Service Reserve Fund	481,287	485,629
11215 - Limited Use - 2016 Admin Expense Fund	55	1,233
11220 - Limited Use - 2016 Bond Fund Interest Account	180,527	186,704
11229 - Limited Use - 20017 - Admin Cost Fund	5,873	0
11232 - Limited Use - 20017 - Bond Fd Interest	1,545,840	1,617,311
11233 - Limited Use - 2017 - Bond Fn Principal	903,401	183,715
11234 - Limited Use - 2017 - Project Fund	1,032,510	4,212,004
11236 - Limited Use - 2017 - Reserve Fd	5,023,011	5,063,517
Total Escrows and Reserves	10,687,504	12,087,804
Other Assets		
11160 - Deferred Marketing Costs	285,175	265,075
11165 - Accumulated Amortization - Deferred Marketing Costs	(134,565)	(108,565)
11170 - Deferred 2012 Bond Financing Costs	3,228,327	3,228,327
11175 - Accumulated Amortization - Deferred Financing Costs	(3,228,327)	(3,228,327)
11250 - Deferred Financing Costs - Cost of Issuance - Series 2016	549,010	504,673
11251 - Deferred Financing Costs - COI - Series 2020 Highview	5,000	0
11255 - Accumulated Amortization - Deferred Financing Costs - COI - Series 2016	(50,582)	(34,404)
11257 - Deferred Financing Costs - COI - Series 2017	958,781	525,869
11258 - Accumulated Amortization - Deferred Financing Costs - Cost of Issuance - Series	(71,962)	(18,780)
11265 - Accumulated Amortization - Deferred Financing Costs - BP Expansion	(9,516)	(3,012)
11275 - Accumulated Amortization - Deferred Financing Costs - Phase II Exploration	(12,168)	(3,864)
11280 - Capitalized Interest 2016 Bonds	1,363,034	1,124,000
11281 - Capitalized Interest 2017B Phase II Bond	550,747	330,825
11285 - Capitalized Interest - Sears Farm Note Payable	370,206	373,262
Total Other Assets	3,803,160	2,955,079
Total Other Assets	14,866,194	15,392,257
<b>Total Assets</b>	<b>\$ 127,249,230</b>	<b>\$ 132,264,507</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Current Liabilities		
Accounts Payable		
20005 - Accounts Payable	259,081	140,535

## Samaritan Housing Foundation, Inc Balance Sheet - YTD and Prior YTD

### Detail

	Month Ending 03/31/2020	Month Ending 03/31/2019
23010 - Disability (Short Term)	1,292	(1,876)
23030 - Section 125/Cancer	0	1,309
23040 - Section 125/Dental Insurance	0	(1,821)
23051 - Section 125/HSA EE Contributions	0	118
23060 - Life Insurance	0	(4,521)
23061 - EE Supplemental Life Insurance - After Tax	1,475	1,236
23100 - 401K Retirement Withholding	0	39
23190 - Accrued Vacation	86,985	58,154
24000 - Payroll Clearing Account	(30,117)	(29,642)
24050 - Accrued Payroll	105,293	84,830
26110 - Refundable Entrance Fees - Overpayment	0	424
<b>Total Accounts Payable</b>	<b>424,009</b>	<b>248,785</b>
<b>Accrued Liabilities</b>		
20010 - Accounts Payable - Accrued Expenses	279,278	231,452
25045 - Series 2016 - Accrued Interest	168,333	200,000
25046 - Series 2017 - Accrued Interest	1,405,044	1,352,871
25055 - Sears Farm Note Payable - Accrued Interest	0	13,533
<b>Total Accrued Liabilities</b>	<b>1,852,655</b>	<b>1,797,856</b>
<b>Sales &amp; Use Tax Payable</b>		
21010 - Sales Tax Payable	432	144
<b>Total Sales &amp; Use Tax Payable</b>	<b>432</b>	<b>144</b>
<b>Other Current Liabilities</b>		
20220 - Resident Deposits - Reservations - Binding	304,999	269,258
20225 - Resident Deposits - Wait List	455,000	345,000
20226 - Resident Priority Highview	96,000	0
20230 - Construction - Contractor Retainage	0	196,057
<b>Total Other Current Liabilities</b>	<b>855,999</b>	<b>810,315</b>
<b>Total Current Liabilities</b>	<b>3,133,095</b>	<b>2,857,100</b>
<b>Long Term Liabilities</b>		
<b>Long Term Debts</b>		
20600 - Resident Refund Payable	582,981	1,155,223
25025 - Series 2016	8,000,000	8,000,000
25026 - Series 2017A	71,730,000	71,730,000
25027 - Notes Payable - Sears Farm	2,000,000	5,311,530
25028 - Series 2017B	5,465,000	6,015,000
25700 - Original Issue Discount	(49,483)	(49,483)
25710 - Original Issue Discount - Amortization	49,483	49,483
25720 - Series 2016 Original Issue Discount	(538,560)	(538,560)
25721 - Series 2017 Original Issue Discount	(1,166,175)	(1,166,175)
25725 - Series 2016 Original Issue Discount - Amortization	53,040	36,720
25726 - Series 2017 Original Issue Discount - Amortization	77,166	41,655
26100 - Refundable Entrance Fees - Initial	72,212,157	74,237,856
26120 - Refundable Entrance Fees - Turnover	39,360,779	30,915,275
26128 - Loan Against Refundable EF	(20,160)	(2,773)
26130 - Refundable Entrance Fees - Refunds	(25,786,350)	(22,300,333)
<b>Total Long Term Debts</b>	<b>171,969,878</b>	<b>173,435,418</b>
<b>Total Long Term Liabilities</b>	<b>171,969,878</b>	<b>173,435,418</b>
<b>Other Liabilities</b>		
<b>Deferred Revenue</b>		
20200 - Personalizations Deposits	1,081,572	1,108,725
20205 - Accumulated Amortization - Personalization Deposits	(304,068)	(244,217)
26000 - Deferred Revenue - Life Care Fees - Initial	7,340,298	7,340,298
26010 - Deferred Revenue - Life Care Fees - Turnover	6,309,573	5,524,975
26020 - Deferred Revenue - Life Care Fees - Refunds	(1,131,107)	(1,064,848)
26040 - Settlement - MF Reserve	751,000	0
26050 - Life Care Fees - Accumulated Amortization	(5,512,998)	(4,414,104)
<b>Total Deferred Revenue</b>	<b>8,534,270</b>	<b>8,250,829</b>
<b>Other Liabilities</b>		



**Samaritan Housing Foundation, Inc**  
**Balance Sheet - YTD and Prior YTD**  
**Detail**

	Month Ending 03/31/2020	Month Ending 03/31/2019
25220 - Subordinated Debt - Matchcap	6,800,000	6,800,000
25230 - Subordinated Debt - Matchcap - Accrued Interest	3,179,000	2,771,000
25240 - Subordinated Debt - Sears Farm	2,390,000	2,390,000
25250 - Subordinated Debt - Sears Farm - Accrued Interest	1,117,325	973,925
25500 - Liquidity Support - Sears Farm	0	950,000
25510 - Liquidity Support - Parents of William W Sears	0	1,000,000
25515 - Liquidity Support - SearStone - Accrued Interest	0	53,280
25520 - Liquidity Support - SearStone - RLA Inc	0	50,000
25610 - Deferred Fees - SearStone - RLA Inc	400,000	400,000
25620 - Deferred Fees - SearStone RLA Inc - Accrued Interest	106,998	82,998
25640 - Deferred Fees - SHKW	711,074	711,074
25650 - Deferred Fees - Sears Farm	993,000	993,000
25675 - Deferred Fees - Development Service Fee - Greenbrier	500,000	500,000
25676 - Deferred Fees - Marketing Consulting Fee - RLA Inc	700,000	700,000
Total Other Liabilities	<u>16,897,397</u>	<u>18,375,277</u>
Total Other Liabilities	<u>25,431,667</u>	<u>26,626,106</u>
Total Liabilities	<u>200,534,640</u>	<u>202,918,624</u>
Net Assets		
Retained Earnings		
30000 - Net Assets	(72,735,391)	(70,410,894)
30100 - Temporarily Restricted Net Assets	103,177	43,792
Total Retained Earnings	<u>(72,632,214)</u>	<u>(70,367,102)</u>
Net Income (Loss)	(653,196)	(287,015)
Total Net Assets	<u>(73,285,410)</u>	<u>(70,654,117)</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 127,249,230</u></b>	<b><u>\$ 132,264,507</u></b>

**Samaritan Housing Foundation, Inc**  
**Profit and Loss - Actual vs. Budget - MTD and YTD**  
**Summary**

	Month Ending 03/31/2020			Year To Date 03/31/2020		
	Actual	2020 Budget	Variance FAV/(UNFAV)	Actual	2020 Budget	Variance FAV/(UNFAV)
<b>Operating Net Income</b>						
Gross Profit						
Revenue						
Revenue - Resident Monthly Fees	1,058,947	988,773	70,174	3,030,793	2,964,811	65,982
Revenue - Other Resident Services	79,659	81,880	(2,220)	243,241	244,740	(1,499)
Revenue - Other Non-Resident	11,753	5,425	6,327	28,595	15,976	12,619
Total Revenue	<u>1,150,359</u>	<u>1,076,078</u>	<u>74,281</u>	<u>3,302,629</u>	<u>3,225,527</u>	<u>77,102</u>
Gross Profit	<u>1,150,359</u>	<u>1,076,078</u>	<u>74,281</u>	<u>3,302,629</u>	<u>3,225,527</u>	<u>77,102</u>
Operating Expenses						
General and Administrative Expenses						
Charitable Contributions	57,266	49,168	(8,098)	163,701	147,504	(16,198)
Computer Processing Expenses	11,465	13,947	2,483	43,228	71,214	27,988
Debt Service	0	0	0	0	15,400	15,400
Finance Charges	429	333	(96)	1,917	999	(919)
Travel, Meals and Entertainment	1,835	2,000	165	4,403	3,500	(903)
Office Equipment,Supplies & Printing	5,174	27,613	22,440	16,814	89,387	72,573
Total General and Administrative Expenses	<u>76,169</u>	<u>93,061</u>	<u>16,893</u>	<u>230,063</u>	<u>328,004</u>	<u>97,941</u>
Marketing and Advertising Expenses	51,333	74,289	22,955	136,648	222,965	86,317
Payroll and Related Expenses						
Benefits	43,280	47,417	4,138	133,221	144,688	11,467
Compensations	368,769	368,032	(737)	1,071,787	1,085,363	13,576
Payroll Expenses	34,994	32,054	(2,941)	103,369	92,668	(10,701)
Total Payroll and Related Expense	<u>447,043</u>	<u>447,503</u>	<u>460</u>	<u>1,308,377</u>	<u>1,322,719</u>	<u>14,342</u>
Utilities and Facilities						
Facilities	24,253	33,725	9,472	72,348	92,171	19,823
Repairs and Maintenance	44,536	43,509	(1,027)	89,736	99,327	9,591
Utilities	58,099	61,259	3,161	182,410	179,352	(3,058)
Total Utilities and Facilities	<u>126,888</u>	<u>138,493</u>	<u>11,605</u>	<u>344,494</u>	<u>370,850</u>	<u>26,356</u>
Operating and Maintenance Expenses						
Automobile Expenses	1,809	2,519	709	5,468	6,458	990
Interdepartmental Transactions	3,782	341	(3,441)	3,782	2,823	(958)
Professional Services	112,937	91,673	(21,264)	237,999	217,862	(20,137)
Other Operating Expense	70,329	60,039	(10,290)	189,262	178,317	(10,945)
Reimbursed Resident Services	(3,137)	(4,157)	(1,019)	(15,100)	(12,471)	2,630
Total Operating and Maintenance Expenses	<u>185,720</u>	<u>150,415</u>	<u>(35,305)</u>	<u>421,411</u>	<u>392,989</u>	<u>(28,421)</u>
Taxes and Insurance	19,723	20,075	351	59,179	60,225	1,046
Total Operating Expenses	<u>906,876</u>	<u>923,836</u>	<u>16,960</u>	<u>2,500,172</u>	<u>2,697,752</u>	<u>197,581</u>
<b>Total Operating Net Income</b>	<b><u>243,483</u></b>	<b><u>152,242</u></b>	<b><u>91,241</u></b>	<b><u>802,457</u></b>	<b><u>527,775</u></b>	<b><u>274,682</u></b>
<b>Other Income (Expense)</b>						
Other Income						
Interest Income	(240,657)	40,698	(281,355)	(361,656)	102,094	(463,750)
Total Other Income	<u>(240,657)</u>	<u>40,698</u>	<u>(281,355)</u>	<u>(361,656)</u>	<u>102,094</u>	<u>(463,750)</u>
Other Expense						
Interest Expenses	(400,043)	(399,813)	(230)	(1,200,130)	(1,199,440)	(690)
Total Other Expense	<u>(400,043)</u>	<u>(399,813)</u>	<u>(230)</u>	<u>(1,200,130)</u>	<u>(1,199,440)</u>	<u>(690)</u>
Depreciation and Amortization Expense						
Depreciation	(244,582)	(270,668)	26,086	(774,492)	(812,004)	37,512
Amortization	(11,396)	(11,735)	339	(34,432)	(35,205)	773
Total Depreciation and Amortization Expense	<u>(255,978)</u>	<u>(282,403)</u>	<u>26,425</u>	<u>(808,924)</u>	<u>(847,209)</u>	<u>38,285</u>
<b>Total Other Income (Expense) Net</b>	<b><u>(896,678)</u></b>	<b><u>(641,518)</u></b>	<b><u>(255,160)</u></b>	<b><u>(2,370,710)</u></b>	<b><u>(1,944,555)</u></b>	<b><u>(426,155)</u></b>
<b>Net Income (Loss)</b>	<b><u>(653,196)</u></b>	<b><u>(489,276)</u></b>	<b><u>(163,920)</u></b>	<b><u>(1,568,253)</u></b>	<b><u>(1,416,781)</u></b>	<b><u>(151,472)</u></b>

**Samaritan Housing Foundation, Inc**  
**Statement of Cash Flows - MTD and YTD**  
**Detail**

	Month Ending 03/31/2020	01/01/2020 Through 03/31/2020
<b>Cash Flows from Operating Activities:</b>		
Net Income (Loss)	(653,196)	(1,568,253)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	244,582	774,492
Changes in Operating Assets and Liabilities:		
Changes in Net Accounts Receivable	12,001	53,109
Changes in Prepaid Expenses and Other Assets		
Prepaid Insurance	19,724	59,169
Prepaid Expenses	(8,782)	(7,003)
Limited Use - Resident Deposits - Reservation - Binding	(56,977)	123,823
Limited Use - 2019 - Interest Reserve (Additional) Fund	(1,781)	(5,649)
Limited Use - 2016 Debt Service Reserve Fund	(399)	10,320
Limited Use - 2016 Admin Expense Fund	0	(1)
Limited Use - 2016 Bond Fund Interest Account	(42,086)	(137,769)
Limited Use - 20017 - Admin Cost Fund	(7)	(21)
Limited Use - 20017 - Bond Fd Interest	(352,423)	(1,192,112)
Limited Use - 2017 - Bond Fn Principal	(85,825)	(257,321)
Limited Use - 2017 - Project Fund	93,469	673,217
Limited Use - 2017 - Reserve Fd	(1,202)	132,018
Changes in Prepaid Expenses and Other Assets	(436,289)	(601,329)
Changes to Accounts Payable		
Accounts Payable	114,520	46,827
Disability (Short Term)	(1)	(625)
Section 125/Cancer	(269)	0
Section 125/Dental Insurance	290	0
EE Supplemental Life Insurance - After Tax	1,103	1,476
401K Retirement Withholding	0	(6,367)
Meals	(100)	0
Accrued Vacation	2,757	12,426
Payroll Clearing Account	55	(143,209)
Accrued Payroll	33,657	74,863
Refundable Entrance Fees - Overpayment	(198)	0
Changes to Accounts Payable	151,814	(14,609)
Changes to Sales and Used Tax Payable		
Sales Tax Payable	141	65
Changes to Sales and Used Tax Payable	141	65
Changes to Accrued Liabilities and Other Liabilities		
Accounts Payable - Accrued Expenses	59,640	63,610
Series 2016 - Accrued Interest	42,083	126,250
Series 2017 - Accrued Interest	351,261	1,053,783
Resident Deposits - Reservations - Binding	56,978	(123,823)
Resident Deposits - Wait List	(10,000)	65,000
Resident Priority Highview	6,000	29,000
Subordinated Debt - Matchcap - Accrued Interest	34,000	102,000
Subordinated Debt - Sears Farm - Accrued Interest	11,950	35,850
Deferred Fees - SearStone RLA Inc - Accrued Interest	2,000	6,000
Changes to Accrued Liabilities and Other Liabilities	553,912	1,357,670
Changes to Deferred Revenue		
Personalizations Deposits	8,921	9,219
Accumulated Amortization - Personalization Deposits	(7,004)	(20,428)
Deferred Revenue - Life Care Fees - Turnover	124,000	372,000
Life Care Fees - Accumulated Amortization	(141,226)	(304,075)
Net cash provided by operating Activities	(142,344)	57,861
<b>Cash Flows from Investing Activities</b>		
Capital Expenditures		
Buildings - Phase II & BP Expansion - CIP	(45,883)	(548,294)
Buildings: Winston Clubhouse - Modifications	0	(22,558)
Buildings: Lorraine Plaza - Modifications	0	(1,349)
Buildings: Calais Terrace - Modifications	(10,022)	(10,021)
Buildings - Estate Homes - Modifications	(4,940)	(22,571)
Furniture And Equipment	(8,788)	(15,280)
Capital Expenditures	(69,633)	(620,073)
Purchase of long term investments and other assets		
Fidelity Investment Account - Primary	30,281	(77,904)
Fidelity Investment Account - Secondary	(350)	(395)
Fidelity Account MKT - Primary	211,962	453,821
Fidelity Account MKT - Secondary	5,859	8,276
Deferred Marketing Costs	(1,300)	(3,500)

**Samaritan Housing Foundation, Inc**  
**Statement of Cash Flows - MTD and YTD**  
**Detail**

	Month Ending 03/31/2020	01/01/2020 Through 03/31/2020
Accumulated Amortization - Deferred Marketing Costs	1,825	5,713
Deferred Financing Costs - COI - Series 2020 Highview	0	(5,000)
Accumulated Amortization - Deferred Financing Costs - COI - Series 2016	1,384	4,156
Accumulatd Amortization - Deferred Financing Costs - Cost of Issuance - Series	3,416	10,244
Accumulated Amortization - Deferred Financing Costs - BP Expansion	244	732
Accumulated Amortization - Deferred Financing Costs - Phase II Exploration	312	936
Capitalized Interest 2016 Bonds	(21,041)	(63,125)
Capitalized Interest 2017B Phase II Bond	(20,209)	(60,628)
Purchase of long term investments and other assets	212,383	273,326
Net cash provided by investing activities	<u>142,750</u>	<u>(346,747)</u>
<b>Cash Flows from Financing Activities</b>		
Changes in Debt Proceeds		
Resident Refund Payable	0	(1,118,030)
Series 2016 Original Issue Discount - Amortization	1,360	4,080
Series 2017 Original Issue Discount - Amortization	2,854	8,570
Refundable Entrance Fees - Turnover	575,700	2,539,843
Loan Against Refundable EF	(2,020)	(6,077)
Refundable Entrance Fees - Refunds	0	(340,704)
Net cash provided by financing activities	<u>577,894</u>	<u>1,087,682</u>
<b>Net increase (decrease) in cash</b>	<b>578,300</b>	<b>798,796</b>
<b>Cash - Beginning of Period</b>	<b>944,960</b>	<b>725,111</b>
<b>Cash - End of Period</b>	<b><u>1,523,260</u></b>	<b><u>1,523,260</u></b>

**Exhibit 5**

**Financial Projections**

[see attached]

**Samaritan Housing Foundation, Inc.  
d/b/a SearStone**

**Compilation of a Financial Projection**

**For each of the Eight Years Ending  
December 31, 2027**

**(with Independent Accountants'  
Compilation Report thereon)**

**Samaritan Housing Foundation, Inc. d/b/a SearStone**

**Compilation of a Projection**

**Eight Years Ending December 31, 2027**

**TABLE OF CONTENTS**

---

Independent Accountants' Compilation Report.....	1
Projected Financial Statements:	
Projected Statements of Operations and Changes in Net Deficit .....	2
Projected Statements of Cash Flows .....	3
Projected Balance Sheets.....	4
Summary of Significant Projection Assumptions and Accounting Policies .....	6-33

## INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Directors  
Samaritan Housing Foundation, Inc. d/b/a SearStone  
Cary, North Carolina

Management of Samaritan Housing Foundation, Inc. d/b/a SearStone (the "Corporation") is responsible for the accompanying financial projection of the Corporation, which comprises projected balance sheets as of and for each of the eight years ending December 31, 2027, the related projected statements of operations and changes in net deficit, and cash flows for each of the years then ending, and the related summaries of significant assumptions and rationale in accordance with guidelines for the presentation of a financial projection established by the American Institute of Certified Public Accountants ("AICPA").

The accompanying projection and this report were prepared to comply with the requirements of North Carolina General Statutes, Chapter 58, Article 64. Accordingly, this report should not be used for any other purpose.

We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services Committee of the AICPA. We did not examine or review the financial projection nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by Management. Accordingly, we do not express an opinion, a conclusion, or provide any form of assurance on the financial projection. There will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Furthermore, even if the following hypothetical assumptions occur during the projection period:

- The New Independent Living Units and New Health Center (each defined later in this report) are successfully marketed and occupied at assumed occupancy levels and that adequate demand for services exists to support the assumed utilization;
- Residents of the New Independent Living Units select the entrance fee refundability and health care benefit options at the contract mix assumed;
- Construction, development, marketing and other related costs for the Project (defined later in this report) occur in the assumed timeline and at assumed costs; and,
- The Series 2020 Bonds, the Series 2022 Bonds, and the 2022 Bank Loan (defined later in this report) are issued at the assumed terms and rates.

There will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

*Dixon Hughes Goodman LLP*

Atlanta, Georgia  
May 29, 2020



# SAMARITAN HOUSING FOUNDATION, INC. D/B/A SEARSTONE

## Projected Statements of Operations and Changes in Net Deficit For the Years Ending December 31, (In Thousands)

	2020	2021	2022	2023	2024	2025	2026	2027
<b>Revenues:</b>								
Service Fees:								
Independent living	\$ 9,125	\$ 9,535	\$ 9,964	\$ 10,413	\$ 13,642	\$ 20,204	\$ 22,790	\$ 23,734
Assisted living	529	597	655	685	1,056	1,814	2,464	2,803
Skilled nursing	1,112	1,255	1,378	1,440	1,826	2,581	3,235	3,593
Other revenues	1,109	1,143	1,177	1,213	1,344	1,597	1,739	1,821
Amortization of advance fees	1,183	1,231	1,283	1,335	1,645	2,052	2,213	2,277
Investment income	458	472	486	501	790	891	980	1,055
<b>Total Revenues</b>	<b>13,516</b>	<b>14,233</b>	<b>14,943</b>	<b>15,587</b>	<b>20,303</b>	<b>29,139</b>	<b>33,421</b>	<b>35,283</b>
<b>Expenses:</b>								
General and administrative expenses	900	925	950	979	1,367	1,763	1,936	2,016
Marketing and advertising expenses	1,237	1,237	2,024	1,018	396	398	411	425
Payroll and related expenses	5,194	5,349	5,512	5,693	8,339	8,680	9,690	10,350
Utilities and facilities	1,492	1,533	1,575	1,622	2,910	3,039	3,152	3,260
Operating and maintenance expenses	1,572	1,598	1,624	1,653	2,966	3,676	4,000	4,153
Taxes and insurance	243	247	254	262	416	430	444	462
<b>Total Operating Expenses</b>	<b>10,638</b>	<b>10,889</b>	<b>11,939</b>	<b>11,227</b>	<b>16,394</b>	<b>17,986</b>	<b>19,633</b>	<b>20,666</b>
Interest Expense	5,231	5,407	5,716	5,626	14,681	12,068	10,855	10,452
Depreciation	3,295	3,409	3,550	3,704	7,652	7,833	8,025	8,227
Amortization-deferred marketing costs	25	25	25	25	25	25	3	-
<b>Total Expenses</b>	<b>19,189</b>	<b>19,730</b>	<b>21,230</b>	<b>20,582</b>	<b>38,752</b>	<b>37,912</b>	<b>38,516</b>	<b>39,345</b>
Change in net deficit	(5,673)	(5,497)	(6,287)	(4,995)	(18,449)	(8,773)	(5,095)	(4,062)
<b>Net deficit, beginning of year</b>	<b>(71,717)</b>	<b>(77,390)</b>	<b>(82,887)</b>	<b>(89,174)</b>	<b>(94,169)</b>	<b>(112,618)</b>	<b>(121,391)</b>	<b>(126,486)</b>
<b>Net deficit, end of year</b>	<b>\$ (77,390)</b>	<b>\$ (82,887)</b>	<b>\$ (89,174)</b>	<b>\$ (94,169)</b>	<b>\$ (112,618)</b>	<b>\$ (121,391)</b>	<b>\$ (126,486)</b>	<b>\$ (130,548)</b>

**See accompanying Summary of Significant Projection Assumptions and Rationale  
and Independent Accountants' Compilation Report**

# SAMARITAN HOUSING FOUNDATION, INC. D/B/A SEARSTONE

## Projected Statements of Cash Flows For the Years Ending December 31, (In Thousands)

	2020	2021	2022	2023	2024	2025	2026	2027
<b>Operating activities:</b>								
Change in net deficit	\$ (5,673)	\$ (5,497)	\$ (6,287)	\$ (4,995)	\$ (18,449)	\$ (8,773)	\$ (5,095)	\$ (4,062)
Proceeds from nonrefundable advance fees-initial	-	-	-	-	5,741	2,198	259	-
Proceeds from nonrefundable advance fees-turnover	883	910	934	988	1,112	1,352	1,578	1,746
Depreciation	3,295	3,409	3,550	3,704	7,652	7,833	8,025	8,227
Amortization of deferred marketing costs	25	25	25	25	25	25	3	-
Amortization of deferred financing costs	131	131	465	465	465	465	463	182
Amortization of advance fees	(1,183)	(1,231)	(1,283)	(1,335)	(1,645)	(2,052)	(2,213)	(2,277)
Net change in:								
Accounts receivable	(50)	(5)	(4)	(4)	(28)	(57)	(28)	(12)
Prepaid expenses	(13)	(4)	(17)	11	(82)	(25)	(26)	(17)
Accounts payable	158	14	57	(39)	285	87	91	57
Accrued interest payable	40	-	(3)	(4)	(4)	-	-	-
<b>Net cash provided by (used in) operating activities</b>	<b>(2,387)</b>	<b>(2,248)</b>	<b>(2,563)</b>	<b>(1,184)</b>	<b>(4,928)</b>	<b>1,053</b>	<b>3,057</b>	<b>3,844</b>
<b>Investing activities:</b>								
Purchase of property and equipment - Project	(1,466)	(1,466)	(68,696)	(54,722)	(3,891)	-	-	-
Capitalized interest	(473)	(427)	(5,778)	(8,084)	(279)	(253)	(253)	(253)
Routine capital additions	(472)	(486)	(500)	(515)	(631)	(697)	(763)	(830)
Net change in assets limited as to use	(2,727)	3,065	(12,509)	5,136	(11,180)	(2,353)	1,285	10,616
Purchase (sale) of investments	(208)	(421)	(918)	252	3,120	(1,877)	(8,591)	(16,433)
<b>Net cash used by investing activities</b>	<b>(5,346)</b>	<b>265</b>	<b>(88,401)</b>	<b>(57,933)</b>	<b>(12,861)</b>	<b>(5,180)</b>	<b>(8,322)</b>	<b>(6,900)</b>
<b>Financing activities:</b>								
Proceeds from Series 2020 Bonds	6,540	-	-	-	-	-	-	-
Proceeds from Series 2022 Bank Loan	-	-	12,937	57,959	4,104	-	-	-
Proceeds from Series 2022 Bonds	-	-	82,893	-	-	-	-	-
Deferred financing costs	(440)	-	(2,942)	-	-	-	-	-
Payment on Purchase Money Note	-	-	(2,000)	-	-	-	-	-
Payment of Series 2017A Bonds	(55)	(55)	(65)	(65)	(70)	(1,305)	(1,365)	(1,420)
Payment of Series 2017B Bonds	(1,005)	(1,050)	(1,090)	(1,135)	(1,185)	-	-	-
Payment of Series 2020 Bonds	-	-	(440)	(480)	(525)	-	-	-
Payment of Series 2022 Bank Loan	-	-	-	-	(52,000)	(23,000)	-	-
Payment of Series 2022 Bonds	-	-	-	-	-	-	(891)	(949)
Payment of Subordinate Obligations	-	-	(1,000)	-	-	-	-	-
Change in Subordinate Obligations	575	575	575	527	527	527	527	527
Refundable entrance fees received-initial	-	-	-	-	65,027	25,323	3,018	-
Refundable entrance fees received-turnover	7,943	8,192	8,402	8,896	10,053	12,314	14,469	16,054
Entrance fee refunds	(5,656)	(5,658)	(6,220)	(6,643)	(7,718)	(9,601)	(10,357)	(11,071)
<b>Net cash provided by financing activities</b>	<b>7,902</b>	<b>2,004</b>	<b>91,050</b>	<b>59,059</b>	<b>18,213</b>	<b>4,258</b>	<b>5,401</b>	<b>3,141</b>
<b>Net change in cash</b>	<b>\$ 169</b>	<b>\$ 21</b>	<b>\$ 86</b>	<b>\$ (58)</b>	<b>\$ 424</b>	<b>\$ 131</b>	<b>\$ 136</b>	<b>\$ 85</b>
Cash and cash equivalents, beginning of year	705	874	895	981	923	1,347	1,478	1,614
<b>Cash and cash equivalents, end of year</b>	<b>\$ 874</b>	<b>\$ 895</b>	<b>\$ 981</b>	<b>\$ 923</b>	<b>\$ 1,347</b>	<b>\$ 1,478</b>	<b>\$ 1,614</b>	<b>\$ 1,699</b>

**See accompanying Summary of Significant Projection Assumptions and Rationale  
and Independent Accountants' Compilation Report**

# SAMARITAN HOUSING FOUNDATION, INC. D/B/A SEARSTONE

## Projected Balance Sheets For the Years Ending December 31, (In Thousands)

	2020	2021	2022	2023	2024	2025	2026	2027
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	874	895	981	923	1,347	1,478	1,614	1,699
Assets limited as to use, current portion	940	961	1,428	1,451	1,471	1,942	1,988	2,043
Accounts receivable	81	86	90	94	122	179	207	219
Sales tax receivable	38	38	38	38	38	38	38	38
Prepaid expenses	169	173	190	179	261	286	312	329
<b>Total current assets</b>	<b>2,102</b>	<b>2,153</b>	<b>2,727</b>	<b>2,685</b>	<b>3,239</b>	<b>3,923</b>	<b>4,159</b>	<b>4,328</b>
Investments								
Assets limited as to use:								
Resident Deposits	520	520	520	520	520	520	520	520
Project Fund - Series 2017/2020 Bonds	3,622	962	-	-	-	-	-	-
Project Fund - Series 2022 Bonds	-	-	-	-	-	-	-	-
Funded Interest Fund - Series 2020/2022 Bonds	480	1	6,634	824	-	-	-	-
Entrance Fee Fund	-	-	-	-	3,131	7,652	10,929	-
Working Capital Fund	-	-	-	-	2,915	391	-	-
Debt Service Reserve Fund - Series 2016 Bonds	492	492	492	492	492	492	492	492
Debt Service Reserve Fund - Series 2017 Bonds	5,155	5,155	5,155	5,155	5,155	5,155	5,155	5,155
Debt Service Reserve Fund - Series 2020 Bonds	632	632	632	632	509	509	509	509
Debt Service Reserve Fund - Series 2022 Bonds	-	-	6,279	6,279	6,279	6,279	6,279	6,279
Statutory Operating Reserve Fund	2,515	2,568	2,660	3,311	9,372	9,257	5,040	5,298
Interest Reserve	1,509	1,509	1,509	1,509	1,509	1,509	1,509	1,509
Bond Fund	940	961	1,428	1,451	1,471	1,942	1,988	2,043
Total assets limited as to use	15,865	12,800	25,309	20,173	31,353	33,706	32,421	21,805
Less: current portion	(940)	(961)	(1,428)	(1,451)	(1,471)	(1,942)	(1,988)	(2,043)
<b>Assets limited as to use, less current portion</b>	<b>14,925</b>	<b>11,839</b>	<b>23,881</b>	<b>18,722</b>	<b>29,882</b>	<b>31,764</b>	<b>30,433</b>	<b>19,762</b>
Other receivables								
Property and equipment, net	503	503	503	503	503	503	503	503
Deferred marketing costs, net	107,118	106,088	177,512	237,129	234,278	227,395	220,386	213,242
Deferred marketing costs, net	128	103	78	53	28	3	-	-
Total non-current assets	122,674	118,533	201,974	256,407	264,691	259,665	251,322	233,507
<b>Total assets</b>	<b>\$126,989</b>	<b>\$123,320</b>	<b>\$208,253</b>	<b>\$262,392</b>	<b>\$268,110</b>	<b>\$265,645</b>	<b>\$266,129</b>	<b>\$264,916</b>

**See accompanying Summary of Significant Projection Assumptions and Rationale  
and Independent Accountants' Compilation Report**

# SAMARITAN HOUSING FOUNDATION, INC. D/B/A SEARSTONE

## Projected Balance Sheets (continued) For the Years Ending December 31, (In Thousands)

	2020	2021	2022	2023	2024	2025	2026	2027
<b>Liabilities and Net Deficit</b>								
<b>Current liabilities:</b>								
Accounts payable	\$ 586	\$ 600	\$ 657	\$ 618	\$ 903	\$ 990	\$ 1,081	\$ 1,138
Accrued interest payable	433	433	430	426	422	422	422	422
Resident deposits	886	886	886	886	886	886	886	886
Current portion of long-term debt	1,105	1,595	1,680	1,780	1,305	2,256	2,369	2,501
Other liabilities	227	227	227	227	227	227	227	227
<b>Total current liabilities</b>	<b>3,237</b>	<b>3,741</b>	<b>3,880</b>	<b>3,937</b>	<b>3,743</b>	<b>4,781</b>	<b>4,985</b>	<b>5,174</b>
<b>Long-term liabilities:</b>								
Purchase Money Note, less current portion	2,000	2,000	-	-	-	-	-	-
Subordinate Obligations	17,329	17,904	17,479	18,006	18,533	19,060	19,587	20,114
Long-term debt, less current portion - Series 2016 Bonds	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Long-term debt, less current portion - Series 2017A Bonds	71,620	71,555	71,490	71,420	70,115	68,750	67,330	65,840
Long-term debt, less current portion - Series 2017B Bonds	3,410	2,320	1,185	-	-	-	-	-
Long-term debt, less current portion - Series 2020 Bonds	6,540	6,100	5,620	5,095	5,095	5,095	5,095	5,095
Long-term debt, less current portion - Series 2022 Bank	-	-	12,937	70,896	23,000	-	-	-
Long-term debt, less current portion - Series 2022 Bonds	-	-	82,893	82,893	82,893	82,002	81,053	80,042
Deferred financing costs	(1,962)	(1,884)	(4,414)	(4,002)	(3,590)	(3,178)	(2,768)	(2,639)
Long-term debt payable, net	106,937	105,995	195,190	252,308	204,046	179,729	178,297	176,452
Original issue discount	(1,534)	(1,481)	(1,428)	(1,375)	(1,322)	(1,269)	(1,216)	(1,163)
Refundable entrance fees	87,561	90,095	92,277	94,530	161,892	189,929	197,060	202,043
Deferred revenue from advance fees	8,178	7,857	7,508	7,161	12,369	13,866	13,489	12,958
<b>Total long-term liabilities</b>	<b>201,142</b>	<b>202,466</b>	<b>293,547</b>	<b>352,624</b>	<b>376,985</b>	<b>382,255</b>	<b>387,630</b>	<b>390,290</b>
<b>Total liabilities</b>	<b>204,379</b>	<b>206,207</b>	<b>297,427</b>	<b>356,561</b>	<b>380,728</b>	<b>387,036</b>	<b>392,615</b>	<b>395,464</b>
Net deficit								
Without donor restrictions	(77,493)	(82,990)	(89,277)	(94,272)	(112,721)	(121,494)	(126,589)	(130,651)
With donor restrictions	103	103	103	103	103	103	103	103
Net deficit	(77,390)	(82,887)	(89,174)	(94,169)	(112,618)	(121,391)	(126,486)	(130,548)
<b>Total liabilities and net deficit</b>	<b>\$126,989</b>	<b>\$123,320</b>	<b>\$208,253</b>	<b>\$262,392</b>	<b>\$268,110</b>	<b>\$265,645</b>	<b>\$266,129</b>	<b>\$264,916</b>

**See accompanying Summary of Significant Projection Assumptions and Rationale  
and Independent Accountants' Compilation Report**

## **Samaritan Housing Foundation, Inc. d/b/a SearStone**

### **Summary of Significant Projection Assumptions and Rationale**

#### **Basis of Presentation**

The accompanying financial projection presents, to the best of the knowledge and belief of management of Samaritan Housing Foundation, Inc. (the “Corporation”) and SearStone - RLA, Inc. (collectively, “Management”), the expected financial position, results of operations, and cash flows of the Corporation as of and for each of the eight years ending December 31, 2027. Accordingly, the accompanying financial projection reflects Management’s judgment as of May 29, 2020, the date of this projection, of the expected conditions and its expected course of action during the projection period. However, even if the hypothetical assumptions described below occur, there will usually be differences between the projection and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

The accompanying projection and this report were prepared to comply with the requirements of North Carolina General Statutes, Chapter 58, Article 64. Accordingly, this report should not be used for any other purpose. The assumptions disclosed herein are those that Management believes are significant to the prospective financial statements.

The prospective financial statements included in the projection have been prepared in accordance with the accounting principles generally accepted in the United States of America. Significant accounting policies are described in the appropriate assumptions and notes to the prospective financial statements. The assumptions described are not all-inclusive.

A hypothetical assumption is an assumption used in a financial projection to present a condition or course of action that is not necessarily expected to occur, but is consistent with the purpose of the presentation. Hypothetical assumptions are not derived from sources, which are based upon supporting documentation such as contracts, agreements, or other empirical data. Management has prepared its financial projection assuming the hypothetical assumption:

- The New Independent Living Units and New Health Center (each defined later in this report) are successfully marketed and occupied at assumed occupancy levels and that adequate demand for services exists to support the assumed utilization;
- Residents of the New Independent Living Units select the entrance fee refundability and health care benefit options at the contract mix assumed;
- Construction, development, marketing and other related costs for the Project (defined later in this report) occur in the assumed timeline and at assumed costs; and,
- The Series 2020 Bonds, the Series 2022 Bonds, and the 2022 Bank Loan (defined later in this report) are issued at the assumed terms and rates.

#### **Background of the Corporation**

The Corporation was incorporated in 1999 as a non-profit corporation under the laws of Georgia and is qualified to do business in North Carolina. The Corporation was formed to acquire real property and to develop, market and operate the property as a continuing care retirement community in Cary, North Carolina, known as SearStone Retirement Community (“SearStone” or, the “Community”).

The Corporation is governed by an 8-member Board of Directors (the “Directors”). None of the Directors have an ownership interest or an equitable or beneficial interest in SearStone or its assets.

**See Independent Accountants’ Compilation Report**

## **COVID-19 Pandemic**

On March 11, 2020, the World Health Organization declared the highly contagious respiratory disease named “coronavirus disease 2019” (“COVID-19”) to be a pandemic, and on March 13, 2020, a national emergency was declared in the United States. The Centers for Disease Control and Prevention has confirmed the spread of COVID-19 to the United States, including North Carolina. In response, the federal government and a large number of state governments, including North Carolina, have imposed strict measures to curtail certain aspects of public life in an effort to contain COVID-19.

In addition to the direct impact to the health care industry, global investment and financial markets (including in the United States) have experienced substantial volatility, with significant declines attributed to COVID-19 concerns and associated economic impacts of the curtailment of public life described above. As with nearly all industries and companies operating through the COVID-19 pandemic, the Corporation expects to encounter further volatility and disruption in its operations and in the local, national and global economies.

An outbreak of an infectious disease, including the growth in the magnitude or severity of COVID-19 cases in the Corporation’s service area, could result in an abnormally high demand for health care services. Further, the changing global economic conditions or global health concerns surrounding the COVID-19 pandemic may also affect the Corporation’s partners, suppliers, distributors and payors, potentially disrupting or delaying the Corporation’s supply chain, project construction progress and reimbursement by private payors.

The extent of COVID-19’s effect on the Corporation’s operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, the potential impact of the COVID-19 pandemic could materially adversely impact the Corporation’s financial condition, liquidity and results of operations, as well as national and local economies. As a result, Management has not estimated the potential impact of COVID-19 on the Corporation in its projection.

## **Description of the Community**

SearStone is located in Cary, North Carolina on approximately 41 acres near High House Road at Davis Drive. The first residential units were available for occupancy in November 2013. The Community is open to people age 62 and older, and consists of 131 apartments (the “Independent Living Apartments”), 38 estate homes (the “Independent Living Homes”) (collectively, the “Existing Independent Living Units”), 14 assisted living units (the “Existing Assisted Living Units”) and a nursing facility which includes 25 skilled nursing beds (the “Existing Skilled Nursing Beds”). The adult care home and skilled nursing accommodations are provided in the health center called “Brittany Place”. The Community also features common areas as well as a clubhouse, a spa/wellness center with an indoor pool, a library/business center, an arts and crafts studio, living areas, a club room and other administrative spaces.

In December 2017, the Corporation issued \$71,730,000 of non-rated tax-exempt fixed rate revenue refunding bonds (the “Series 2017A Bonds”), and \$6,015,000 of non-rated tax-exempt revenue bonds (the “Series 2017B Bonds” and collectively with the Series 2017A Bonds the “Series 2017 Bonds”), to refund existing debt and pay for the initial development costs associated with a future expansion at the Community to be known as “The Highview at SearStone” (the “Project”).

The following table summarizes the types of units, approximate square footage, monthly fees (“Monthly Fees”) and entrance fees (“Entrance Fees”) for the Existing Independent Living Units.

Unit Configuration	Number of Units	Square Footage	Entrance Fee <sup>(1)(2)</sup>	Monthly Fee <sup>(1)(3)</sup>
<b>Apartments</b>				
<i>One Bedroom, with One Bath</i>				
Asturian	14	931 – 1,097	\$452,000 – 467,000	\$3,270 – 3,490
Breton	4	1,039	\$436,000	\$3,450
Galacian	6	1,165	\$452,000	\$4,040
<i>One Bedroom, with One &amp; ½ Bath</i>				
Finnhorse	4	1,280	\$477,000	\$4,150
Belgian	4	1,194 – 1,356	\$487,000 – 503,000	\$4,040 – 4,250
Clydesdale	2	1,370	\$508,000	\$4,250
Danube	6	1,402	\$508,000	\$4,250
<i>Two Bedroom, Two Bath</i>				
Buckskin	22	1,204 – 1,415	\$492,000 – 555,000	\$4,040 – 4,260
Buckskin Terrace	2	1,750 – 1,760	\$626,000	\$5,890
Hackney	5	1,478 – 1,500	\$550,000 – 560,000	\$5,240 – 5,250
Shetland	8	1,562	\$615,000	\$5,420
Dartmoor	12	1,765 – 1,793	\$637,000 – 653,000	\$5,890
Highland	8	1,866 – 1,924	\$663,000 – 668,000	\$5,980
<i>Two Bedroom, Two Bath, Den</i>				
Haflinger	5	1,578 – 1,636	\$581,000 – 586,000	\$5,420 – 5,450
Campolina	4	2,000	\$770,000	\$6,120
Highland II	8	1,945 – 2,006	\$673,000 – 693,000	\$6,000 – 6,170
Caspian	2	1,811 – 2,092	\$777,000 – 779,000	\$5,930 – 6,170
Pegasus	8	1,853	\$662,000	\$5,950
Appaloosa	1	2,085	\$719,000	\$6,170
Estonian	6	2,238 – 2,294	\$766,000	\$6,500
<b>Total/Weighted Average-Apts</b>	<b>131</b>	<b>1,533</b>	<b>\$578,915</b>	<b>\$4,953</b>
<b>Cottages</b>				
<i>Two Bedroom, Two Bath</i>				
Jutland	10	1,766 – 1,926	\$615,000 – 667,000	\$5,890 – 6,000
Murgese	10	1,902	\$756,000	\$5,980
Lipizzan	2	2,082	\$745,000 – 756,000	\$6,170
Selle	2	1,991	\$843,000	\$6,110
Nordland	2	2,406	\$848,000	\$6,710
Morgan	2	1,999	\$717,000	\$5,850
Shire	2	2,394	\$899,000	\$6,710
Percheron	2	2,558	\$848,000	\$6,820
Murgese III	6	3,914	\$931,000	\$7,190 – 7,330
<b>Total/Weighted Average-Homes</b>	<b>38</b>	<b>2,315</b>	<b>\$775,026</b>	<b>\$6,328</b>
<b>TOTAL/AVERAGES</b>	<b>169</b>	<b>1,710</b>	<b>\$623,274</b>	<b>\$5,264</b>
Second person fees				\$1,470

Source: Management

**See Independent Accountants’ Compilation Report**

- (1) The Entrance Fee and Monthly Fee pricing is effective as of January 1, 2020.
- (2) Management initially offered two Entrance Fee plans: a lifecare plan (“Type A Plan”) and a fee for service plan (“Type C Plan”). Pricing for the Type A Plan, shown in the table above, is the only plan currently offered to new residents (including a \$65,000 per person life care fee). Second persons would pay an additional \$65,000 life care fee for the Type A plan.
- (3) Management offers two resident service packages: The “Gold Package” and the “Platinum Package.”
  - a. The Monthly Fees shown in the table above reflect the Gold Package. The Gold Package provides for a \$217 meal credit per person per month and monthly housekeeping.
  - b. The Monthly Fees for the Platinum Package are an additional \$300 per month for one resident (plus an additional \$200 for a second person) (the “Platinum Monthly Fee”) and provides for a \$434 meal credit per person per month and weekly housekeeping.

*The Healthcare Center*

Admittance to the Existing Assisted Living Units and the Existing Skilled Nursing Beds (collectively, the “Existing Healthcare Center”) is restricted to those residents who have signed a Membership and Residency Agreement (the “Residency Agreement”) and are transferring from the Existing Independent Living Units.

The following table summarizes the type, number, approximate square footage, and the Monthly Fees and daily fees (the “Daily Fees”) for the Existing Healthcare Center:

<b>Table 2</b>				
<b>Existing Healthcare Center Configuration</b>				
	<b>Number of Units</b>	<b>Square Footage</b>	<b>Entrance Fee</b>	<b>Monthly/Daily Fee <sup>(1)(2)(3)</sup></b>
Existing Assisted Living Units	14	527	Not applicable	\$6,783
Existing Skilled Nursing Beds	25	291	Not applicable	\$417 / day
<b>Total</b>	<b>39</b>			

Source: Management

- (1) Pricing is effective as of January 1, 2020.
- (2) Monthly and Daily Fees reflects the Gold Package for the Type C Plan.
- (3) Residents who have selected the Type A Plan and are temporarily or permanently transferred to the Healthcare Center will continue to pay their Independent Living Unit Monthly Fee. Under the Platinum Package, Residents will receive three meals per day for \$939 per month. Under the Gold Package, Residents will receive 15 meal credits per month and pay an additional \$750 per month for 75 meals. Residents who selected the Type C Plan and are temporarily or permanently transferred to the Healthcare Center would pay the then current Monthly Fee for assisted living or Daily Fee for nursing care services which includes three meals per day.



**Description of the Project**

Management has plans for a second phase expansion to the Community to be known as “The Highview at Searstone”, expected to include the construction of 152 additional independent living units (the “New Independent Living Units”), 14 additional assisted living units (the “New Assisted Living Units”), 14 memory care assisted living units (the “Memory Care Units”) and 24 additional skilled nursing beds (the “New Skilled Nursing Beds”). In addition, the Project is to include multiple new dining venues, a multipurpose area with capacity for up to 350 people, an underground parking garage, new green spaces and landscaping improvements and renovation to the current clubhouse to repurpose the common areas. The following table summarizes the unit types, approximate square footage, Entrance Fees and Monthly Fees for the New Independent Living Units.

**Table 3**  
**New Independent Living Unit Configuration**

<b>Unit Configuration</b>	<b>Number of Units</b>	<b>Square Footage</b>	<b>Entrance Fee<sup>(1)(2)</sup></b>	<b>Monthly Fee<sup>(1)(3)</sup></b>
One-Bedroom A-2	1	937	\$463,900	\$3,595
One-Bedroom A-3	4	1,023	\$502,900	\$3,795
One-Bedroom A-4	5	1,135	\$549,900	\$3,995
One-Bedroom A-5	16	1,139	\$551,900	\$4,195
One-Bedroom A-6	4	1,183	\$584,900	\$4,395
One-Bedroom A-7	1	1,231	\$587,900	\$4,495
One-Bedroom A-8	4	1,248	\$594,900	\$4,595
One-Bedroom A-9	3	1,260	\$603,900	\$4,595
One-Bedroom A-10	4	1,285	\$612,900	\$4,695
Two-Bedroom B-1	14	1,332	\$647,757	\$4,895
Two-Bedroom B-2	4	1,378	\$673,900	\$4,995
Two-Bedroom B-3	8	1,402	\$671,900	\$5,095
Two-Bedroom B-4	7	1,409	\$660,329	\$5,095
Two-Bedroom B-5	4	1,486	\$697,900	\$5,395
Two-Bedroom B-6	16	1,508	\$708,713	\$5,395
Two-Bedroom B-7	6	1,510	\$708,900	\$5,495
Two-Bedroom B-8	8	1,561	\$722,150	\$5,595
Two-Bedroom B-9	1	1,610	\$731,900	\$5,795
Two-Bedroom B-10	6	1,629	\$758,900	\$5,795
Two-Bedroom B-11	4	1,650	\$767,650	\$5,895
Two-Bedroom B-12	1	1,663	\$768,900	\$5,895
Two-Bedroom B-13	12	1,670	\$843,233	\$5,895
Two-Bedroom B-14	4	1,692	\$849,900	\$5,995
Two-Bedroom B-15	4	1,708	\$793,900	\$5,995
Two-Bedroom B-16	4	1,747	\$865,900	\$6,195
Two-Bedroom B-17	3	1,768	\$816,900	\$6,195
Two-Bedroom B-18	4	1,927	\$926,400	\$6,595
<b>TOTAL/AVERAGES</b>	<b>152</b>	<b>1,440</b>	<b>\$690,709</b>	<b>\$5,184</b>
Second Person Fees				\$1,550

Source: Management

**See Independent Accountants' Compilation Report**

- (1) Entrance Fees and Monthly Fees shown are in 2024 dollars. Entrance fees shown are for the 100 percent refundable Type A plan, which includes a \$70,000 life care fee. The 100 percent refundable entrance fee is to be 90 percent refundable for second generation residents. Second persons would pay the \$70,000 life care fee if the Type A plan is chosen. Entrance Fees pricing is assumed to increase by 5 percent at the start of construction of the Project and by 5 percent at opening of the Project.
- (2) In addition to the 100 percent refundable Type A plan shown above, Management plans to offer a 50 percent refundable and zero percent refundable Type A plan with entrance fees approximately 33 percent and 67 percent lower respectively than the 100 percent refundable Type A plan.
- (3) Management plans to offer a 90 percent refundable Type C plan in addition to the Type A plans. The entrance fees for the Type C plan are expected to range from \$440,000 to \$536,000 for one-bedroom apartments and \$572,000 to \$760,000 for the two-bedroom apartments.

The Existing Independent Living Units and the New Independent Living Units are collectively referred to as the “Independent Living Units”.

*The New Healthcare Center*

The following table summarizes the type, number, approximate square footage, and the Monthly/Daily Fees for the New Assisted Living Units, Memory Care Units and New Skilled Nursing Beds (collectively, the “New Healthcare Center”):

<b>Table 4</b>				
<b>New Healthcare Center Configuration</b>				
	<b>Number of Units</b>	<b>Square Footage</b>	<b>Entrance Fee</b>	<b>Monthly/Daily Fee<sup>(1)</sup></b>
New Assisted Living Units	14	550	Not applicable	\$7,148/month
Memory Care Units	14	391	Not applicable	\$7,500/month
New Skilled Nursing Beds	24	410	Not applicable	\$469/day
<b>Total</b>	<b>52</b>			

Source: Management

(1) Monthly/Daily Fees are shown in 2024 dollars.

The Existing Assisted Living Units and the New Assisted Living Units are collectively referred to as the “Assisted Living Units.” The Existing Skilled Nursing Beds and New Skilled Nursing Beds are collectively referred to as the “Skilled Nursing Beds.” The Assisted Living Units, Memory Care Units, and Skilled Nursing Beds are collectively referred to as the “Healthcare Center”.

The following table summarizes the number of units by level of care before and after the completion of the Project.

**Table 5**  
**Number of Units/Beds Before and After the Project**

<b>Unit Type</b>	<b>Existing</b>	<b>Added</b>	<b>Upon Completion</b>
Independent Living Apartments	131	152	283
Independent Living Cottages	38	–	38
Assisted Living Units	14	14	28
Memory Care Units	–	14	14
Skilled Nursing Beds	25	24	49
<b>Total</b>	<b>208</b>	<b>204</b>	<b>412</b>

Source: Management and the Development Consultant

### Timeline

The following table illustrates the anticipated timeline for financing, construction completion and fill-up of the Project.

**Table 6**  
**Development Timeline**

Issuance of Series 2020 Bonds	May 2020
Issuance of Series 2022 Bonds	January 2022
Construction commences on the Project	January 2022
New Independent Living Units available for occupancy	January 2024
New Health Center available for occupancy	February 2024
New Independent Living Units achieve stabilized occupancy of 95%	June 2026
New Assisted Living Units achieves stabilized occupancy of 85%	January 2027
Memory Care Units achieves stabilized occupancy of 85%	January 2027
New Skilled Nursing Beds achieve stabilized occupancy of 85%	January 2027

Source: Management and the Development Consultant

## Significant Agreements

### *Management Agreement*

SearStone – RLA, Inc. (the “Manager”) is affiliated with Retirement Living Associates, Inc. which provides professional management, marketing, development, consulting and advisory services to senior living communities in North Carolina, South Carolina, and Florida.

The Manager is responsible for the management of the Community’s Independent Living Units, Healthcare Center, and non-clinical aspects of the Community, including staffing, accounting and general administrative services. As compensation for services rendered, the Corporation is expected to pay the Manager a Base Management Fee (the “Base Management Fee”) and a Percentage Fee (the “Percentage Fee”). Pursuant to the Management Agreement, the Base Management Fee is paid in the amount of \$35,000 per month. For purposes of the projection, the Base Management Fee is assumed to increase at a rate of 3.0 percent annually.

The Percentage Fee is equal to 1.5 percent of the previous year’s billable income from the Independent Living Units, not to exceed 20 percent of the total fees paid to the Manager for any calendar year. As of December 31, 2019, the Manager has deferred \$400,000 of its Base Management Fee and Percentage Fee (the “Deferred Management Fees”). Pursuant the Management Agreement, \$400,000 is the maximum level of Deferred Management Fees allowed. Management assumes no change to the Deferred Management Fee balance during the projection period.

The Deferred Management Fees accrue interest at 6.0 percent, the payment of which will also be deferred (“Interest Payable – Deferred Management Fees”).

### *Development Consulting Agreement*

The Corporation and Greenbrier Development, LLC (the “Development Consultant”) entered into a development consulting services agreement, dated May 3, 2019 (the “Development Consulting Agreement”), whereby the Development Consultant is required to provide certain development and consulting services in connection with planning, financing, construction, marketing and opening of the Project.

The Development Consultant is also to be responsible for the marketing and initial occupancy of the Project until the New Independent Living Units, New Assisted Living Units, Memory Support Units and the New Skilled Nursing Beds achieve occupancy of 95 percent, 85 percent, 85 percent and 85 percent, respectively (“Stabilized Occupancy”).

As compensation for services rendered pursuant to the Development Consulting Agreement, the Development Consultant is to be paid a development consulting fee consisting of a base development consulting fee (the “Base Development Fee”) and a marketing fee (the “Marketing Fee”) (collectively referred to as the “Development Consulting Fee”). Based on the project budget as provided by Management and the Development Consultant, the total Development Consulting Fees paid would approximate \$8,597,000, which includes a Base Development Fee of approximately \$6,978,000 and a Marketing Fee of approximately \$1,619,000.

The Development Consulting Fee assumed to be paid to the Development Consultant in association with the development of the Project is summarized in the following table.

**Table 7**  
**Anticipated Development Consulting Fees**

<u>Base Development Fee</u>	
Upon commencement of development agreement, prior to the Series 2022 Bond closing	\$600,000
Upon closing of the Series 2022 Bonds <sup>(1)</sup>	2,888,799
Pro-rata over construction period	2,093,279
Upon obtaining certificate of occupancy	697,760
Upon obtaining all applicable permits for Project operations	697,760
<b>Total Base Development Fee</b>	<b>\$6,977,598</b>
<u>Marketing Fee</u>	
Pro-rata upon each move-in for the New Independent Living Units <sup>(2)</sup>	\$1,619,455
<b>Total Development Consulting Fees</b>	<b>\$8,597,053</b>

Source: The Development Consulting Agreement

(1) Assumes a January 2022 permanent financing.

(2) Approximately \$11,215 per move-in for the New Independent Living Units, assuming no move-in of Residents on the Project's waitlist prior to July 1, 2019.

The Corporation is also expected to reimburse the Development Consultant for all reasonable out-of-pocket travel expenses for personnel employed by the Development Consultant and costs of employing the Project's marketing and sales staff.

**Summary of Financing***Series 2020 Bonds*

Pre-construction development capital costs and expenses for the Project, including design, and marketing costs, is assumed to approximate \$7,283,000. These costs have been and are anticipated to continue to be funded through the issuance of \$6,540,000 Public Finance Authority Continuing Care Retirement Community Revenue Bonds (SearStone CCRC Project), Series 2020 (the “Series 2020 Bonds”) and approximately \$743,000 of prior proceeds from the issuance of Public Finance Authority Continuing Care Retirement Community Revenue Bonds (SearStone CCRC Project), Series 2017 (the “Series 2017 Bonds”). Management has assumed the following sources and uses of funds in preparing the financial projection based upon information provided by Herbert J. Sims (the “Underwriter”).

**Table 8**  
**Sources and Uses of Funds**  
**(In Thousands)**

<b>Sources of Funds:</b>	
Series 2020A Bonds <sup>(1)</sup>	\$ 5,095
Series 2020B Bonds <sup>(1)</sup>	1,445
<b>Total Series 2020 Bonds</b>	<b>\$ 6,540</b>
Series 2017 Bonds <sup>(2)</sup>	743
<b>Total Sources of Funds</b>	<b>\$ 7,283</b>
<b>Uses of Funds:</b>	
<b>Project Costs:</b>	<b>Total</b>
Land <sup>(3)</sup>	\$ 80
Professional services <sup>(4)</sup>	1,968
Marketing costs <sup>(5)</sup>	1,888
Miscellaneous costs <sup>(6)</sup>	559
Contingency <sup>(7)</sup>	650
Development costs <sup>(8)</sup>	324
<b>Total Project Costs</b>	<b>\$ 5,469</b>
Funded Interest Fund <sup>(9)</sup>	\$ 742
Debt Service Reserve Fund <sup>(10)</sup>	632
Cost of Issuance and Other Costs <sup>(11)</sup>	440
<b>Total Uses of Funds</b>	<b>\$ 7,283</b>

Source: Management and the Underwriter

(1) The following series of debt are assumed to be issued:

- \$5,095,000 of unrated tax-exempt fixed rate bonds (the “Series 2020A Bonds”); and
- \$1,445,000 of unrated taxable fixed rate bonds (the “Series 2020B Bonds”).

(2) Management assumes that approximately \$743,000 of remaining proceeds from the Series 2017 Bonds are available to fund pre-construction costs related to the Project. Approximately \$3,487,000 of prior proceeds from the Series 2017 Bonds have been used to fund additional Project related costs.

(3) Pre-construction land related costs are assumed to approximate \$80,000

- (4) Professional services costs are assumed to approximate \$1,968,000 and include architecture, interior design, civil engineering, and owner's representative services.
- (5) Marketing costs are assumed to approximate \$1,888,000 and include expenses related to direct marketing and advertising costs, salaries and benefits, and other promotion materials.
- (6) Miscellaneous costs are assumed to approximate \$559,000.
- (7) The Development Consultant has included a contingency of \$650,000 on the overall pre-construction costs of the Project.
- (8) The Development Consultant has assumed development and administrative costs of approximately \$324,000.
- (9) The Underwriter has estimated approximately \$742,000 of proceeds from the Series 2020 Bonds be used to fund interest for 19 months from the date of the issuance of the Series 2020 Bonds.
- (10) The deposits to the Debt Service Reserve Fund for the Series 2020A Bonds and Series 2020B Bonds are assumed to approximate \$509,000 and \$123,000, respectively.
- (11) Costs of issuance related to the Series 2020 Bonds are assumed to approximate \$440,000 and include the Underwriter's discount, legal fees, consulting fees, the bond issuance fees, issuer fees, and other miscellaneous financing costs.

*Series 2022 Bonds*

Upon achievement of 65 percent or greater pre-sales of the New Independent Living Units, Management plans to repay the Series 2020B Bonds and fund Project construction and related project costs primarily through the issuance of \$82,893,000 Public Finance Authority Continuing Care Retirement Community Revenue Bonds (SearStone CCRC Project), Series 2022 (the “Series 2022 Bonds”) and a \$75,000,000 commercial bank loan (the “2022 Bank Loan”). The Corporation is to be solely responsible for the payment of debt service on the Series 2022 Bonds and 2022 Bank Loan. Management has assumed the following sources and uses of funds in preparing its financial projection:

**Table 9**  
**Sources and Uses of Funds**  
**(In Thousands)**

<b>Sources of Funds:</b>		
Series 2022 Bonds <sup>(1)</sup>		\$ 82,893
2022 Bank Loan <sup>(1)</sup>		75,000
<b>Total</b>		<b>\$ 157,893</b>
Series 2020A Bonds <sup>(2)</sup>		5,095
Initial Entrance Fees <sup>(3)</sup>		15,619
<b>Total Sources of Funds</b>		<b>\$ 178,607</b>
<b>Uses of Funds:</b>		<b>Total</b>
Project Costs:		
Land <sup>(4)</sup>		\$ 2,285
Direct construction costs <sup>(5)</sup>		102,402
Indirect construction costs <sup>(6)</sup>		4,350
Professional services <sup>(7)</sup>		5,035
Marketing costs <sup>(8)</sup>		5,150
Miscellaneous costs <sup>(9)</sup>		1,450
Contingency <sup>(10)</sup>		5,415
Development costs <sup>(11)</sup>		9,287
<b>Total Project Costs</b>		<b>\$ 135,374</b>
Funded Interest Fund <sup>(12)</sup>		18,063
Debt Service Reserve Fund <sup>(13)</sup>		6,788
Payment of Subordinate Obligations <sup>(14)</sup>		1,000
Working Capital Fund <sup>(15)</sup>		10,000
Operating Reserve <sup>(16)</sup>		4,000
Cost of Issuance and Other Costs <sup>(17)</sup>		3,382
<b>Total Uses of Funds</b>		<b>\$ 178,607</b>

Source: Management and the Development Consultant



- (1) The following series of debt are assumed to be issued:
  - \$82,893,000 of unrated tax-exempt fixed rate bonds; and
  - \$75,000,000 commercial bank loan.
- (2) The Series 2020B Bonds are assumed to be redeemed with proceeds from the issuance of the Series 2022 Bonds and 2022 Bank Loan. The Series 2020A Bonds are assumed to remain outstanding.
- (3) Management assumes that approximately \$15,619,000 of initial Entrance Fees are to be used to fund start-up losses of approximately \$10,000,000, operating reserves of approximately \$4,000,000, and a portion of the Development Consulting Fee of approximately \$1,619,000.
- (4) Land costs of approximately \$2,285,000 include the \$2,000,000 payment of the Purchase Money Note (hereinafter defined).
- (5) Construction and other costs related to the Project are assumed to approximate \$102,402,000.
- (6) Indirect construction costs are assumed to approximate \$4,350,000 and include furniture and equipment costs.
- (7) Professional services costs are assumed to approximate \$5,035,000 and include architecture, interior design, civil engineering, and owner's representative services.
- (8) Marketing costs are assumed to approximate \$5,150,000 and include expenses related to direct marketing and advertising costs, salaries and benefits, and other promotion materials.
- (9) Miscellaneous costs are assumed to approximate \$1,450,000 and include expenses related to start-up costs, insurance, consulting, and legal costs, as provided by Management.
- (10) The Development Consultant has included a total contingency of \$5,415,000 for the Project.
- (11) The Development Consultant has assumed development costs of approximately \$9,287,000, including \$6,978,000 of Development Consulting Fees assumed to be funded through proceeds from the Series 2022 Bonds and 2022 Bank Loan, and \$1,619,000 of Development Consulting Fees assumed to be funded from initial Entrance Fees.
- (12) The Underwriter has estimated approximately \$16,429,000 of proceeds from the Series 2022 Bonds and the 2022 Bank Loan to be used to fund interest for 30 months from the date of the issuance of the Series 2022 Bonds, and approximately \$892,000 of proceeds from the Series 2022 Bonds and the 2022 Bank Loan to be used to fund additional interest on the Series 2020 Bonds. Funded interest from the Series 2020 Bonds is assumed to approximate \$742,000.
- (13) The deposits to the Debt Service Reserve Fund for the Series 2022 Bonds are assumed to approximate \$6,279,000. The deposits to the Debt Service Reserve Fund for the outstanding Series 2020A Bonds are assumed to approximate \$509,000.
- (14) Approximately \$1,000,000 of proceeds from the Series 2022 Bonds and 2022 Bank Loan are assumed to be used to pay Subordinate Obligations (hereinafter defined).
- (15) Subsequent to the issuance of the Series 2022 Bonds and 2022 Bank Loan and after construction completion of the Project, initial Entrance Fees of \$10,000,000 are assumed to be available to fund the Working Capital Fund to pay for start-up losses.
- (16) Subsequent to the issuance of the Series 2022 Bonds and 2022 Bank Loan and after construction completion of the Project, initial Entrance Fees of \$4,000,000 are assumed to be available to fund operating reserves.
- (17) Costs of issuance related to the Series 2022 Bonds and 2022 Bank Loan are assumed to approximate \$2,942,000 and include the Underwriter's discount, legal fees, consulting fees, the bond issuance fees, bank origination fees, issuer fees, and other miscellaneous financing costs.

## Residency Agreement

The Residency Agreement is a contract under which the Corporation is obligated, upon payment by the resident of an Entrance Fee and ongoing payments of the Monthly Fee to the Corporation, to provide certain services for life to the resident.

### *Admittance Standards*

To be accepted for admission to the Independent Living Units, a prospective resident must be at least 62 years of age (or if a couple, one spouse is at least 62 years of age) at the time residency is established, have financial assets adequate to pay the Entrance Fee, and must have sufficient income to meet the anticipated Monthly Fee and other personal expenses not provided under the Residency Agreement.

In order to reserve an Independent Living Unit at the Community, a prospective resident must provide a signed Residency Agreement and the payment of an initial Entrance Fee deposit equal to 10 percent of the applicable Entrance Fee pricing for the selected Independent Living Unit (the “Entrance Fee Deposit”). The prospective resident (the “Depositor”) must also complete a confidential data application, submit a confidential personal health history questionnaire and a lifestyle review survey, and be certified by the Community’s physician to be physically able to live independently at the Community.

### *Services and Amenities*

Under the Residency Agreement, payment of the Entrance Fee and Monthly Fee entitles all residents of the Independent Living Units (“Residents”) to receive the following services and amenities:

- Security and 24 hour emergency call systems;
- Maintenance of both the unit and the grounds and equipment;
- Scheduled local transportation;
- Valet parking for Residents of The Winston Clubhouse;
- Planned social, educational, cultural and recreational activities;
- Additional storage space for the Independent Living Units;
- Use of the community areas, private dining and meeting rooms, lounges, lobbies, library, social and recreational rooms, and other common activity facilities; and
- Priority access and services in the Healthcare Center.

Management offers two resident service packages: the “Gold Package” and the “Platinum Package.” Dining and housekeeping service are based on the selected resident service package and are as follows:

<b>Service</b>	<b>The Gold Package</b>	<b>The Platinum Package</b>
Dining	\$217 credit per month	\$434 credit per month
Housekeeping	monthly	weekly

Residents may also use their own monthly dining dollar credits for their guests and for private functions. Residents who incur monthly dining charges, for themselves or guests, in excess of the monthly credit amount will either pay for such excess at the time such dining charges are incurred, or will be billed for such excess dining charges monthly. The Monthly Fee will not be reduced for dining dollar credits not used unless Resident is away from the Community for more than 30 consecutive days, with prior notification. If such prior notification is given, the Resident will be credited with a prorated dining dollar credit commencing with the 31st day of absence.

Residents have the opportunity to change their selected service package on a monthly basis, given 30 days' notice. For the purpose of this projection, Management has assumed that approximately 98 percent of the Residents will select the Gold Package and 2 percent would select the Platinum Package in 2019 and thereafter.

Additional services are available to Residents for an extra charge including, but not limited to: additional meals, additional housekeeping and linen services, traveler's services, extra underground parking, and other concierge services.

#### *Health Care Benefit*

Under the Residency Agreement, the Community provides assisted living and nursing care services in the Healthcare Center. The Monthly Fee for Residents who transfer to the Healthcare Center are based on the Entrance Fee plan selected: Type A Plan or Type C Plan.

Residents who select the Type A Plan and are transferred to the Healthcare Center would continue to pay their Monthly Fee plus the cost of three meals per day. In the event the Assisted Living Units and Skilled Nursing Beds are full, Residents are temporarily moved to an outside facility at no additional Monthly Fee. If a Resident requires nursing services and the Skilled Nursing Beds are full, Management arranges for nursing care to be provided at SearStone's expense in an appropriate nursing establishment until available occupancy in the Skilled Nursing Beds is available.

Residents who selected the Type C Plan and are temporarily or permanently transferred to the Healthcare Center would pay the then current Monthly Fee for assisted living or daily fee for nursing care services. In addition, in the event the Assisted Living Units are full, Residents are temporarily moved to an outside facility at an additional charge. In the event that the Skilled Nursing Beds are full, Residents are provided access to outside nursing services at the expense of the Resident.

The Community offered Type A and Type C contracts to the initial residents of the Community and the Project. Management assumes that only the Type A contract will be offered to turnover residents during the projection period.

## Summary of Significant Accounting Policies

(a) Basis of Accounting

The Corporation maintains its accounting and financial records according to the accrual basis of accounting.

(b) Use of Estimates

The preparation of prospective financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the prospective financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Deferred Costs

Management has implemented ASU No. 2014-09 “Revenue from Contracts with Customers” and adjusted the treatment of deferred marketing costs. Previously, all marketing costs incurred by the Corporation in acquiring initial Resident contracts were capitalized and amortized on a straight-line basis over a period of the approximate average life expectancy of the initial Residents. Under the new Standard, only incremental marketing expenditures incurred specifically to obtain the Resident contract can be capitalized. Management assumes that future incremental marketing costs incurred specifically to obtain incremental Resident contracts are to be capitalized.

Costs associated with the issuance of the Series 2016 Bonds, the Series 2017 Bonds, the Series 2020 Bonds, the Series 2022 Bonds, and the 2022 Bank Loan are assumed to be capitalized and amortized over the expected life of the Series 2016 Bonds, the Series 2017 Bonds, the Series 2020 Bonds, the Series 2022 Bonds, and the 2022 Bank Loan using the effective interest method. Debt issuance costs are netted against the related debt on the balance sheet and the amortization is included in interest expense on the statements of operations.

(d) Property, Equipment and Depreciation Expense

Property and equipment are recorded at cost. Depreciation expense is calculated on the straight-line method over the estimated useful lives of depreciable assets. The cost of maintenance and repairs is charged to operations as incurred, whereas significant renewals and betterments are capitalized.

(e) Assets Limited as to Use

Assets limited as to use are assumed to be carried at fair value, which, based on the nature of the underlying securities (assumed to be high-grade debt securities), is assumed to approximate historical cost. Management assumes no material changes in fair values that result in material net realized or unrealized gains or losses during the projection period.

(f) Investment Income

Investment income, other than that capitalized as part of project costs, is reported as realized on operating revenue unless restricted by donor or law. Management does not project any unrealized gains or losses on investments.

(g) Costs of Borrowing

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

(h) Deferred Revenue from Advance Fees

The non-refundable advance fees received are recorded as deferred revenue and are recognized as operating income using the straight-line method over the estimated remaining life expectancy of the residents in the Independent Living Units, adjusted annually as determined by actuarial life expectancy tables.

(i) Refundable Entrance Fees

The refundable portion of the Entrance Fee is maintained as a liability, reflecting the Corporation's future obligation for repayment.

(j) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid securities with an original maturity of three months or less when purchased.

(k) Revenue Recognition

Management has implemented ASU No. 2014-09 "Revenue from Contracts with Customers" and recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's prior revenue recognition requirements and most industry-specific guidance. For purposes of the projection, Management has implemented ASU 2014-09.

(l) Restricted Cash

In 2019, Management adopted FASB ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. As of December 31, 2019, the Corporation had approximately \$11,239,000 invested in cash, cash equivalents, and restricted cash and cash equivalents on the statement of cash flows. For purposes of the projection, Management did not present restricted cash or restricted cash equivalents on the statement of cash flows during the projection period.

(m) Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

(n) Net Assets

The Corporation classifies its net assets as net assets with or without donor restrictions:

- Net assets without donor restrictions - resources of the Corporation that are not restricted by donors or grantors as to use or purpose. These resources include amounts generated from operations, undesignated gifts, and the investment in property and equipment.
- Net assets with donor restrictions - resources that are subject to donor-imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those satisfied by the passage of time or actions of the Corporation. Other donor imposed restrictions stipulate that donated assets be maintained in perpetuity, but may permit the Corporation to use or expend part or all of the income derived from the donated assets.

## Summary of Revenue and Entrance Fee Assumptions

### *Independent Living Revenue*

Resident service revenue is based upon charges for services provided to Residents of the Independent Living Units. Resident service revenue for independent living Residents is based upon the assumed occupancy and the Monthly Fees of the respective units. Management assumes the Existing Independent Living Unit's Monthly Fees will increase 4.50 percent annually beginning on January 1, 2021, 4.00 percent on January 1, 2024, and 3.75 percent on January 1, 2025, and annually thereafter. Management assumes the New Independent Living Unit's Monthly Fees will increase 4.0 percent annually on January 1, 2025, 3.75 percent on January 1, 2027, and annually thereafter.

### *Assumed Independent Living Utilization*

The Existing Independent Living Units are assumed to maintain approximately a 95 percent occupancy level throughout the projection period. New Independent Living Unit occupancy of approximately 95 percent is assumed to be achieved by June 2026 and remain constant at that level throughout the remainder of the projection. The following table summarizes the assumed utilization of the Existing Independent Living Units and the New Independent Living Units.

**Table 10**  
**Utilization of the Existing Independent Living Units and New Independent Living Units**

Fiscal Year Ending December 31,	Existing Independent Living Units			New Independent Living Units			Total ILU
	Average Occupied	Average Available	Average Occupancy	Average Occupied	Average Available	Average Occupancy	Average Occupancy
<i>Projected</i>							
2020	161.0	169.0	95.3%	-	-	-	95.3%
2021	161.0	169.0	95.3%	-	-	-	95.3%
2022	161.0	169.0	95.3%	-	-	-	95.3%
2023	161.0	169.0	95.3%	-	-	-	95.3%
2024 <sup>(1)</sup>	161.0	169.0	95.3%	55.0	152.0	36.2%	67.3%
2025	161.0	169.0	95.3%	125.2	152.0	82.3%	89.1%
2026	161.0	169.0	95.3%	143.4	152.0	94.3%	94.8%
2027	161.0	169.0	95.3%	144.4	152.0	95.0%	95.1%

Source: Management

(1) The 152 New Independent Living Units are anticipated to be available for occupancy in January 2024 and are anticipated to fill over a 30-month period at an average of approximately 4.8 units per month.

The following table summarizes the move-in assumptions for the new Independent Living Units during the projection period.

**Table 11**  
**Fill-Up Schedule – New Independent Living Units**

Fiscal Year/Month	New Independent Living Units	Cumulative Occupied	Cumulative Occupancy <sup>(1)</sup>
<b>2024</b>			
January	10.0	10.0	6.6%
February	9.9	19.9	13.1%
March	9.7	29.7	19.5%
April	9.5	39.2	25.8%
May	9.2	48.4	31.8%
June	8.9	57.2	37.7%
July	8.5	65.7	43.2%
August	8.0	73.8	48.5%
September	7.6	81.3	53.5%
October	7.1	88.4	58.2%
November	6.6	95.0	62.5%
December	6.1	101.1	66.5%
<b>2025</b>			
January	5.6	106.7	70.2%
February	5.1	111.8	73.6%
March	4.6	116.4	76.6%
April	4.1	120.5	79.3%
May	3.7	124.2	81.7%
June	3.3	127.5	83.9%
July	2.9	130.3	85.8%
August	2.5	132.8	87.4%
September	2.2	135.0	88.8%
October	1.9	136.9	90.1%
November	1.6	138.5	91.1%
December	1.4	139.8	92.0%
<b>2026</b>			
January	1.1	141.0	92.8%
February	1.0	142.0	93.4%
March	0.8	142.8	93.9%
April	0.7	143.4	94.4%
May	0.5	144.0	94.7%
June	0.4	144.4	95.0%
<b>Total</b>	<b>144.4</b>		

Source: Management and the Development Consultant

(1) Cumulative occupancy based on 152 New Independent Living Units

*Assumed Independent Living Turnover*

The assumed Resident turnover for the Independent Living Units due to death, withdrawal or transfer to the Healthcare Center, and double occupancy of the Independent Living Units has been provided by Management.

Refunds of Entrance Fees are generated upon termination of the Residency Agreement and withdrawal from the Community.

The following table presents the assumed turnover Entrance Fees received and the total Entrance Fee refunds.

<b>Table 12</b>								
<b>Entrance Fee Receipts and Refunds</b>								
<b>Independent Living Units</b>								
<b>(In Thousands)</b>								
<b>Fiscal Year Ending December 31,</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
<b><u>Initial</u></b>								
Number of Entrance Fees Received	-	-	-	-	101.3	38.7	4.6	-
Entrance Fees Received	-	-	-	-	\$70,768	\$27,521	\$3,277	-
<b><u>Turnover</u></b>								
Number of Entrance Fees Received	13.3	13.4	13.5	14.0	15.5	18.3	20.9	22.6
Entrance Fees Received	\$8,826	\$9,102	\$9,336	\$9,884	\$11,165	\$13,666	\$16,047	\$17,800
<b><u>Refunded</u></b>								
Number of Entrance Fees Refunded	12.6	12.6	12.9	13.0	14.3	17.4	18.8	20.2
Entrance Fees Refunded	(\$5,656)	(\$5,658)	(\$6,220)	(\$6,643)	(\$7,718)	(\$9,601)	(\$10,357)	(\$11,071)
<b>Entrance Fees Received, Net of Refunds</b>	<b>\$3,170</b>	<b>\$3,444</b>	<b>\$3,116</b>	<b>\$3,241</b>	<b>\$74,215</b>	<b>\$31,586</b>	<b>\$8,967</b>	<b>\$6,729</b>

Source: Management

The double occupancy percentage in the Existing Independent Living Units is assumed to be 42.5 percent throughout the projection period. The double occupancy percentage in the New Independent Living Units is assumed to be 60 percent in fiscal year 2024 declining to 54 percent in fiscal year 2027.

Turnover of the Independent Living Units has been based on information provided by Management. Management assumes the Entrance Fees and LifeCare Entrance Fees for the Existing Independent Living Units would increase by 2.0 percent annually beginning on January 1, 2021, and increase 1.0 percent beginning January 1, 2026 and annually thereafter. Management assumes the Entrance Fees and LifeCare Entrance Fees for the New Independent Living Units would increase 4.0 percent beginning January 1, 2025, and annually thereafter.



**Healthcare Center Revenue**

Healthcare Center fees are assumed to be generated from services provided to Residents transferring from the Independent Living Units.

Residents who selected the Type A Plan and are transferred to the Healthcare Center continue to pay their Monthly Fee plus the cost of additional meals. In the event the Assisted Living Units or the Skilled Nursing Beds are full, Residents are temporarily moved to an outside facility at no additional Monthly Fee. If a Resident requires additional nursing services, Management arranges for nursing care to be provided in an appropriate nursing establishment until available occupancy in the Skilled Nursing Beds is available.

Residents who selected the Type C Plan and are temporarily or permanently transferred to the Healthcare Center pay the then-current Monthly Fee for assisted living or daily fee for nursing care services. In addition, in the event the Assisted Living Units are full, Residents are temporarily moved to an outside facility at an additional charge.

The Skilled Nursing Beds are assumed to provide services to private-pay Residents only. Management assumes Existing Healthcare Center fees to increase 4.50 percent annually beginning on January 1, 2021, 4.00 percent on January 1, 2024, and 3.75 percent on January 1, 2025, and annually thereafter. Management assumes the New Healthcare Center fees will increase by 4.0 percent annually on January 1, 2025, by 3.75 percent on January 1, 2027, and annually thereafter.

**Assumed Healthcare Center Utilization**

The Community has accommodations, equipment, staffing, programs, services, and supervision necessary for the Healthcare Center to be available to Residents on a priority basis. However, Management cannot guarantee access to these areas. Management assumes the Healthcare Center to be restricted to those Residents who have signed a Residency Agreement and are transferring from an Independent Living Unit. In the event that space is not available in the Healthcare Center, Management will arrange for temporary care in another facility that can provide the same care that may have otherwise been provided at the Community. The following table summarizes the assumed utilization of the Existing Assisted Living Units and the New Assisted Living Units.

**Table 13**  
**Utilization of the Assisted Living Units**

Fiscal Year Ending December 31,	Existing Assisted Living Units			New Assisted Living Units			Total ALU
	Average Occupied	Average Available	Average Occupancy	Average Occupied	Average Available	Average Occupancy	Average Occupancy
<i>Projected:</i>							
2020	11.8	14.0	84.3%	-	-	-	84.3%
2021	12.7	14.0	90.7%	-	-	-	90.7%
2022	13.4	14.0	95.7%	-	-	-	95.7%
2023	13.4	14.0	95.7%	-	-	-	95.7%
2024 <sup>(1)</sup>	13.4	14.0	95.7%	2.3	14.0	16.3%	56.1%
2025	13.4	14.0	95.7%	6.9	14.0	49.1%	72.5%
2026	13.4	14.0	95.7%	10.4	14.0	74.6%	85.0%
2027	13.4	14.0	95.7%	11.9	14.0	85.0%	90.4%

Source: Management

(1) The New Assisted Living Units were available for occupancy in January 2024.

The New Memory Care Units are assumed to be filled solely through internal transfer of residents from the Independent Living Units and the Assisted Living Units, as provided by Management. The following table summarizes the assumed utilization of the New Memory Care Units.

**Table 14**  
**Utilization of the New Memory Care Units**

Fiscal Year Ending December 31,	Average Occupied	Average Available	Average Occupancy
<i>Projected:</i>			
2020 <sup>(1)</sup>	-	-	-
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024	2.3	14.0	16.3%
2025	6.9	14.0	49.1%
2026	10.4	14.0	74.6%
2027	11.9	14.0	85.0%

Source: Management

(1) The New Memory Care Units were available for occupancy in January 2024.

The Skilled Nursing Beds are assumed to be filled solely through internal transfer of residents from the Independent Living Units and the Assisted Living Units, as provided by Management. The following table summarizes the assumed utilization of the Skilled Nursing Beds.

**Table 15**  
**Utilization of the Skilled Nursing Beds**

Fiscal Year Ending December 31,	Existing Skilled Nursing Beds			New Skilled Nursing Beds			Total SNF
	Average Occupied	Average Available	Average Occupancy	Average Occupied	Average Available	Average Occupancy	Average Occupancy
<i>Projected:</i>							
2020	11.8	14.0	84.3%	-	-	-	84.3%
2021	12.7	14.0	90.7%	-	-	-	90.7%
2022	13.4	14.0	95.7%	-	-	-	95.7%
2023	13.4	14.0	95.7%	-	-	-	95.7%
2024 <sup>(1)</sup>	13.4	14.0	95.7%	2.3	14.0	16.3%	56.1%
2025	13.4	14.0	95.7%	6.9	14.0	49.1%	72.5%
2026	13.4	14.0	95.7%	10.4	14.0	74.6%	85.0%
2027	13.4	14.0	95.7%	11.9	14.0	85.0%	90.4%

Source: Management

(1) The New Skilled Nursing Beds were available for occupancy in January 2024.

#### *Advance Fee Amortization*

Advance fee amortization is based on the non-refundable portion of the Entrance Fees received each year amortized over the life expectancy of each Resident in the Independent Living Units throughout the projection period.

**See Independent Accountants' Compilation Report**

### *Investment Income*

Management's assumption for average annual rate of return on cash and investments is assumed to approximate 1.50 percent per annum.

### *Other Income*

Other revenue consists of revenues from additional Resident meals and snacks, guest meals, guest apartment rentals, barber and beauty fees, and other miscellaneous sources. These revenues are assumed to increase 4.5 percent beginning January 2021 and annually throughout the projection period.

### **Summary of Operating Expense Assumptions**

Operating expenses are estimated by Management based on its experience at the Community and with the development and operation of similar retirement communities. Salaries, wages and employee benefits for the Community are assumed to increase annually by 2.75 percent beginning on January 1, 2021, by 3.00 percent on January 1, 2024, by 3.50 percent on January 1, 2025, by 3.75 percent on January 1, 2026, and annually thereafter. Management assumes employee benefits for the Community will increase from 21.8 percent of salaries in fiscal year 2020 to 24.3 percent of salaries in fiscal year 2027.

Salaries, wages and employee benefits for the Project are assumed to increase 4.0 percent annually beginning January 1, 2025, by 3.75 percent on January 1, 2027, and annually thereafter. Management assumes employee benefits for the Project will approximate 28 percent of salaries during the projection period.

Other non-salary operating expenses are assumed to include ongoing marketing costs, raw food costs, utilities, supplies, maintenance and security contracts, building and general liability insurance, legal and accounting fees, and other miscellaneous expenses and are assumed to increase 3.0 percent beginning January 1, 2021 and annually throughout the projection period.

### **Assets Limited as to Use**

The trustee (the "Trustee") for the Series 2017 Bonds, the Series 2017 Bonds, the Series 2020 Bonds, and the Series 2022 Bonds is assumed to maintain the following funds and accounts under the terms of the bond documents related to the Series 2017 Bonds, the Series 2017 Bonds, the Series 2020 Bonds, and the Series 2022 Bonds:

- (1) Project Fund, funded at closing from Series 2020 Bonds and Series 2022 Bonds proceeds, to be used to pay development costs associated with the Project.
- (2) The Debt Service Reserve Funds, funded with proceeds at closing of the Series 2017 Bonds and with proceeds at closing of the Series 2020 Bonds and Series 2022 Bonds.
- (3) Entrance Fee Fund, to be funded with initial Entrance Fees from the Project, available to: fund the Working Capital Fund; the Operating Reserve Fund; fund approximately \$1,619,000 of Development Consulting Fee payments; and redeem the 2022 Bank Loan. Upon the repayment of the 2022 Bank Loan, stabilized occupancy of the New Independent Living Units, and assuming no events of default have occurred, any amounts remaining on deposit in the Entrance Fund shall be released.
- (4) Working Capital Fund, to be initially funded from the Entrance Fee Fund, to be applied to pay operating expenses for the Project or construction costs to the extent that other moneys are not available.
- (5) Bond Fund, which is to contain the bond principal and interest payments due on the Series 2017 Bonds, Series 2020 Bonds, and the Series 2022 Bonds.
- (6) Interest Reserve, established within 30 days of the approval of the Mediated Settlement Agreement (hereinafter defined).

*Operating Reserve Requirement*

North Carolina General Statute § 58-64-33 requires CCRC’s to maintain an operating reserve (the “Statutory Operating Reserve”) equal to 50 percent of the total operating costs in a given year, or 25 percent of such total operating costs if occupancy as of a certain date exceeds 90 percent of the Independent Living Unit capacity. In addition to total operating expenses, total operating costs will include debt service, consisting of principal and interest payments along with taxes and insurance on any mortgage loan or other long term financing, but will exclude depreciation, amortized expenses, and extraordinary items as approved by the Department. If the debt service portion is accounted for by way of another reserve account, the debt service portion may be excluded. The Operating Reserve Fund shall only be released upon the submittal of a detailed request and must be approved by the Department. Such requests must be submitted in writing for the Department to review at least 10 business days prior to the date of withdrawal. This law provides security to Residents that the Community is able to meet its contractual obligations to provide continuing care. Management’s projection shows sufficient cash and investment balances to comply with the Statutory Operating Reserve requirement throughout the projection period.

**Property and Equipment and Depreciation Expense**

The Community is assumed to incur routine capital additions during the projection period that would be capitalized as property and equipment. Property and equipment donated are recorded as unrestricted contributions at fair market value at the date of receipt. Expenditures for maintenance, repairs and minor renovations are charged to expense as incurred.

**Table 16**  
**Schedule of Property and Equipment**  
**(In Thousands)**

<b>Years Ending December 31,</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
Property and equipment, gross	\$ 126,399	\$ 128,810	\$ 131,189	\$ 206,163	\$ 269,484	\$ 274,285	\$ 275,235	\$ 276,251
Beginning balance								
Project expenditures	1,466	1,466	68,696	54,722	3,891	-	-	-
Capitalized interest	473	427	5,778	8,084	279	253	253	253
Routine capital additions	472	486	500	515	631	697	763	830
Property and equipment, gross	\$ 128,810	\$ 131,189	\$ 206,163	\$ 269,484	\$ 274,285	\$ 275,235	\$ 276,251	\$ 277,334
Accumulated depreciation	(21,692)	(25,101)	(28,651)	(32,355)	(40,007)	(47,840)	(55,865)	(64,092)
Property and equipment, net ending balance	\$ 107,118	\$ 106,088	\$ 177,512	\$ 237,129	\$ 234,278	\$ 227,395	\$ 220,386	\$ 213,242

Source: Management

## Long-Term Debt and Interest Expense

### Series 2016 Bonds

The Series 2016 Bonds consist of \$8,000,000 of non-rated tax-exempt fixed rate term bonds, issued at a discount, with assumed coupon rate of 6.3125 percent per annum. Interest on the Series 2016 Bonds is assumed to be payable semi-annually on June 1 and December 1 of each year. Principal on the Series 2016 Bonds is assumed to be payable annually commencing June 1, 2048 with a final maturity on June 1, 2049.

### Series 2017 Bonds

The Series 2017A Bonds consist of \$71,730,000 of non-rated tax-exempt fixed rate term bonds with assumed coupon rates ranging from 4.562 percent to 5.687 percent per annum. Interest on the Series 2017A Bonds is assumed to be payable semi-annually on June 1 and December 1 of each year. Principal on the Series 2017 Bonds is assumed to be payable annually commencing June 1, 2020 with a final maturity on June 1, 2052.

The Series 2017B Bonds consist of \$6,015,000 of non-rated tax-exempt fixed rate term bonds with an assumed coupon rate of 4.437 percent per annum. Interest on the Series 2017B Bonds is assumed to be payable semi-annually on June 1 and December 1 of each year. Principal on the Series 2017B Bonds is assumed to be payable annually commencing June 1, 2019 with a final maturity on June 1, 2024.

### Series 2020 Bonds

The Series 2020 Bonds are assumed to consist of \$5,095,000 of non-rated tax-exempt fixed rate term bonds (the “Series 2020A Bonds”) and \$1,445,000 of non-rated taxable fixed rate term bonds (the “Series 2020B Bonds”) The Series 2020A Bonds are assumed to be issued with an assumed coupon rate of 7.5 percent per annum. The Series 2020B Bonds are assumed to be issued with an assumed coupon rate of 8.5 percent per annum. Interest on the Series 2020 Bonds is assumed to be payable semi-annually on June 1 and December 1 of each year beginning June 1, 2020. Principal on the Series 2020A Bonds is assumed to be payable with a single maturity on June 1, 2053. Principal on the Series 2020B Bonds is assumed to be repaid with proceeds from the issuance of the Series 2022 Bonds and is expected to be repaid by June 1, 2024.

### Series 2022 Bonds

The Series 2022 Bonds are assumed to consist of \$82,893,000 of non-rated tax-exempt fixed rate term bonds with an assumed coupon rate of 6.50 percent per annum. Interest on the Series 2022 Bonds is assumed to be payable semi-annually on June 1 and December 1 of each year beginning June 1, 2022. Principal on the Series 2022 Bonds is assumed to be payable annually commencing June 1, 2026 with a final maturity on June 1, 2056.

### 2022 Bank Loan

Management has assumed the 2022 Bank Loan is to be provided concurrently with the Series 2022 Bonds with advances to be drawn against to pay for certain Project costs, up to a maximum amount of \$75,000,000. Management has assumed an average interest rate of 4.75 percent per annum for the 2022 Bank Loan. Interest on the 2022 Bank Loan is payable monthly beginning December 1, 2022. Management has assumed the 2022 Bank Loan would be repaid with a portion of the initial Entrance Fees assumed to be available from residents moving into the New Independent Living Units and is expected to be repaid by December 1, 2025.

The following table presents the assumed annual debt service during the projection period and thereafter.

**Table 17**  
**Annual Debt Service**  
**(In Thousands)**

Year Ending December 31	Series 2016 Bonds		Series 2017 Bonds		Series 2020 Bonds		2022 Bank Loan		Series 2022 Bonds		Total Debt Service <sup>(1)</sup>
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2020	\$ -	\$ 505	\$ 1,060	\$ 4,191	\$ -	\$ 262	\$ -	\$ -	\$ -	\$ -	\$ 6,018
2021	-	505	1,105	4,144	-	479	-	-	-	-	6,233
2022	-	505	1,155	4,093	440	461	-	20	-	5,388	12,052
2023	-	505	1,200	4,041	480	422	-	2,366	-	5,388	14,402
2024	-	505	1,255	3,986	525	379	52,000	3,714	-	5,388	67,752
2025	-	505	1,305	3,929	-	357	23,000	1,150	-	5,388	35,634
2026	-	505	1,365	3,868	-	357	-	-	891	5,388	12,374
2027	-	505	1,420	3,804	-	357	-	-	949	5,388	12,365

Source: Management and the Underwriter

- (1) The Maximum Annual Debt Service is assumed to be approximately \$5,496,000, excluding additional interest related to the Mediated Settlement Agreement, through the fiscal year ending December 31, 2025, approximately \$5,853,000, excluding additional interest related to the Mediated Settlement Agreement, for the fiscal year ending December 31, 2026, and approximately \$12,132,000, excluding additional interest related to the Mediated Settlement Agreement, for the fiscal year ending December 31, 2027.

### Sears Farm Bankruptcy

On March 1, 2018 Sears Farm (which is not affiliated with the Corporation) commenced a Chapter 11 bankruptcy case, in the United States Bankruptcy Court for the Eastern District of North Carolina (the “Sears Farm Bankruptcy”). The Sears Farm Bankruptcy was an event of default on the part of Sears Farm under the Sears Farm Guaranty and the Sears Farm Deed of Trust. The bond trustee and master trustee under the Series 2016 Bonds and under the Series 2017 Bonds was of the view that the Sears Farm Bankruptcy was an event of default on the part of the Corporation under the Series 2016 Bonds, and that such default on the part of the Corporation under the Series 2016 Bonds was an event of default on the part of the Corporation under the Series 2017 Bonds (the “Alleged Defaults”), notwithstanding that the Corporation may be in compliance with all of its obligations under the Series 2016 Bonds and the Series 2017 Bonds. The Corporation disagreed with the bond trustee’s and master trustee’s view as to the effect of the Sears Farm Bankruptcy on the Series 2016 Bonds and the Series 2017 Bonds.

The parties’ disputes were resolved, as reflected in a Mediated Settlement Agreement (and a more fulsome Settlement Agreement among Sears Farm, the Corporation, and the bond trustee and master trustee under the Series 2016 Bonds and under the Series 2017 Bonds, executed and delivered in April 2019) (the “Settlement Agreements”). In the Settlement Agreements the bond trustee and master trustee under the Series 2016 Bonds and under the Series 2017 Bonds waived the Alleged Defaults. A Plan of Reorganization for Sears Farm, which incorporated provisions of the Settlement Agreements, was confirmed by the Bankruptcy Court in May 2019 (the “Plan”).

**Subordinate Obligations**

The Corporation obtained pre-finance capital from MatchCapSM -Sears Farm, LLC (“MatchCap”) and Sears Farm, LLC (“Sears Farm”) of \$6,800,000 and \$2,390,000, respectively. The subordinated obligations accrue interest at 6 percent per annum, with a maximum amount of interest to be paid on the obligations equal to the amount of the original obligation, \$6,800,000 and \$2,390,000 respectively.

Certain fees at completion of the Community were recorded as deferred fees that are also subordinated obligations. At December 31, 2019 the Corporation owes approximately \$993,000 to Sears Farm, in connection with rezoning the Community site and other construction services. The Corporation owes approximately \$400,000 to SearStone RLA for management services. The Corporation owes approximately \$711,000 to Sears, Hackney, Keener & Williams, Incorporated (“SHKW”) for architectural services related to the construction of the Community. The Corporation owes approximately \$500,000 to Greenbrier Development LLC (“Greenbrier”) for development services related to the development of the community. The Corporation owes approximately \$700,000 to Retirement Living Associates, Inc. (“RLA”) for marketing services related to the opening of the Community. The deferred fees to SearStone RLA accrue simple interest at 6 percent per annum. The other deferred fees do not accrue interest.

As of December 31, 2019 approximately \$4,261,000 of interest has accrued on subordinated obligations related to MatchCap, Sears Farm, and SearStone RLA. The table below summarizes the subordinated obligations for the projection period:

<b>Years Ending December 31,</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
Beginning balance	\$ 16,754	\$ 17,329	\$ 17,904	\$ 17,479	\$ 18,006	\$ 18,533	\$ 19,060	\$ 19,587
Interest on SearsFarm Debt	143	143	143	143	143	143	143	143
Interest on MatchCap Debt	408	408	408	363	363	363	363	363
Interest on SearStone RLA Debt	24	24	24	21	21	21	21	21
Payment	-	-	(1,000)	-	-	-	-	-
<b>Ending balance</b>	<b>\$ 17,329</b>	<b>\$ 17,904</b>	<b>\$ 17,479</b>	<b>\$ 18,006</b>	<b>\$ 18,533</b>	<b>\$ 19,060</b>	<b>\$ 19,587</b>	<b>\$ 20,114</b>

Source: Management

There are various restrictions on payment of the subordinated obligations including a stipulation that the Series 2017 Bonds must have been paid in full. For purposes of Management’s projection, Management has assumed that \$1,000,000 of principal, funded from proceeds from the Series 2022 Bonds and 2022 Bank Loan, and no payment of accrued interest on the Subordinated Obligations is assumed to be made during the projection period. Under the provisions of the Master Trust Indenture, no payment of interest on the Subordinated Obligations shall be made unless the Series 2017 Bonds have been paid in full. Repayment of the obligation for the Subordinated Obligations principal is subject to the provisions of the Master Indenture, and the discretion of the Corporation.

**See Independent Accountants’ Compilation Report**

The Corporation entered into a balance purchase money note with Sears Farm in December 2016 for \$5,311,530 (the “Purchase Money Note”) for the purchase of the Project Site (other than one “Lot 37”). The Purchase Money Note incurred simple interest payable quarterly at a 3 percent annual rate. The Purchase Money Note was payable in full due on the earlier of the date of closing or the Series 2022 Bonds and 2022 Bank Loan or October 31, 2021. The Purchase Money Note is secured by a purchase money deed of trust which encumbers the Project Site (other than Lot 37) (the “Purchase Money Deed of Trust”). Per North Carolina law, the Purchase Money Note is non-recourse as to the Corporation.

Pursuant to the Settlement Agreements and the Plan, among other things:

- The Corporation paid to Sears Farm the sum of \$1,000,000;
- Sears Farm conveyed to the Corporation Lot 37;
- The Purchase Money Note was modified, to (i) reflect the \$1 million Payment as a credit against the principal balance thereof, (ii) reduce the principal balance thereof by an additional \$2,311,530 (such that the remaining principal balance thereof was reduced to \$2,000,000), (iii) eliminate any obligation for interest to accrue on the unpaid principal balance of the Purchase Money Note from its inception, and (iv) extend for one year; i.e., until October 31, 2022, the “outside” maturity date of the Purchase Money Note; and
- The principal balance of the Purchase Money Note is to be credited with an amount equal to the monthly “Membership Fee” and up to \$600 per year of “Other Charges” otherwise payable by Mr. Sears or his spouse Rita Sears, pursuant to their Membership & Residency Agreement with the Corporation, from March 27, 2019 and for so long as either may reside in their Residence within the Community pursuant to that Membership & Residency Agreement (this was because the Settlement Agreements eliminated any obligation on the part of Mr. Sears or his spouse Rita Sears to pay those amounts).

As modified, the principal balance of the Purchase Money Note, after reduction for the above credits, is payable in full, without interest, in a single payment due on the earlier of (i) October 31, 2022, or (ii) the closing of a financing providing construction funding for a Phase II expansion in an amount sufficient to construct approximately 152 independent living units.

Management assumes that \$2,000,000 of proceeds from the issuance of the Series 2022 Bonds would be used to pay the outstanding balance of the Purchase Money Note.

### Current Assets and Current Liabilities

Operating expenses exclude amortization, depreciation, other non-cash expenses and interest expense. Operating revenues include Independent Living Unit Monthly Fees and Healthcare Center service fees. Working capital components have been estimated based on industry standards and Management’s historical experience as follows:

<b>Table 14</b>		
<b>Working Capital – Days on Hand</b>		
Cash	30	days operating expenses
Accounts receivable	3	days operating revenues
Prepaid expenses	6	days operating expenses
Accounts payable	20	days operating expenses

Source: Management



**Exhibit 6**

**Summary of Actuarial Study**

[see attached]



415 Main Street  
Reisterstown, MD 21136-1905  
410-833-4220  
410-833-4229 (fax)  
[www.continuingcareactuaries.com](http://www.continuingcareactuaries.com)

April 23, 2020

Mary P. Clements  
Chief Financial Officer  
SearStone Retirement Community  
17001 SearStone Drive  
Cary, North Carolina 27513

Dear Mary:

Continuing Care Actuaries was retained by the management of SearStone to conduct a comprehensive actuarial study for the community located in Cary, North Carolina.

SearStone is a retirement community consisting of 169 independent living units (ILU), 8 assisted living and memory care units (ALU) and 16 licensed beds in skilled nursing facility (SNF). After the Brittany Place expansion completed in December 2018, contract residents will have access to SearStone's healthcare center which contains a total of 14 ALU and 25 SNF.

Residents of the independent living units pay an up-front entrance fee and enter into a contract under which they have the right to occupy an independent living unit for the remainder of their life, or until such time as they need to be transferred to assisted living or to the skilled nursing Facility. The assisted living units may be occupied by individuals who are not residents with life plan contracts, but who pay on a per-diem basis. However, life plan residents would in all cases have priority access to assisted living and the skilled nursing facility.

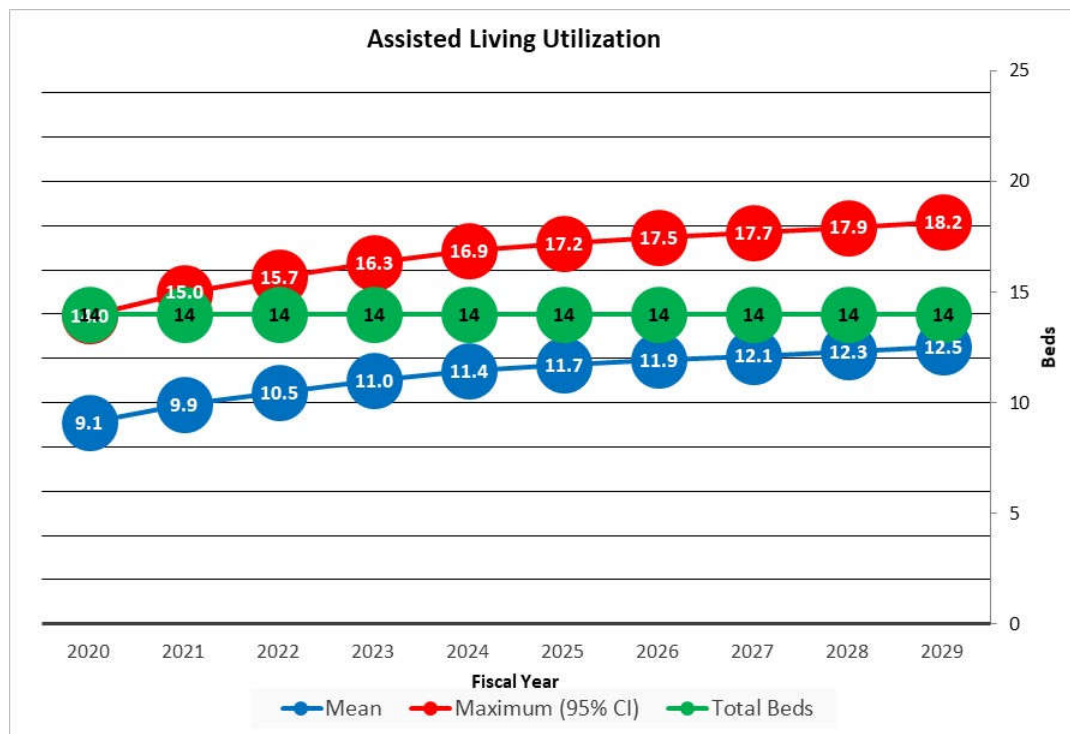
Residents will pay monthly fees related to their occupancy of an independent living unit, assisted living unit, or skilled nursing unit. Residents requiring permanent or temporary health care are able to transfer to the needed level of care as determined appropriate by SearStone's medical and management staff and in conjunction with residents and their physicians and family. Collectively, monthly service fees and entrance fees are intended to cover the cost of constructing and operating the community and providing health care and other services to contract residents, as well as a portion of all other costs related to the operation of the community. Entrance fees held by SearStone are subject to refund requirements.

The scope of our study consisted of: (1) development of updated population projections based on the current demographic characteristics of the resident population and the assumptions used in the financial model for SearStone; (2) development of projected statements of cash flows and actuarial balance sheet; and (3) preparation of an actuarial pricing analysis. This comprehensive actuarial study and review was performed under the guidelines contained in the American Academy of Actuaries' Actuarial Practice Number 3, "Issues Relating to Life plan Retirement Communities."

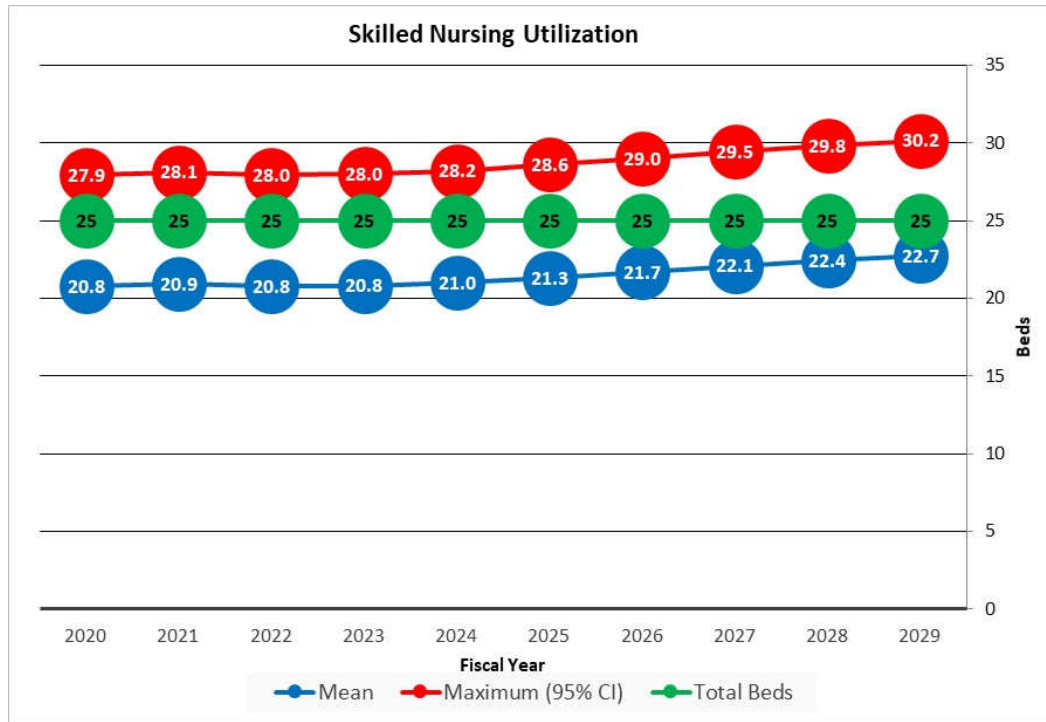
In order to perform the actuarial analysis, we projected first generation residents and subsequent residents through various levels of care until move-out or death. The rates using permanent and temporary nursing transfers, deaths and withdrawals were developed Continuing Care Actuaries' demographic database for CCRC residents. This database comprises over 600,000 CCRC residential life-years of demographic experience. The database assumptions used in this analysis reflect experience of communities similar to SearStone. The population projections were combined with expense and revenue assumptions to develop projected cash flows and contingent assets and liabilities. A by-product of these cash flow projections is the actuarial pricing analysis that examines the financial adequacy of the fiscal year 2020 residential fee structures and the actuarial balance sheet which is used as an indicator of the adequacy of historical residential fee structures as of December 31, 2019.

**Summary of Findings and Notes**

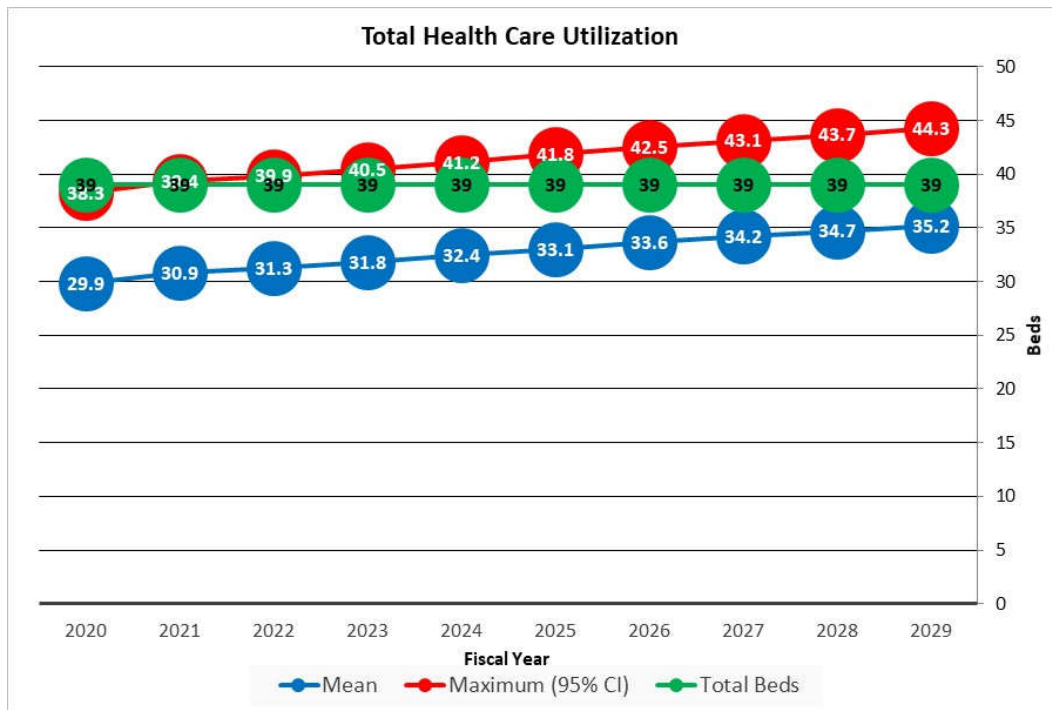
- 1) The data and assumptions used for the population and financial projections in this report form a reasonable basis for the projections. The methods used to produce the projections are consistent with sound actuarial principles and practices as prescribed by the Society of Actuaries and the American Academy of Actuaries.
- 2) The projected occupancy of assisted living units by residents who originated in independent living units with the 95% confidence interval is displayed below.



- 3) The projected occupancy of the skilled nursing facility by residents who originated in independent living units with 95% confidence interval is displayed below.



- 4) The projected occupancy of the combined assisted living units and skilled nursing facility by residents who originated in independent living units with 95% confidence interval is detailed below.



- 5) The financial projection indicates that SearStone will generate positive annual cash flow throughout the projection period.
- 6) Based on the result of the actuarial balance sheet as of December 31, 2019, our analysis concluded that SearStone will have current and future assets of \$175,579,000 with current and future liabilities of \$147,225,000. Based on these projected assets and liabilities, SearStone's funded status is 119.3%, which is above our recommended target of 110% for a mature community. We expect this number to increase as contracts with positive pricing margins are sold.

The actuarial ratio determines the percent of future expenses that are expected to be covered by future revenues for the expected group of residents as of December 31, 2019. This measure is important in that it represents SearStone's ability to deal with adverse experience. This ratio was calculated at 121.4%.

- 7) In conclusion, SearStone is in an **adequate financial condition** to meet its obligations as defined by Actuarial Standard of Practice No. 3 (ASOP 3). ASOP 3 defines adequacy based on the meeting of three required actuarial standards which consist of the actuarial cash flow, the actuarial balance sheet, and the actuarial pricing analysis. SearStone meets the actuarial cash flow, actuarial balance sheet and actuarial pricing requirements.

The results of our study are based on estimates of the demographic and economic assumptions of the most likely outcome. Considerable uncertainty and variability are inherent in such estimates. Accordingly, the subsequent emergence of actual residential movements and of actual revenues and expenses may not conform to the assumptions used in our analysis. Consequently, the subsequent development of these items may vary considerably from expected results.

Management should scrutinize future developments that may have a negative impact on these projections. These developments include lower independent living occupancy than assumed, higher apartment vacancy rates, higher expense inflation, higher health care utilization and longer life expectancies than assumed in the current projection.

Respectfully,



Dave Bond, F.S.A., F.C.A., M.A.A.A.

Managing Partner

[dbond@continuingcareactuaries.com](mailto:dbond@continuingcareactuaries.com)