

Samaritan Housing Foundation, Inc.

Financial Feasibility Study

**For each of the Six Years Ending
December 31, 2016**

Samaritan Housing Foundation, Inc.

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DIXON HUGHES PLLC

Certified Public Accountants and Advisors

INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT

Board of Directors
Samaritan Housing Foundation, Inc.
Cary, North Carolina

We have prepared a financial feasibility study of the plans of Samaritan Housing Foundation, Inc. (the "Sponsor" or the "Corporation") to undertake the development of a senior living community to be known as "SearStone" (the "Community") on approximately 24 acres of a 75-acre land parcel in Cary, North Carolina (the "Community Site"). The Community is expected to include 131 independent living apartments, 38 independent living estate homes, 8 Adult Care Homes, 16 nursing care beds, and related common areas.

The Sponsor has retained SearStone – RLA, Inc. (the "Manager") to provide management services for the Community. Management of the Sponsor and the Manager are collectively referred to as "Management." The Sponsor has also retained Greenbrier Development, LLC ("Greenbrier") to provide development consulting and marketing services to the Community.

The study was undertaken to evaluate the Corporation's ability to generate sufficient funds to meet its operating expenses, working capital needs and other financial requirements, including the debt service requirements associated with the proposed \$112,315,000 North Carolina Medical Care Commission Health Care Facilities First Mortgage Revenue Bonds (SearStone), Series 2011 Bonds (the "Series 2011 Bonds").

The Corporation's underwriters, Herbert J. Sims & Co., Inc. and BB&T Capital Markets (the "Underwriters"), has provided the assumed structure and terms of the Series 2011 Bonds as follows:

- \$51,315,000 of non-rated fixed rate term bonds (the "Series 2011A Bonds") which are assumed to be issued at an average interest rate of 8.50 percent per annum. Interest on the Series 2011A Bonds is to be payable March 1 and September 1 of each year beginning September 1, 2011. Principal on the Series 2011A Bonds is to be paid annually commencing March 1, 2017 with a final maturity on March 1, 2041.
- \$61,000,000 of Entrance Fee Principal Redemption Bonds (the "Series 2011B Bonds") which are assumed to be issued at an average interest of 7.25 percent per annum. Interest on the Series 2011B Bonds is to be payable March 1 and September 1 of each year beginning September 1, 2011. Principal on the Series 2011B Bonds is to be paid annually commencing September 1, 2013 and is assumed to be repaid by September 1, 2015.

Principal on the Series 2011B Bonds is anticipated to be repaid from certain available entrance fees from the Community.

The proceeds from the sale of the Series 2011 Bonds, subordinated debt, entrance fees, and interest earnings on trustee-held funds are assumed to be used to fund:

- All project related costs for the Community, including development, construction, land acquisition, architectural, pre-opening costs, and a portion of post-opening marketing costs;
- Interest for the Series 2011 Bonds for a period of approximately 25 months;
- Debt Service Reserve Funds for the Series 2011 Bonds;
- Costs of issuance; and
- A Working Capital Fund and an Entrance Fee Fund.

Our procedures included analysis of:

- The Sponsor's history, objectives, timing and financing;
- Future demand for the Corporation's services, including consideration of:
 - Socioeconomic and demographic characteristics of the Community's defined primary market area ("PMA");
 - Locations, capacities and information pertaining to other existing and planned facilities in the PMA; and
 - Projected occupancy and utilization levels.
- Project-related costs, debt service requirements and estimated financing costs;
- Staffing requirements, salaries and wages, related fringe benefits and other operating expenses;
- Anticipated entrance fees, monthly fees and per diem charges for the Community's residents;
- Sources of other operating and non-operating revenues; and
- Revenue/expense/volume relationships.

The accompanying financial projection for each of the years in the six year period December 31, 2016 is based on assumptions that were provided by Management. The financial projection includes the following financial statements and the related summary of significant projection assumptions and accounting policies:

- Projected Statements of Operations and Changes in Net Deficit;
- Projected Statements of Cash Flows; and
- Projected Balance Sheets.

We have examined the financial projection. Management is responsible for the projection. Our responsibility is to express an opinion on the projection based on our examination. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by Management and the preparation and presentation of the projection. We believe that our examination provides a reasonable basis for our opinion.

Legislation and regulations at all levels of government have affected and may continue to affect the operations of senior living communities. The financial projection is based upon legislation and regulations currently in effect. If future legislation or regulations related to the Corporation's

operations are subsequently enacted, such legislation or regulations could have a material effect on future operations.

Management's financial projection is based on the achievement of occupancy levels as determined by Management. We have not been engaged to evaluate the effectiveness of Management and we are not responsible for future marketing efforts and other Management actions upon which actual results will depend.

The assumed interest rates, principal payments, project costs and other financing assumptions are described in the section entitled "Summary of Significant Projection Assumptions and Accounting Policies." If actual interest rates, principal payments or funding requirements are different from those assumed in this study, the amount of the Series 2011 Bonds and associated debt service requirements would need to be adjusted accordingly from those indicated in the projection. If such interest rates, principal payments and funding requirements are lower than those assumed, such adjustments would not adversely affect Management's projection.

Our conclusions are presented below:

- In our opinion, the accompanying financial projection is presented in conformity with guidelines for presentation of a financial projection established by the American Institute of Certified Public Accountants.
- In our opinion, the underlying assumptions provide a reasonable basis for Management's projection. However, even if the following hypothetical assumptions occur during the projection period:
 - The construction costs associated with the proposed Community are realized;
 - The project costs are financed through the proposed \$112,315,000 North Carolina Medical Care Commission Health Care Facilities First Mortgage Revenue Bonds (SearStone), Series 2011 Bonds (the "Series 2011 Bonds");
 - The Community's independent living units, assisted living units, and skilled nursing beds are successfully marketed and achieve and maintain projected occupancy levels; and
 - All required regulatory approvals are received.

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.

- The accompanying financial projection indicates that sufficient funds could be generated to meet the Corporation's operating expenses, working capital needs and other financial requirements, including the debt service requirements associated with the proposed Series 2011 Bonds, during the projection period. However, the achievement of any financial projection is dependent upon future events, the occurrence of which cannot be assured.

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

Dixon Hughes PLLC

Atlanta, Georgia
September 27, 2010

SAMARITAN HOUSING FOUNDATION, INC.

Projected Statements of Operations
For the Years Ending December 31,
(In Thousands)

	2011	2012	2013	2014	2015	2016
Revenue:						
Independent living monthly service fees	\$ -	\$ 164	\$ 3,537	\$ 6,069	\$ 7,364	\$ 7,818
Assisted living monthly service fees	-	-	337	489	468	442
Skilled nursing service fees	-	-	264	694	1,207	1,717
Other revenue	-	21	202	305	356	377
Entrance fee amortization	-	183	973	1,894	2,438	2,750
Investment income	-	138	594	929	822	804
Total revenue	-	506	5,907	10,380	12,655	13,908
Expenses:						
Administrative services	-	270	1,163	1,198	1,234	1,271
Activities services	-	24	143	147	151	156
Assisted living and nursing services	-	-	713	738	893	1,116
Building and maintenance	-	91	376	387	399	411
Dining services	-	128	717	1,045	1,177	1,255
Emergency system services	-	28	114	138	142	147
Ground maintenance	-	36	152	157	161	166
Housekeeping and laundry services	-	60	262	311	364	376
Transportation services	-	15	64	69	72	74
Marketing services	-	70	290	299	254	261
Utilities	-	134	632	651	670	690
Insurance	-	47	192	198	204	210
Community benefit	-	3	114	297	491	663
Management fees	-	75	300	340	423	466
Interest expense	-	2,349	8,798	6,803	5,619	4,974
Depreciation	-	614	2,476	2,502	2,514	2,526
Amortization	-	362	1,538	1,538	1,538	1,092
Total expenses	-	4,306	18,044	16,818	16,306	15,854
Increase in unrestricted net (deficit)	-	(3,800)	(12,137)	(6,438)	(3,651)	(1,946)
Net (deficit), beginning of year	-	-	(3,800)	(15,937)	(22,375)	(26,026)
Net (deficit), end of year	\$ -	\$ (3,800)	\$ (15,937)	\$ (22,375)	\$ (26,026)	\$ (27,972)

See accompanying Summary of Significant Projection Assumptions and Accounting Policies
and Independent Accountants' Examination Report

SAMARITAN HOUSING FOUNDATION, INC.

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

	2011	2012	2013	2014	2015	2016
Cash flows from operating activities:						
Change in net (deficit)	\$ -	\$ (3,800)	\$ (12,137)	\$ (6,438)	\$ (3,651)	\$ (1,946)
Adjustments to reconcile change in net (deficit) to net cash provided by (used in) operating activities:						
Depreciation	-	614	2,476	2,502	2,514	2,526
Amortization of deferred marketing costs	-	237	1,037	1,037	1,037	1,037
Amortization of deferred financing costs	-	125	501	501	501	55
Amortization of earned entrance fees	-	(183)	(973)	(1,894)	(2,438)	(2,750)
Net change in current assets and liabilities	-	73	224	(29)	2	23
(Decrease) increase in accrued interest	2,899	1	(598)	(418)	(442)	-
Entrance fees received from resident turnover	-	39	896	2,481	3,867	4,954
Entrance fees refunded	-	(24)	(518)	(1,303)	(1,879)	(2,277)
Net cash provided by (used in) operating activities	2,899	(2,918)	(9,092)	(3,561)	(489)	1,622
Cash flows from investing activities:						
Purchase of property and equipment	(47,798)	(39,893)	(945)	(849)	(265)	(200)
Interest cost capitalized during construction period	(6,805)	(6,575)	-	-	-	-
(Increase) decrease in assets limited as to use	(70,055)	35,711	(1,950)	11,460	12,140	5,925
(Increase) decrease in assets limited as to use, current	-	-	(1,239)	(123)	272	(142)
(Increase) in investments	-	(63)	(742)	(4,884)	(2,667)	(7,765)
Deferred marketing costs	(7,585)	(1,010)	(825)	-	-	-
Net cash provided by (used in) investing activities	(132,243)	(11,830)	(5,701)	5,604	9,480	(2,182)
Cash flows from financing activities:						
Initial entrance fees received	-	14,658	42,695	16,342	9,768	-
Issuance of long term debt	112,315	-	-	-	-	-
Deferred financing costs	(2,677)	-	-	-	-	-
Proceeds from the Subordinated Debt	13,847	612	612	612	612	612
Principal payments on Series 2011 bonds	-	-	(25,000)	(17,500)	(18,500)	-
(Decrease) increase in resident deposits	5,859	(441)	(3,165)	(1,436)	(817)	-
Net cash provided by (used in) financing activities	129,344	14,829	15,142	(1,982)	(8,937)	612
Net increase in cash and cash equivalents	\$ -	\$ 81	\$ 349	\$ 61	\$ 54	\$ 52
Beginning balance of cash and cash equivalents	-	-	81	430	491	545
Ending balance of cash and cash equivalents	\$ -	\$ 81	\$ 430	\$ 491	\$ 545	\$ 597

See accompanying Summary of Significant Projection Assumptions and Accounting Policies
and Independent Accountants' Examination Report

SAMARITAN HOUSING FOUNDATION, INC.

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

	2011	2012	2013	2014	2015	2016
Assets						
Current assets:						
Cash and cash equivalents	\$ -	\$ 81	\$ 430	\$ 491	\$ 545	\$ 597
Assets limited as to use - Series 2011 Bonds	-	-	1,239	1,362	1,090	1,232
Accounts receivable	-	5	119	207	257	284
Prepaid expenses and other assets	-	40	215	246	273	298
Inventory	-	3	14	16	18	20
Total current assets	-	129	2,017	2,322	2,183	2,431
Investments	-	63	805	5,689	8,356	16,121
Assets limited as to use:						
Project Fund - Series 2011 Bonds	41,644	1,387	451	-	-	-
Funded Interest Fund - Series 2011 Bonds	13,176	4,392	-	-	-	-
Debt Service Reserve Fund - Series 2011A	4,953	4,953	4,953	4,953	4,953	4,953
Debt Service Reserve Fund - Series 2011B	4,423	4,423	4,423	4,423	4,423	-
Entrance Fee Fund	-	182	13,732	10,707	-	-
Statutory Operating Reserve	-	491	2,616	2,988	3,318	1,816
Working Capital Fund	-	13,098	7,866	946	-	-
Resident Deposits	5,859	5,418	2,253	817	-	-
Total assets limited as to use	70,055	34,344	36,294	24,834	12,694	6,769
Property and equipment	54,603	101,071	102,016	102,865	103,130	103,330
less accumulated depreciation	-	(614)	(3,090)	(5,592)	(8,106)	(10,632)
Net property and equipment	54,603	100,457	98,926	97,273	95,024	92,698
Other assets						
Deferred marketing costs, net	7,585	8,358	8,146	7,109	6,072	5,035
Deferred bond costs, net	2,677	2,552	2,051	1,550	1,049	994
Total assets	\$ 134,920	\$ 145,903	\$ 148,239	\$ 138,777	\$ 125,378	\$ 124,048
Liabilities and Net (Deficits)						
Current liabilities:						
Accounts payable	\$ -	\$ 81	\$ 430	\$ 491	\$ 545	\$ 597
Accrued expenses	-	40	215	246	273	298
Accrued interest payable	2,899	2,900	2,302	1,884	1,442	1,442
Current maturities of long term debt	-	25,000	17,500	18,500	-	590
Resident Deposits	5,859	5,418	2,253	817	-	-
Total current liabilities	8,758	33,439	22,700	21,938	2,260	2,927
Subordinated Debt	13,847	14,459	15,071	15,683	16,295	16,907
Long-term debt, less current maturities	112,315	87,315	69,815	51,315	51,315	50,725
Deferred revenue - refundable	-	14,486	55,240	69,245	77,640	77,614
Deferred revenue - non-refundable	-	4	1,350	2,971	3,894	3,847
Total liabilities	134,920	149,703	164,176	161,152	151,404	152,020
Net (Deficit):						
Other:						
Unrestricted	-	(3,800)	(15,937)	(22,375)	(26,026)	(27,972)
Net (deficit)	-	(3,800)	(15,937)	(22,375)	(26,026)	(27,972)
Total liabilities and net (deficit)	\$ 134,920	\$ 145,903	\$ 148,239	\$ 138,777	\$ 125,378	\$ 124,048

See accompanying Summary of Significant Projection Assumptions and Accounting Policies
and Independent Accountants' Examination Report

SAMARITAN HOUSING FOUNDATION, INC.

Projected Financial Ratios
For the Year Ending December 31,
(In Thousands, Except for Ratios)

Long-Term Debt Service Coverage Ratio	2016
Increase in net deficits	\$ (1,965)
Deduct:	
Entrance fee amortization	(2,750)
Add:	
Depreciation	2,545
Amortization	1,092
Interest expense	4,974
Entrance fees received from resident turnover ^(a)	4,954
Entrance fees refunded	(2,277)
Income Available for Debt Service	\$ 6,573
Max Annual Debt Service	\$ 4,927
Debt Service Coverage Ratio	1.33x
Days Cash on Hand	2016
Cash and cash equivalents	\$ 597
Investments	16,121
Statutory Operating Reserve	1,816
Cash on hand	\$ 18,534
Total expenses	15,873
Less:	
Return on MatchCap ^(b)	\$ (612)
Depreciation	(2,545)
Amortization	(1,092)
Total expenses less depreciation and amortization	11,624
Daily operating expenses ^(c)	32
Days cash on hand	579

(a) Excludes entrance fees received from initial occupants of the Independent Living Units

(b) Return on MatchCap is assumed to be deferred during the projection period

(c) Excludes all entrance fees and refunds

See accompanying Summary of Significant Projection Assumptions and Accounting Policies
and Independent Accountants' Examination Report

SAMARITAN HOUSING FOUNDATION, INC.

Summary of Significant Projection Assumptions and Accounting Policies

For Each of the Six Years Ending December 31, 2016

Basis of Presentation

The accompanying financial projection presents, to the best of the knowledge and belief of management of Samaritan Housing Foundation, Inc. (the "Sponsor" or the "Corporation") and RLA – SearStone, Inc. (collectively, "Management"), the expected financial position, results of operations, and cash flows of the Corporation as of and for each of the six years ending December 31, 2016. Accordingly, the accompanying financial projection reflects Management's judgment as of September 27, 2010, the date of this projection, of the expected conditions and its expected course of action during the projection period assuming that the hypothetical assumptions stated below occur. However, even if the hypothetical assumptions stated below were to occur, 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.

Management's purpose in releasing this financial projection is for the internal use of the North Carolina Medical Care Commission and should not be used for any other purpose.

Hypothetical Assumptions – 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.

Management has prepared its financial projection assuming hypothetically that:

- The construction costs associated with the proposed Community (hereinafter defined) are realized;
- The project costs are financed through the proposed \$112,315,000 North Carolina Medical Care Commission Health Care Facilities First Mortgage Revenue Bonds (SearStone), Series 2011 Bonds (the "Series 2011 Bonds");
- The Community's independent living units, assisted living units, and skilled nursing beds are successfully marketed and achieve and maintain projected occupancy; and
- All required regulatory approvals are received.

Hypothetical assumptions are not derived from sources, which are based upon supporting documentation such as contracts, agreements, or other empirical data. Because of the nature of financial projections, a hypothetical assumption is not intended to provide a reasonable basis for the presentation.

Background of the Sponsor

The Sponsor was incorporated in 1999 as a Georgia not-for-profit foundation organized under the laws of Georgia, and is qualified to do business in North Carolina. It obtained its tax exemption from the Internal Revenue Service ("IRS") under Section 501(c)(3) of the Internal Revenue Code in 1999 (the "Code") and has not conducted any operations to date. In 2004, the IRS notified the Sponsor that it would be treated as a private foundation due to its not having any public revenues during its advance ruling period. Private foundations are exempt organizations described in Section 501(c)(3) of the Code and are eligible for tax-exempt financing if all other requirements for such financing are satisfied, but they are subject to excise taxes on net investment income and undistributed income. The Sponsor intends to apply to the IRS after its first full year of operation for termination of its private foundation status, which requires demonstration that during a 60-month period, it has met the public support test and other tests established under IRS regulations. Since public support would include fees from residents of the Community, the Sponsor expects that it would meet

the public support test and that its private foundation status would be terminated, a result of which it would have no liability for the tax on net investment income. The Sponsor also intends to elect to be treated during any transition period as an "operating foundation" under Section 4943(j)(3) of the Code, which would exempt the Sponsor from the tax on undistributed income. The Sponsor believes that its application to the IRS would be reclassified as an operating 501(c)(3) would be approved prior to or upon opening of the Community and therefore would be except from paying excises taxes. Management has assumed that no taxes would be paid during the projection period.

The Sponsor is governed by a 12-member Board of Trustees comprised of Cary-area citizens and business members.

Sears Farm, LLC

Sears Farm, LLC ("Sears Farm") is a North Carolina limited liability company. Its only members are William Sears and JD Sears. Sears Farm was created to acquire title to a 75-acre land parcel and hold it as the various phases of development are completed. Sears Farm is developing a senior living community known as "SearStone" (the "Community") to be located in Cary, North Carolina within a mixed-used development planned to include offices, retail/restaurants, single family residential homes and a boutique hotel. The Community is planned to be located on 24 acres (the "Community Site") of the 75-acre land parcel. Upon permanent financing of the Community, Sears Farm is planning to sell the Community Site to the Sponsor at the original purchase price plus improvements and carrying costs and would cease ownership of the Community and the Community Site.

Description of the Community

The Community is anticipated to initially consist of 131 independent living apartments (the "Independent Living Apartments") and 38 independent living estate homes (the "Independent Living Homes") (collectively, the "Independent Living Units"), 8 Adult Care Homes (the "Assisted Living Units"), and a nursing facility to include 16 nursing care beds (the "Skilled Nursing Beds"). The common areas are planned to be located in the "Winston Clubhouse" which is to include multiple dining options (formal dining, private dining, and bistro dining), a spa/wellness center with indoor pool, library/business center, arts and crafts studio, living areas, club room and other spaces as appropriate. The Community is also planning to offer underground parking.

The Independent Living Apartments are expected be located in four buildings:

- The Winston Clubhouse, a three story building, includes 40 Independent Living Apartments;
- "The Calais Terrace", a four story building, includes 49 Independent Living Apartments;
- "The Lorraine Plaza", a three story building, includes 26 Independent Living Apartments; and
- "The Flats", a two story building, includes 16 Independent Living Apartments.

The Assisted Living Units and the Skilled Nursing Beds are expected be located in a one-story configuration to be known as the "Brittany Place."

The gross square footage of the Community upon completion is anticipated to approximate 392,000 square feet.

The following table summarizes the type, number, approximate square footage, monthly membership fees ("Monthly Fees") and entrance fees ("Entrance Fees") for the Independent Living Apartments.

Table 1
Independent Living Apartment Configuration

Type of Unit Unit Configuration	Number of Units	Square Footage	Entrance Fee ⁽¹⁾⁽²⁾	Monthly Fee ⁽¹⁾⁽³⁾	
				Type A	Type C
<i>One Bedroom, with one bath</i>					
Breton	4	930	\$249,900	\$2,053	\$1,322
Asturian	14	934	\$242,278 - \$310,960	\$2,053	\$1,322
Galacian	6	1,052	\$301,600	\$2,588	\$1,856
<i>One Bedroom, with 1 ½ bath</i>					
Finnhorse	4	1,150	\$322,400	\$2,696	\$1,965
Belgian	4	1,202	\$332,800	\$2,688	\$1,882
Clydesdale	2	1,243	\$369,907	\$2,723	\$1,957
Danube	6	1,280	\$364,125	\$2,835	\$2,104
<i>Two Bedroom, 2 bath</i>					
Buckskin	16	1,215-1,230	\$335,296 - \$340,704	\$2,716 - \$2,804	\$1,985 - \$2,073
Buckskin II	4	1,226	\$399,000	\$2,716	\$1,985
Buckskin III	2	1,255	\$405,600	\$2,716	\$1,985
Hackney	5	1,408-1,438	\$442,000 - \$462,800	\$3,398 - \$3,453	\$2,668 - \$2,722
Highland	8	1,653-1,713	\$540,800	\$3,615 - \$3,669	\$2,884 - \$2,938
Dartmoor	12	1,685	\$445,619 - \$534,310	\$3,898	\$3,167
Buckskin IV	2	1,694	\$498,000	\$4,048	\$3,317
<i>Two Bedroom, 2 bath, Den</i>					
Shetland	8	1,539	\$445,860	\$3,669	\$2,938
Haflinger	5	1,515-1,545	\$468,000 - \$483,600	\$3,561 - \$3,615	\$2,721 - \$2,773
Pegasus	8	1,697	\$525,000	\$3,903	\$3,172
Highland II	8	1,783-1,843	\$546,000	\$3,669 - \$3,831	\$3,100 - \$2,938
Highland III	1	2,098	\$550,000	\$3,669 - \$3,831	\$3,100 - \$2,938
Caspian	2	1,812	\$614,349	\$4,038	\$3,307
Campolina	4	1,848	\$637,616 - \$665,600	\$3,712	\$2,981
Estonian	6	2,173	\$678,163 - \$698,714	\$4,443	\$3,712
Total/weighted average	131	1,437	\$433,684	\$3,210	\$2,479
Second person fees				\$778	\$609

Source: Management

(1). The Entrance Fee and Monthly Fee pricing is effective as of January 1, 2010.

(2). Management plans to offer two Entrance Fee plans: the Fee For Service Plan ("Type C Plan") and the Life Care Plan ("Type A Plan"). Both Entrance Fee plans are 100 percent refundable for charter residents (i.e., residents who have made an Entrance Fee deposit prior to commencement of construction). Once construction of the Community commences, Management intends to only offer a 90 percent refund.

a. Entrance Fees shown in the table reflect the Type C Plan.

b. Residents who select the Type A Plan would pay the same Entrance Fee as the Type C Plan plus an additional Entrance Fee of \$45,427 (the "Life Care Entrance Fee"). The Life Care Entrance Fee amortizes two percent (2%) per month for 50 months.

(3). Management plans to offer two resident service packages: The "Gold Plan" and the "Platinum Plan." See *Residency Agreement* section of this report for a description of the services and amenities.

a. The Monthly Fees shown in the table above reflect the Gold Plan. The Gold Plan provides for 15 meals per month and monthly housekeeping.

- b. The Monthly Fees for the Platinum Plan would be an additional \$225 per month (the "Platinum Monthly Fee") and provides for 1 meal per day and weekly housekeeping. The second person fee for the Platinum Plan would be an additional \$134 per month to the Platinum Monthly Fee.

The Community is planned to include 38 Independent Living Homes. The Independent Living Homes are planned to have one, two and three story options. In addition, the Independent Living Homes also offer bonus room and elevator options. The following table summarizes the type, number, approximate square footage, Monthly Fees and Entrance Fee for the Independent Living Homes.

Table 2
Independent Living Homes Configuration

Type of Unit Unit Configuration	Unit Name	Number of Units	Square Footage	Entrance Fee ⁽¹⁾⁽²⁾	Monthly Fee ⁽¹⁾⁽³⁾	
					Type A	Type C
Two Bedroom, 2 bath	Jutland	3	1,762	\$548,371	\$3,987	\$3,256
Two Bedroom, 2 bath	Jutland II	7	1,762	\$547,290	\$3,987	\$3,256
Two Bedroom, 2 bath	Murgese	4	1,788	\$565,677	\$4,038	\$3,307
Two Bedroom, 2 bath	Murgese II	6	1,788	\$558,106	\$4,038	\$3,307
Two Bedroom, 2 bath	Murgese III	4	2,137	\$754,000	\$4,921	\$4,190
Two Bedroom, 2 bath	Lipizzan	2	1,941	\$610,022	\$4,210	\$3,479
Two Bedroom, 2 bath	Selle	2	2,028	\$680,326	\$4,375	\$3,644
Two Bedroom, 2 bath	Nordland	2	2,137	\$684,653	\$4,372	\$3,641
Two Bedroom, 2 bath, Den	Shire	1	2,449	\$828,506	\$4,651	\$3,920
Two Bedroom, 2 bath, Den	Shire II	1	2,406	\$817,690	\$4,651	\$3,920
Two Bedroom, 2 bath	Morgan	2	2,470	\$788,486	\$4,736	\$4,004
Two Bedroom, 2 bath	Percheron	2	2,530	\$818,771	\$4,643	\$3,911
Two Bedroom, 2.5 bath	Palomino	2	2,558	\$832,832	\$4,751	\$4,020
Total/weighted average		38	2,006	\$646,839	\$4,300	\$3,569
Second person fees					\$778	\$609

Source: Management

- (1). The Entrance Fee and Monthly Fee pricing is effective as of January 1, 2010.
- (2). Management plans to offer the Type C Plan and the Type A Plan for the Independent Living Homes. Both Entrance Fee plans are 100 percent refundable for charter residents (i.e., residents who have made an Entrance Fee deposit prior to commencement of construction). Once construction of the Community commences, Management intends to only offer a 90 percent refund.
- Entrance Fee shown in the table reflect the Type C Plan.
 - Residents who select the Type A Plan would pay the same Entrance Fee as the Type C Plan plus the Life Care Entrance Fee of \$45,427. The Life Care Entrance Fee amortizes two percent (2%) per month for 50 months.
- (3). Management plans to offer the "Gold Plan" and the "Platinum Plan" service packages. See *Residency Agreement* section of this report for a description of the services and amenities.
- The Monthly Fees shown in the table above reflect the Gold Plan.
 - The Monthly Fees for the Platinum Plan would be an additional \$225 per month and provides for 1 meal per day and weekly housekeeping. The second person fee for the Platinum Plan would be an additional \$134 per month to the Platinum Monthly Fee.

The Healthcare Center

Admittance to the Assisted Living Units and the Skilled Nursing Beds (collectively, the "Healthcare Center") is restricted to those residents who have signed a Membership and Residency Agreement (the "Residency Agreement") and are transferring from an Independent Living Unit. See Certificate of Need Requirements section of this report for additional description of criteria for admission into the Healthcare Center. See Residency Agreement section of this report for additional description of the Community's lifecare benefit.

The following table summarizes the type, number, approximate square footage, and the Monthly Fees for the Healthcare Center:

Table 3
Healthcare Center Configuration

	Number of Units	Square Footage	Entrance Fee	Monthly Fee (1)(2)(3)
Assisted Living Units	8	360	Not applicable	\$4,995
Skilled Nursing Beds	16	360	Not applicable	\$8,669
Total	24			

Source: Management

- (1). The Monthly Fee pricing is effective as of January 1, 2010.
- (2). Residents who select the Type A Plan and are temporarily or permanently transferred to the Healthcare Center would continue to pay their Monthly Fee, plus the cost of additional two meals per day.
- (3). Residents who select the Type C Plan and are temporarily or permanently transferred to the Healthcare Center would pay the then Monthly Fee for assisted living or nursing care services. The Monthly Fees shown in the table reflect the Monthly Fees for Residents on the Type C Plan.

The anticipated timeline for the Community is shown below.

Table 4
Development Timeline

Permanent financing	March 2011
Construction commences on the Community	March 2011
Independent Living Units available for occupancy	October 2012
Assisted Living Units available for occupancy	January 2013
Skilled Nursing Beds available for occupancy	January 2013
Assisted Living Units achieves stabilized occupancy - 95.0%	August 2013
Independent Living Units achieve stabilized occupancy - 95.0%	August 2015
Skilled Nursing Beds achieve stabilized occupancy - 95.0%	January 2016

Source: Management

Development and Management of the Community

The Sponsor and Sears Farm initiated development activities for the Community in 2005 with the engagement of the original development team led by Retirement Living Services, LLC (“RLS”) to provide certain development, consulting and marketing services for the Community. In 2009, due to a conflict of interest and change of RLS ownership, the Sponsor and Sears Farm terminated the development agreement with RLS.

Greenbrier Development, LLC

In August 2009, the Sponsor and Sears Farm engaged Greenbrier Development, LLC (“Greenbrier”) as the new development consultant to the Community. Greenbrier is to provide pre-opening services, management advisory services and consulting for the Community and the marketing and admissions for the Community and provide other accounting and administrative support.

Greenbrier has been engaged to provide marketing and development advisory services during the planning and development of the Community. Greenbrier is a privately owned limited liability company organized and existing under the laws of the State of Delaware. Greenbrier specializes in providing planning, development, marketing, and strategic consulting services related to all areas in the senior housing and services business.

Greenbrier currently has a staff of approximately 19 persons, and executive management has more than 90 years of combined experience in senior housing development. Greenbrier is currently responsible for the development and /or marketing of approximately seven senior living community development and expansion projects.

Greenbrier Development Consulting Agreement

The Sponsor, Sears Farm, and Greenbrier entered into a Development Consulting Service Agreement dated August 12, 2009 (the “Greenbrier Development Consulting Agreement”). The Greenbrier Development Consulting Agreement provides that Greenbrier is required to provide development, consulting, marketing and pre-opening activities related to the Community. Under the Greenbrier Development Consulting Agreement, Greenbrier is also to be responsible for the marketing and initial leasing program of the Community until 95 percent occupancy of the Independent Living Units and 95 percent occupancy of the Healthcare Center is achieved (“Stabilized Occupancy”).

As compensation for services rendered pursuant to the Development Consulting Agreement, Greenbrier would be paid a development fee consisting of a base development consulting fee (“Base Development Consulting Fee”) and a marketing fee (the “Marketing Fee”) (collectively referred to as the “Greenbrier Development Fee”). Based on the project budget as outlined in Management’s projection, the total Greenbrier Development Fees paid would be approximately \$4,372,000, which includes a Base Development Consulting Fee of \$3,120,000 and a Marketing Fee of \$1,252,000.

The Base Development Consulting Fee is earned and payable as follows: (i) \$210,000 paid pro-rata over 12 months after commencement of development services, (ii) \$890,000 upon issuance of the Series 2011 Bonds, (iii) \$720,000 paid in 24 equal installments during the construction period, (iv) \$400,000 upon receiving a certificate of occupancy for initial resident occupancy, (v) \$400,000 to be paid on a pro-rata basis as the Community achieves each 5 percent increment of occupancy up to and including 95 percent occupancy of the Independent Living Units, and (vi) \$500,000 upon achieving Stabilized Occupancy and following repayment of principal returns to seed capital investors.

The Marketing Fee will be paid upon achieving key milestones relating to occupancy of the Independent Living Units. The Marketing Fee will equal to one and one-half percent (1.5%) of the gross Entrance Fees collected up to and including the first 95 percent of the Independent Living Units. The Marketing Fee will be paid as follows: (i) \$270,000 paid in 27 equal monthly installments beginning in January 2010 (the “Base

Marketing Fee”), and (ii) \$982,000 or one and one-half percent of the gross Entrance Fees collected payable on a monthly basis as the Entrance Fees are collected.

The Development Fee assumed to be paid to Greenbrier in association with the development of the Community is presented in the following table.

Table 5
Anticipated Greenbrier Development Fees

<u>Fees Paid and Initiated Prior to Construction Commencement</u>	
Base Development Consulting Fee ⁽¹⁾⁽²⁾	\$210,000
Base Marketing Fee ⁽³⁾	80,000
Total Fees Paid and Initiated Prior to Construction Commencement	\$290,000
<u>Fees Paid Prior to Opening</u>	
Upon closing of Series 2011 Bonds	\$890,000
During construction period in 24 equal installments	720,000
Upon obtaining Certificate of Occupancy	400,000
Base Marketing Fee ⁽³⁾	190,000
Total Fees Paid Prior to Opening	\$2,200,000
<u>Fees Paid After Opening</u>	
Pro-rata over fill-up to 95% occupancy	\$400,000
Upon Stabilized Occupancy	500,000
Marketing Fee ⁽⁴⁾	982,000
Total Fees Paid After Opening	\$1,882,000
Total Greenbrier Development Fees	\$4,372,000

Source: Management and Greenbrier

(1) Paid directly by Sears Farm.

(2) Paid in 12 equal installments from August 2009 through July 2010. If permanent financing occurs within 12 months of the commencement of development of the Community, any remaining monthly installments would be paid at the closing of the Series 2011 Bonds.

(3) Paid in 27 equal installments beginning in January 2010. If completion of construction of the Community occurs within 24 months of the date of the closing of the Series 2011 Bonds, any remaining monthly installments would be paid at the completion of construction.

(4) The Marketing Fee is equal to one and one-half percent of the gross Entrance Fees and is collected payable on a monthly basis as the Entrance Fees are collected. A portion of the Marketing Fee would be paid with initial Entrance Fees.

Under the Greenbrier Development Consulting Agreement, the Sponsor is also expected to reimburse Greenbrier for all reasonable out-of-pocket travel expenses for personnel employed by Greenbrier, and a three and a half percent administrative fee on the Greenbrier Development Fee to cover miscellaneous office expenses.

Sears, Hackney, Keener & Williams

Sears, Hackney, Keener & Williams (“SHKW”) is a full-service architectural firm founded in 1932 and located in Cary, North Carolina. William Sears, one of the members of Sears Farm, is the Principal of SHKW. SHKW provides services to the Corporation, including planning, budgeting, design, project management and interior design. SHKW serves as the co-developer assisting Greenbrier as the local point of contact for any land use and/or construction related activities. SHKW has also provided initial schematic and design documentation that is to serve as the basis of the project design development and construction documentation.

Development Monitoring Agreement and Construction Period Services Agreement

In April 2010, SHKW and the Corporation entered into a “Development Monitoring Agreement” and a “Construction Period Services Agreement.”

The Development Monitoring Agreement requires SHKW to provide 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 Community.

The Construction Period Services Agreement requires SHKW to monitor the construction of the Community.

As compensation for services under the Development Monitoring Agreement and the Construction Period Services Agreement, SHKW is expected to be paid the following “Co-Development Fees”:

<u>Fees Paid and Initiated Prior to Construction Commencement⁽¹⁾</u>	\$70,000
<u>Fees Paid Prior to Opening</u>	
Upon closing of Series 2011 Bonds	\$296,677
During construction period	640,000
Upon obtaining Certificate of Occupancy	133,333
Total Fees Paid Prior to Opening	\$1,070,010
<u>Fees Paid After Opening</u>	
Pro-rata over fill-up	\$133,333
Upon Stabilized Occupancy	166,667
Total Fees Paid After Opening	\$300,000
<u>Total Co-Development Fees</u>	<u>\$1,440,100</u>

Source: Management

(1) Paid directly by Sears Farm.

SearStone – RLA, 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.

Management Services Agreement

In May 2010, Sears Farm and Sponsor entered into a management services agreement with the Manager (the “Management Services Agreement”). Pursuant to the terms of the Management Services Agreement, the Manager will be responsible for the management of the Community’s Independent Living Units, Assisted

Living Units, Skilled Nursing Beds and non-clinical aspects of the Community, including staffing, accounting and general administrative services. As compensation for services rendered pursuant to the Management Services Agreement, Sears Farm and Sponsor are expected pay the Manager a Base Management Fee (the "Base Management Fee" and a Percentage Fee (the "Percentage Fee"). The Base Management Fee includes compensation for assistance with pre-opening services and would approximate \$210,000 paid in monthly installments over the 12 months prior to the Community opening. The Percentage Fee is equal to 4.5 percent of the current month's billable income from the Community.

Upon closing of the Series 2011 Bonds and sale of the Community Site to the Corporation, Sears Farm will assign the Management Services Agreement to the Corporation.

Summary of Financing

MatchCapSM -Sears Farm, LLC

MatchCapSM -Sears Farm, LLC ("MatchCap") is a limited liability company organized under the laws of the State of Connecticut. MatchCap was formed specifically to provide pre-financing funding and assistance to Sears Farm and the Sponsor pursuant to a pre-construction financing and development agreement (the "Pre-Construction Financing and Development Agreement"). See the description of "Pre-Finance Capital" contained herein.

Other Investors

Pre-finance capital has been provided by private investors ("Other Investors") solicited by Sears Farm and the Sponsor. See the description of "Pre-Finance Capital" contained herein.

Pre-Finance Capital

Certain pre-financing costs were funded with approximately \$23,902,000 in pre-finance capital (the "Pre-Finance Capital") provided by Sears Farm, MatchCap, Greenbrier, and Other Investors.

Table 7
Pre-Finance Capital by Use (\$000s)

Use of Funds	Pre-Finance Project Expenditures
Land	\$ 10,875
Marketing Costs	7,277
Furniture and Equipment	1,625
Architectural and Engineering	1,668
Development Fees	716
Other Project Costs ⁽¹⁾	1,741
Total	\$ 23,902

Source: Management

(1) Includes consulting fees, legal fees, insurance, accounting, administrative and other miscellaneous pre-development costs related to the Community

According to Management, approximately \$14,732,000 of proceeds from the Series 2011 Bonds is assumed to be used to reimburse Pre-Finance Capital provided by Sears Farm, Greenbrier, and Other Investors. MatchCap and Sears Farm are assumed to respectively defer reimbursement in the approximate amounts of \$6,800,000 and \$2,370,000 for the provision of Pre-Finance Capital, the payment of which will be subordinated to the payment of the Series 2011 Bonds and would be payable once the Community meets certain occupancy and financial performance criteria.

See Independent Accountants' Examination Report

Table 8
Pre-Finance Capital by Provider (\$000s)

Provider	Pre-Finance Project Expenditures	Reimbursement by Series 2011 Bonds	Deferred Reimbursement
MatchCap	\$ 6,800	-	\$ 6,800
Sears Farm	14,750	12,380	2,370
Other investors	2,102	2,102	-
Greenbrier	250	250	-
Total	\$ 23,902	\$ 14,732	\$ 9,170

Source: Management

Subordinated Debt

In addition to the deferred reimbursement of Pre-Finance Capital in the amount of \$6,800,000, MatchCap is assumed to defer payment of interest earned on Pre-Finance Capital. Under the terms of the agreement between MatchCap and Sears Farm and the Sponsor (the "MatchCap Agreement"), interest on the Pre-Finance Capital is assumed to accrue at an annual rate of 9.0 percent and shall not exceed the amount of \$6,800,000 (the "Return on MatchCap"). According to Management, approximately \$3,477,000 of the Return on MatchCap is assumed to be earned and deferred at the date of financing, with the remainder to be earned and deferred through 2017. In total, approximately \$13,600,000 due to MatchCap is assumed to be deferred and subordinated to the payment of the Series 2011 Bonds and would be payable once the Community meets certain occupancy and financial performance criteria.

In addition to the deferred reimbursement of Pre-Finance Capital in the amount of \$2,370,000, Sears Farm is assumed to defer reimbursement of approximately \$700,000 in development costs (the "Development Contribution"). In total, approximately \$3,070,000 due to Sears Farm is assumed to be deferred and subordinated to the payment of the Series 2011 Bonds and would be payable once the community meets certain occupancy and financial performance criteria. Approximately \$500,000 of development fees due to Greenbrier are assumed to be deferred and subordinated to the payment of the Series 2011 Bonds and would be payable once the Community meets certain occupancy and financial performance criteria.

Table 9
Subordinated Debt (\$000s)

Years Ending December 31,	2011	2012	2013	2014	2015	2016
Beginning balance	-	\$ 13,847	\$ 14,459	\$ 15,071	\$ 15,683	\$ 16,295
Deferred Reimbursement of Pre-Finance Capital – MatchCap	6,800	-	-	-	-	-
Return on MatchCap – Earned at financing	3,477	-	-	-	-	-
Return on MatchCap – Earned after financing	-	612	612	612	612	612
Deferred Reimbursement of Pre-Finance Capital – Sears Farm	2,370	-	-	-	-	-
Deferred Development Contribution – Owner	700	-	-	-	-	-
Deferred Development Fees – Greenbrier	500	-	-	-	-	-
Ending balance	\$ 13,847	\$ 14,459	\$ 15,071	\$ 15,683	\$ 16,295	\$ 16,907

Source: Management

Permanent Financing

The total financial requirements for construction of the Community are estimated to approximate \$145,841,000. Management proposes to fund these financial requirements through the proposed \$112,315,000 North Carolina Medical Care Commission Health Care Facilities First Mortgage Revenue Bonds (SearStone), Series 2011 Bonds, (the "Series 2011 Bonds"). Management has assumed the following sources and uses of funds in preparing the financial projection based on information provided by the managing underwriter Herbert J. Sims & Co., Inc. and BB&T Capital Markets (the "Underwriters"):

Table 10
Sources and Uses of Funds
(in thousands of dollars)

Sources of Funds:	
Series 2011A Bonds ⁽¹⁾	\$51,315
Series 2011B Bonds ⁽¹⁾	61,000
Total Series 2011 Bond Proceeds	\$112,315
Subordinated Debt ⁽²⁾	17,170
Resident Entrance Fees ⁽³⁾	15,061
Interest Earned on Trustee Held Funds ⁽⁴⁾	1,295
Total Sources of Funds	\$145,841
Uses of Funds:	
Project-Related Costs:	
Construction ⁽⁵⁾	\$52,318
Land ⁽⁶⁾	12,277
Marketing costs ⁽⁷⁾	9,419
Return on MatchCapSM – Sears Farm, LLC ⁽⁸⁾	6,800
Furniture and equipment ⁽⁹⁾	5,565
Architectural and engineering ⁽¹⁰⁾	4,130
Contingency ⁽¹¹⁾	3,500
Development fees ⁽¹²⁾	4,372
Other project costs ⁽¹³⁾	3,759
Total Project-Related Costs	\$102,140
Financing-Related Costs:	
Funded Interest Fund ⁽¹⁴⁾	17,569
Debt Service Reserve Fund – Series 2011A Bonds ⁽¹⁵⁾	4,953
Debt Service Reserve Fund – Series 2011B Bonds ⁽¹⁵⁾	4,423
Working Capital Fund ⁽¹⁶⁾	14,079
Issuance costs ⁽¹⁷⁾	2,677
Total Financing-Related Costs	\$43,701
Total Uses of Funds	\$145,841

Sources: Management and the Underwriters

Notes to Table:

- (1). According to the Underwriters, the following series of bonds are assumed to be issued:
 - a. \$51,315,000 of non-rated fixed rate term bonds (the "Series 2011A Bonds"); and
 - b. \$61,000,000 of Entrance Fee Principal Redemption Bonds (the "Series 2011B Bonds").
- (2). Subordinated Debt is assumed to approximate \$17,170,000 which represents \$6,800,000 of Pre-Finance Capital from MatchCap, \$6,800,000 Return on MatchCap and approximately \$3,570,000 of deferred Greenbrier and Sears Farm fees. According to Management, approximately \$3,477,000 of the Return on MatchCap is assumed to be earned and deferred at the date of financing, with the remainder to be earned and deferred through 2017. Repayment of the Subordinated Debt is assumed to be subordinate to repayment of the Series 2011 Bonds and payable only upon achieving occupancy milestones and financial performance measures.
- (3). According to Management, approximately \$15,061,000 of initial resident Entrance Fees are anticipated be used to fund approximately \$14,079,000 of start-up losses and approximately \$982,000 of the Marketing Fee.
- (4). Management has estimated interest in the amount of \$1,295,000 to be earned as follows: on the Project Fund at 0.75 percent, on the Funded Interest Fund at 0.75 percent, and 2.25 percent on the Series 2011 Debt Service Reserve Funds.
- (5). Construction, land improvements, and other costs related to the construction of the Community are estimated by Management to approximate \$52,318,000, as provided by the Corporation's general contractor, Rentenbach-Wilson.
- (6). Land related costs approximate \$12,277,000 and include costs related to the land purchase including carrying costs, land use and impact fees, and state land use fees, as provided by Management.
- (7). Marketing costs related to the Community are estimated by Management to approximate \$9,419,000 and include direct marketing costs, salaries and other promotional material.
- (8). Management assumes the Return on MatchCap to be earned and deferred throughout the projection period and shall not exceed the amount of \$6,800,000. A description of the terms for the Return on MatchCap is included in the "Subordinated Debt" section in this report.
- (9). Interior design fees, furniture and equipment costs and the Co-Development Fees are estimated by Management to be approximately \$5,565,000, based on architect's estimates and comparable projects.
- (10). Architectural and engineering costs are estimated by Management to approximate \$4,130,000, as provided by the Corporations' architects, SHKW and Lantz-Boggio.
- (11). A project contingency is estimated by Management to approximate \$3,500,000, which represents approximately seven percent of the assumed construction costs of the Community.
- (12). Greenbrier Development Fees are estimated by Management to be approximately \$4,372,000.
- (13). Other project costs include expenses related to the Pre-Finance Capital placement costs, insurance, accounting and audits, legal and other professional fees and administrative and other costs of approximately \$3,759,000. Included in the other project costs is approximately \$506,000 paid to RLS for development services from 2005 to 2009.
- (14). The Underwriters have estimated \$17,569,000 to be used to fund interest for 25 months from the date of issuance of the Series 2011 Bonds.
- (15). As provided by the Underwriters, the deposits to the Debt Service Reserve Funds for the Series 2011 Bonds are assumed to approximate \$9,376,000.
- (16). Subsequent to the issuance of the Series 2011 Bonds and after completion of the Project, initial entrance fees of \$14,079,000 are assumed to be available to fund the Working Capital Fund (prior to any replenishment).
- (17). Costs of issuance related to the Series 2011 Bonds approximate \$2,677,000 and include the Underwriters' discount, accounting fees, legal fees, the feasibility consulting fee, the bond issuance fees, the cost for the printing of the preliminary official statement and official statement and other miscellaneous financing costs.

Residency Agreement

The Residency Agreement is a contract under which the Community is obligated, upon payment by the resident of an Entrance Fee and ongoing payments of the Monthly Fee to the Community, 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.

The remaining 90 percent of the Entrance Fee is due not later than 60 days after the date that Management sends written notice to the resident that the residential unit chosen is or will be ready for occupancy (the "Occupancy Date"). In addition, the Residency Agreement provides the Monthly Fee for the selected Independent Living Unit to be in effect through December 31, 2011.

Services and Amenities

Management plans to offer two resident service packages: the "Gold Package" and the "Platinum Package." 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;
- Planned social, educational, cultural and recreational activities;
- 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.

Dining and housekeeping service are based on the selected resident service package and are as follows:

Service	The Gold Package	The Platinum Package
Dining	15 meals per month	1 meal per day
Housekeeping	monthly	weekly

Residents would be given the opportunity to change their selected service package on a monthly basis, given 30 days notice. Management has assumed that approximately 90 percent of the Residents would select the Gold Plan in 2012 and 10 percent would select the Platinum Package in 2012. In addition, Management assumes the utilization of the Gold Plan would reduce by 5 percent annually beginning in 2013 and utilization of the Platinum Plan would increase by five percent annually beginning in 2013.

In addition to the items included in the Monthly Fee and Entrance Fee, Residents of the Winston Clubhouse are to receive valet parking. Residents of the Plaza, Terrace and Clubhouse would also receive additional storage.

Additional services are available to Residents for an extra charge including, but are 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 additional meals. In the event the Assisted Living Units or the Skilled Nursing Beds are full, Residents would also be provided home health services in the Resident's Independent Living Unit at no additional fee. If a Resident requires additional nursing services, Management would arrange for nursing care to be provided in an appropriate nursing establishment until available occupancy in the Skilled Nursing Beds is available.

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

Entrance Fee Refundability

The Community offers two Entrance Fee plans under the Residency Agreement: Type A Plan and Type C Plan. The Entrance Fee options and related amortization schedules are as follows:

Entrance Fee Options	Amortization Schedule ⁽¹⁾⁽²⁾
Type A Plan	Upon termination of the Residency Agreement, 90 percent of the Resident's original Entrance Fee for the assigned Independent Living Unit is refunded to the Resident after receipt from another Resident for the same Independent Living Unit vacated by the Resident. The Life Care Entrance Fee shall amortize at the rate of two percent per month for 50 months starting the month the balance of the Entrance Fee is paid.
Type C Plan	Upon termination of the Residency Agreement, 90 percent of the Resident's original Entrance Fee for the assigned Independent Living Unit is refunded to the Resident after receipt from another Resident for the same Independent Living Unit vacated by the Resident.

(1) The Entrance Fee for charter residents on the Type A Plan or the Type C Plan (i.e. Residents who have made an Entrance Fee Deposit prior to commencement of construction) is to be 100 percent refundable.

(2) Once construction of the Community begins, the charter benefit of 100 percent refundable for the Type A Plan or the Type C Plan will no longer be offered.

Management has assumed that approximately 30 percent of the Residents to be enrolled under Type A Plan and 70 percent to be enrolled under Type C Plan during the projection period.

Charter Resident Benefit

Management has offered a charter resident benefit plan (the "Charter Benefit Program") to Residents of the Independent Living Units. The Charter Resident Plan is being offered to Residents who reserve an Independent Living Unit prior to the commencement of construction of the Community ("Charter Residents").

For purposes of the Management's projection, Management has assumed 55.9 percent (or 89.7) of the first generation Residents would utilize the Charter Benefit Program due to cancellations and resales at higher, post-construction pricing. Some of the benefits of the Charter Benefit Program include 100 percent refundability of the Entrance Fee, five percent interest on the Entrance Fee Deposit, discounts on Entrance Fees, free upgrades, and two free months of the Monthly Fee.

At the commencement of construction, it is anticipated that Management will cease to offer the Charter Benefit Program. Management assumes a 5.0 percent annual increase to Entrance Fees beginning January 1, 2011 and a 3.0 percent increase beginning January 1, 2013 and annually thereafter.

Termination by the Resident Prior to Occupancy Date

Under either type of Entrance Fee plan, a Resident may terminate the Residency Agreement within a 30-day "Rescission Period" after execution and receive a full refund Entrance Fee Deposit, including interest earned, payable within five business days of receipt of the Resident's written request, less cost associated with optional amenities. After the Rescission Period, if the prospective resident terminates the Residency Agreement before residency is established, the Resident is to receive a full refund Entrance Fee Deposit, including interest earned, payable within 60 business days of receipt of the Resident's written request, less cost associated with optional amenities.

Termination by the Resident after Occupancy Date

If the Residency Agreement is terminated after occupancy for any reason, or is terminated due to the death of the Resident(s), a portion of the Entrance Fee is refunded as determined by the Entrance Fee plan selected by the Resident.

Upon termination of the Type A Plan Residency Agreement after residency has been established (if the Resident occupies the Independent Living Unit at the time of termination), the refund would be paid upon the Management's receipt of the total Entrance Fee from another Resident for the same Independent Living Unit vacated by the Resident. The Life Care Entrance Fee shall amortize at the rate of two percent per month for 50 months starting the month the balance of the Entrance Fee is paid.

Upon termination of the Type C Plan Residency Agreement after residency has been established (if the Resident occupies the Independent Living Unit at the time of termination), the refund would be paid upon the Management's receipt of the total Entrance Fee from another Resident for the same Independent Living Unit vacated by the Resident.

If the Residency Agreement has been signed by two Residents, in the event that one Resident dies, terminates the Residency Agreement or is transferred permanently to the Healthcare Center, the Residency Agreement would continue in effect as to the surviving or the remaining Resident. There will be no refund of any portion of the Entrance Fee, and the Monthly Fee would be adjusted to reflect the then applicable single occupancy Monthly Fee.

Characteristics of the Market Area

Assumptions for the future utilization of the Community were developed by Management based on analysis of the following factors that may affect the demand for the Community's accommodations and services:

- Site description and general area analysis;
- Defined primary market area for independent living services;
- Demographic and socioeconomic characteristics of the defined primary market area;
- Estimated age- and income-qualified households within the defined primary market area;
- Description and utilization of existing and proposed comparable retirement communities within and near the defined primary market area for independent living services;
- Management's ability to market the Independent Living Units;
- Description and utilization of existing and proposed assisted living and nursing care facilities within the defined primary market area for health care services;
- Penetration rates for independent living and assisted living services.

Each of the above factors and the resulting assumed utilization of the Community are described in the following sections.

Site Description

The Community is anticipated to be located on 24-acre site fronting High House Road at Davis Drive in Cary, North Carolina. The Community site is in Wake County approximately 12 miles west of Raleigh, 25 miles southeast of Chapel Hill and 21 miles southeast of Durham.

General Area Analysis

Highways

The Community is anticipated to be located on Davis Drive which travels north from the Community and provides access to Interstate 40 ("I-40") and the Research Triangle Park ("RTP"). The Community is also within two miles of State Highway 55, which also provides access to I-40, the RTP and Durham. I-40 provides access to Raleigh to the east and travels west into Chapel Hill, Burlington, Greensboro, Winston-Salem and Asheville. U.S. Highway 64 provides access to Pittsboro to the west and Apex to the east. Other local roads include Chapel Hill Road, Cary Parkway and Morrisville Parkway.

Public Transportation

C-Tran provides six fixed routes to the town of Cary as well as door-to-door service for Cary citizens who are 60 and older or are disabled. The closest C-Tran stop is located on Route 4 near the entrance of the Community at the intersection of High House Drive and Davis Drive in the Cornerstone Shopping Center. Route 4 connects with Triangle Transit Authority ("TTA") Route 311 at Hwy 55, which provides access to the RTP to the north and Apex to the south. TTA also provides bus service to Raleigh, Durham and Garner.

The Triangle Regional Rail System, anticipated to open in 2020, is expected to offer transportation by light rail and provide access to Durham, RTP, Cary and Raleigh. Amtrak's Silver Star, Carolinian and Piedmont passenger trains stop at the Cary Amtrak station, less than four miles east of the Community, and offers service to Charlotte, New York City, Miami, and intermediate points.

Airports

Raleigh-Durham International Airport (“RDU”) is located approximately eight miles northeast of the Community. RDU serves over four million passengers per year through eight major airlines and 19 regional carriers.

Healthcare and Hospitals

There are several nearby hospitals serving the Cary area including WakeMed Cary Hospital, Rex Hospital, Duke University Hospital and the UNC Hospitals, which consist of the North Carolina Children’s Hospital, North Carolina Memorial Hospital, North Carolina Neurosciences Hospital and North Carolina Women’s Hospital.

The following table identifies the hospitals and medical centers that serve the area surrounding the Community.

Table 11
Hospitals and Medical Centers Near the Community

Hospital Name	Location	Driving Distance from the Community (Miles)	Number of Beds	2009 Medicare Inpatients	2009 Average Length of Stay (days)	2009 Total Discharges
WakeMed Cary Hospital	Cary	7.2	192	3,263	5.2	10,002
Rex Hospital	Raleigh	13.0	541	9,323	4.9	30,772
Duke University Hospital	Durham	19.7	801	13,343	6.6	37,676
The UNC Hospitals Regional Hospital	Chapel Hill	20.1	728	9,260	6.5	39,973

Source: American Hospital Directory, July 2010.

Shopping/Recreation/Cultural

Cary, North Carolina is located near the center of the RTP, which is a 7,000 acre development that is home to more than 170 companies employing over 42,000 full-time employees and approximately 10,000 contract employees. RTP is located at the core of the Research Triangle region (Raleigh, Durham and Chapel Hill) of North Carolina and is a globally known high-technology research and development center.

Cary offers more than 20 public parks, 20 miles of trails and cultural arts programs as well as concerts and other special events throughout the year. The Amphitheater at Regency Park, located approximately nine miles southeast of the Community, is Cary’s state-of-the-art performance center featuring the North Carolina Symphony concerts and other performances. Page-Walker Arts and History Center, approximately four miles east of the Community, is on the National Register for Historic Place and offers classes, events, performances, meetings and receptions and the gallery exhibits. Jordan Hall Arts Center, approximately five miles east of the Community, offers art classes and activities for all ages and features an art gallery for monthly exhibits promoting local artists.

The Cornerstone Shopping Center is located near the entrance of the Community and offers Lowes Foods grocery store, a drug store, retail shops and a restaurant. Cary Towne Center, located in Cary approximately six miles southeast of the Community, offers more than 140 retail stores and restaurants. Crossroads Plaza, also located in Cary, offers over 60 retail stores and restaurants and is approximately 10 miles southeast of the Community.

The Community is located near three golf courses, including Prestonwood Country Club, MacGregor Downs Country Club and Lochmere Golf Club, all within 11 miles of the Community.

UNC at Chapel Hill, located 20 miles northwest of the Community, was established in 1795 and currently enrolls more than 29,000 students. Duke University, which was established in 1924, is a 14,000-student private research university located in Durham, approximately 19 miles north of the Community. North Carolina State University, located 13 miles east of the Community Raleigh, is a public university established in 1887 and currently enrolls 31,000 students.

Primary Market Area of the Community

The primary market area for providers of senior living services is typically defined as the geographic area from which a majority number of prospective residents reside prior to assuming occupancy at a community. As of September 15, 2010, there were 100 Independent Living Units reserved out of the 169 available Independent Living Units, representing approximately 60 percent of the total Independent Living Units at the Community.

Based on the zip code origin of the Depositors, discussions with existing senior living providers in the area and experience with similar communities, the primary market area has been defined to be a nine-zip code area surrounding the Community which spans approximately 20 miles north to south and 20 miles east to west at its widest points (the "PMA"). The PMA includes the following cities and related zip codes within Chatham, Durham and Wake counties.

Table 12
Independent Living Depositor Origin Data⁽¹⁾

Zip Code	City/Town	Depositors	Percentage of Total
27511 ⁽²⁾	Cary	20	20.0%
27519	Cary	10	10.0%
27513	Cary	7	7.0%
27502	Apex	5	5.0%
27523	Apex	4	4.0%
27560	Morrisville	4	4.0%
27518 ⁽³⁾	Cary	2	2.0%
27539	Apex	2	2.0%
27606	Raleigh	1	1.0%
Total from the PMA		55	55.0%
Other areas in North Carolina		30	30.0%
Out of state		15	15.0%
Total		100	100.0%

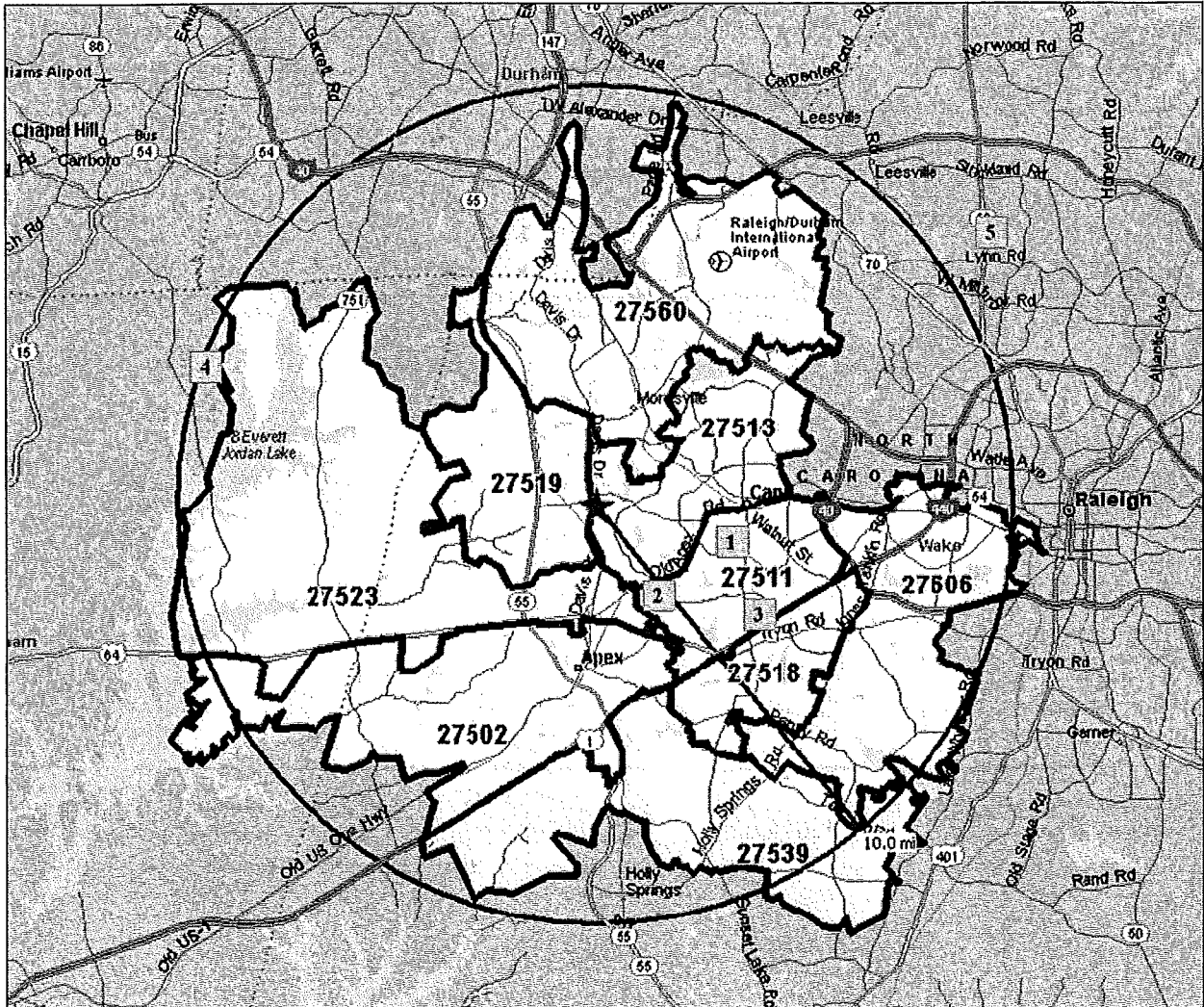
Source: Management

(1) Depositors as of September 15, 2010.

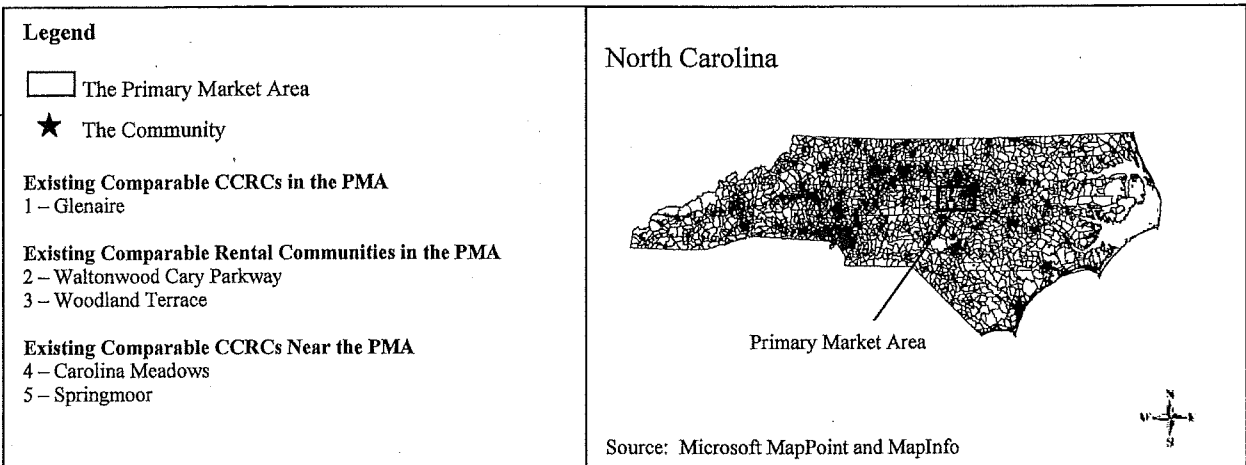
(2) The Community is in zip code 27511.

(3) Zip code 27518 is located within zip code 27511 and not shown on the map that follows.

The following map depicts the Community, the PMA and the comparable existing retirement communities within and near the PMA.



Source: Microsoft MapPoint



The age distribution of the population in a geographic area is a key factor in the determination of an area's retirement housing needs. The U.S. Census Bureau has compiled demographic data based on the 2000 Census figures. Nielson Claritas, Inc., ("Nielson Claritas") a firm that specializes in the analysis of demographic data, has extrapolated the 2000 Census information to derive the estimated 2010 figures and projected statistics for 2015, the first year of stabilized occupancy at the Community. The following table presents population data by age cohort and the anticipated average annual compounded percentage change between 2010 and 2015 in the PMA, the State of North Carolina and the United States.

Table 13
Historical, Estimated and Projected Primary Market Area,
State of North Carolina and United States Populations

	2000 Population (Census)	2010 Population (Estimated)	2015 Population (Projected)	Compounded Annual Percentage Change 2000 – 2010	Compounded Annual Percentage Change 2010 – 2015
<u>PMA</u>					
Total Population	180,528	265,209	305,409	3.9%	2.9%
Age 65 to 74 Population	5,575	11,406	18,719	7.4%	10.4%
Age 75 to 84 Population	3,149	4,508	6,007	3.7%	5.9%
Age 85 Plus Population	949	1,572	2,039	5.2%	5.3%
Total 65 Plus	9,673	17,486	26,765	6.1%	8.9%
Total 75 Plus	4,098	6,080	8,046	4.0%	5.8%
<u>North Carolina</u>					
Total Population	8,049,313	9,471,519	10,160,555	1.6%	1.4%
Age 65 to 74 Population	533,777	674,422	865,518	2.4%	5.1%
Age 75 to 84 Population	329,810	382,743	425,960	1.5%	2.2%
Age 85 Plus Population	105,461	155,860	183,431	4.0%	3.3%
Total 65 Plus	969,048	1,213,025	1,474,909	2.3%	4.0%
Total 75 Plus	435,271	538,603	609,391	2.2%	2.5%
<u>United States</u>					
Total Population	281,421,906	309,038,974	321,675,005	0.9%	0.8%
Age 65 to 74 Population	18,390,986	21,580,358	26,470,019	1.6%	4.2%
Age 75 to 84 Population	12,361,180	13,167,556	13,925,854	0.6%	1.1%
Age 85 Plus Population	4,239,587	5,931,055	6,588,006	3.4%	2.1%
Total 65 Plus	34,991,753	40,678,969	46,983,879	1.5%	2.9%
Total 75 Plus	16,600,767	19,098,611	20,513,860	1.4%	1.4%

Source: Nielson Claritas

The following table presents the percentage of total population by age group for the targeted age population in the PMA, the State of North Carolina and the United States.

Table 14			
Percentage of Total Population by Age Cohort			
2000 (Census)			
	PMA	North Carolina	United States
<u>Age Cohort</u>			
65 plus	5.4%	12.0%	12.4%
75 plus	2.3%	5.4%	5.9%
85 plus	0.5%	1.3%	1.5%
2010 (Estimated)			
	PMA	North Carolina	United States
<u>Age Cohort</u>			
65 plus	6.6%	12.8%	13.2%
75 plus	2.3%	5.7%	6.2%
85 plus	0.6%	1.6%	1.9%
2015 (Projected)			
	PMA	North Carolina	United States
<u>Age Cohort</u>			
65 plus	8.8%	14.5%	14.6%
75 plus	2.6%	6.0%	6.4%
85 plus	0.7%	1.8%	2.0%

Source: Nielson Claritas

Estimated Eligible Households within the PMA

In order to qualify for residency at the Community, a prospective resident must be at least 62 years of age and demonstrate sufficient financial resources to pay the Entrance Fee, required Monthly Fee and other expenses related to independent living services not provided for in the Residency Agreement. Accordingly, Management has established certain criteria to identify potential residents who would be eligible to reside in an Independent Living Unit. Management estimates that prospective independent living residents are required to have a minimum annual income of approximately 1.67 times the Monthly Fee for the selected Independent Living Unit and minimum net assets of approximately 2.0 times the Entrance Fee for an Independent Living Unit less than \$500,000 or approximately 1.75 times the Entrance Fee for an Independent Living Unit more than \$500,000 to become a Resident.

For purposes of quantifying the number of income-qualified households in the PMA, households age 75 or older are considered to be the most likely to establish residency in an Independent Living Unit. The composition of Depositors as of September 15, 2010 is described in the table below:

Table 15
Depositor Age Composition

Age Group of Primary Depositors	Number of Depositors	Percentage
Under 75	27	27.0%
75 and older	73	73.0%
Total Primary Depositors on entry into the Community ⁽¹⁾	100	100.0%

Source: Management

(1) Represents the age of Depositors upon entry into the Community in 2012.

In addition, based on the financial qualifications outlined above, the following two annual household income scenarios are presented for estimating the number of income-qualified households in the PMA and are based on the Monthly Fees for the Type C plan with the Gold Plan Monthly Fee option since the majority of Depositors have chosen that option:

- Annual household income approximately \$50,000 or more based on the weighted average Monthly Fee of an Independent Living Apartment (approximately \$2,500 per month) at the Community; and
- Annual household income approximately \$75,000 or more based on the weighted average Monthly Fee of an Independent Living Home (approximately \$3,600 per month) at the Community.

Of the Community's Depositors, the median annual income is approximately \$91,000 and the median net worth is approximately \$1,361,000, based on information provided by Management as of September 15, 2010. The average age of Depositors upon entry to the Community approximates 78 years of age when the Community is expected to open in 2012.

The following table illustrates the 2010 estimated and the 2015 projected household income distribution for householders age 65 to 74 and 75 or over in the PMA.

Table 16			
Income Eligible Households for Independent Living Services			
Within the Primary Market Area			
	2010 (Estimated)		
	65 – 74	75+	Total
Total Households:	6,632	3,396	10,028
<u>Household Income</u>			
Under \$50,000	3,317	1,955	5,272
<u>\$50,000 and over</u>			
\$50,000 – 74,999	1,330	648	1,978
\$75,000 – 99,999	662	290	952
\$100,000 plus	1,323	503	1,826
Total \$50,000 and over	3,315	1,441	4,756
Percentage of Income Eligible Households to			
Total Households - \$50,000 and over	50.0%	42.4%	47.4%
Total \$75,000 and over	1,985	793	2,778
Percentage of Income Eligible Households to			
Total Households - \$75,000 and over	29.9%	23.4%	27.7%
	2015 (Projected)		
	65 – 74	75+	Total
Total Households:	10,734	4,463	15,197
<u>Household Income</u>			
Under \$50,000	4,845	2,397	7,242
<u>\$50,000 and over</u>			
\$50,000 – 74,999	2,227	842	3,069
\$75,000 – 99,999	1,203	445	1,648
\$100,000 plus	2,459	779	3,238
Total \$50,000 and over	5,889	2,066	7,955
Percentage of Income Eligible Households to			
Total Households - \$50,000 and over	54.9%	46.3%	52.3%
Total \$75,000 and over	3,662	1,224	4,886
Percentage of Income Eligible Households to			
Total Households - \$75,000 and over	34.1%	27.4%	32.2%

Source: Nielsen Claritas

The following table estimates the number of age- and income-qualified households in the PMA as estimated in 2010, interpolated in 2012 and projected in 2015 based on the 2000 Census.

	Age 75 and Above		
	2010	2012	2015
Total \$50,000 and over	1,441	1,691	2,066
Percentage of Income Eligible Households to Total Households - \$50,000 and over	42.4%	44.2%	46.3%
Total \$75,000 and over	793	965	1,224
Percentage of Income Eligible Households to Total Households - \$75,000 and over	23.4%	25.2%	27.4%

Source: Nielsen Claritas

The following table compares the percentage of age- and income-qualified households to total households for the \$50,000 and \$75,000 income qualification levels for the population age 75 and above within the PMA, the State of North Carolina and the United States.

	PMA	North Carolina	United States
Percentage of Income Qualified Households to Total Households - \$50,000	46.3%	23.1%	28.9%
Percentage of Income Qualified Households to Total Households - \$75,000	27.4%	12.0%	16.0%

Source: Nielsen Claritas

Market Area Real Estate

The ability of potential residents to sell their homes prior to assuming occupancy at a senior living community may have an impact on the ability of residents to pay the required entrance fee. Often, entrance fees are paid with funds received through the sale of a prospective resident's home. The following table summarizes the real estate statistics for the PMA.

Table 19
Market Area Real Estate Trends for PMA Zip Codes

Zip Code - Town	2008			2009			2010 ⁽¹⁾		
	Number of Sales	Weighted Average Sale Price	Average Days on Market	Number of Sales	Weighted Average Sale Price	Average Days on Market	Number of Sales	Weighted Average Sale Price	Average Days on Market
27502 – Apex	628	\$247,584	78	482	\$242,247	87	316	\$269,343	102
27511 – Cary	378	\$242,209	54	389	\$206,248	72	236	\$215,527	87
27513 – Cary	533	\$294,011	62	444	\$256,244	83	329	\$250,786	96
27518 – Cary ⁽²⁾	216	\$417,981	103	216	\$390,064	98	175	\$386,166	105
27519 – Cary	792	\$398,796	85	793	\$352,556	89	532	\$362,791	95
27523 – Apex	91	\$326,154	67	75	\$294,982	94	46	\$293,472	93
27539 – Apex	395	\$317,375	99	292	\$307,264	122	185	\$313,855	117
27560 – Morrisville	366	\$261,616	80	373	\$238,935	86	270	\$238,793	90
27606 – Raleigh	362	\$216,083	87	344	\$220,781	77	175	\$189,559	87
Total/weighted averages	3,761	\$302,816	79	3,408	\$279,200	90	2,264	\$286,342	97

Source: Triangle Multiple Listing Service, Inc.

(1) Reflects data through August 18, 2010.

(2) The Community is located in zip code 27518.

The following table summarizes the real estate statistics for Wake County, North Carolina.

Table 20
Market Area Real Estate Trends – Wake County

	2008	2009	2010 ⁽¹⁾
Wake County⁽²⁾			
Number of Homes Sold	13,865	12,006	6,302
Average Sales Price	\$264,522	\$243,516	\$250,265
Average Days on the Market	86	96	101

Source: Triangle Multiple Listing Service, Inc.

(1) Reflects data through June 2010.

Unemployment Trends

The unemployment trends for Wake County, the State of North Carolina and the United States are shown in the following table.

	2007	2008	2009	2010 ⁽¹⁾
Wake County	3.5%	4.6%	8.4%	8.6%
State of North Carolina	4.7%	6.2%	10.6%	10.8%
United States	4.6%	5.8%	9.3%	9.9%

Source: U.S. Department of Labor, Bureau of Labor Statistics Data, July 2010.

(1) Unemployment data for Wake County, the State of North Carolina and the United States is through June 2010.

Cary is supported by major employers such as SAS Institute Inc., MCI WorldCom, IBM, American Airlines Reservation Center, Lucent Technologies, Siemens, John Deere and Cotton, Inc.

Continuing Care Regulatory Requirements

In North Carolina, continuing care retirement communities (“CCRCs”) are licensed and regulated by the North Carolina Department of Insurance (the “Department”) under Chapter 58, Article 64 of the North Carolina General Statutes (the “General Statutes”) and under Title 11 of the North Carolina Administrative Code. The General Statutes define continuing care as “the furnishing to an individual other than an individual related by blood, marriage, or adoption to the person furnishing the care, of lodging with nursing services, medical services, or other health related services pursuant to an agreement effective for the life of the individual or for a period longer than one year.”

A CCRC is required to obtain a license from the Department prior to entering into continuing care contracts. Registration must include a disclosure statement, including financial statements and other information required by the Department, which is required to be updated each year subsequent to initial registration (the “Disclosure Statement”). The provider is also required to issue a Disclosure Statement to prospective residents upon execution of a residence and service agreement and collection of a 10 percent deposit prior to closure of their continuing care contract. In addition, CCRCs are required to maintain certain minimum levels of operating reserves to provide security to residents that the community will be able to meet its contractual obligations to provide continuing care.

Certificate of Need Requirements

There is a Certificate of Need (“CON”) requirement for new assisted living residences, as generally classified as “Adult Care Homes” or “Multi-Unit Assisted Housing with Services” in the State of North Carolina effective January 1, 2003. There is also a CON requirement for nursing care beds. CCRC’s may qualify for an exemption from the CON requirement for any new or reconfigured Adult Care Home bed or nursing care bed. To qualify for such exemption, applications for CONs shall show that the proposed Adult Care Home bed and/or nursing care bed capacity:

- Will only be developed concurrently with, or subsequent to, construction on the same site of facilities for both of the following levels of care:
 - Independent living accommodations (apartments and homes) for persons who are able to carry out normal activities of daily living without assistance; such accommodations may be in the form of apartments, flats, houses, cottages, and rooms;
 - Licensed Adult Care Home beds for use by persons who, because of age or disability require some personal services, incidental medical services, and room and board to assure their safety and comfort.
- Will be used exclusively to meet the needs of persons with whom the facility has continuing care contracts (or internal resident transfers through the continuum of care) who have lived in a non-nursing unit of the CCRC for a period of at least 30 days. Exceptions shall be allowed when one spouse or siblings moves into a non-nursing unit, or when the medical condition requiring nursing care was not known to exist or be imminent when the individual became a party to the continuing care contract.
- Reflects the number of nursing care beds required to meet the current or projected needs of resident with whom the facility has an agreement to provide continuing care, after making use of feasible alternative to institutional nursing care.
- Will not be certified for participation in the Medicaid program.

The Community has received a CON for the Assisted Living Units and the Skilled Nursing Beds.

Comparable Retirement Communities

Comparable communities include those offering independent living units and at least one level of health care services, such as assisted living and/or nursing care for age restricted seniors. Independent living units may be apartments, cottages, and/or free-standing homes where residents have access to on-site amenities, which typically include a choice of dining venues, library, lounge areas, fitness facilities, banking, game room, multi-purpose room, arts and crafts area, hair salon, a chapel, and more. Services typically include thirty meals per resident per month, weekly housekeeping, all utilities except telephone, scheduled transportation, activities program, emergency call system in each residence, 24-hour security, interior and exterior maintenance, maintenance of grounds, and health care services in on-site assisted living and nursing care facilities.

Comparable facilities are defined as those facilities that: (i) include independent living services; (ii) provide one or more other levels of care such as assisted living, dementia care and/or nursing care services; (iii) offer similar services and amenities within the PMA of the Community; and/or (iv) compete for similar age- and income-qualified residents.

CCRCs may provide a variety of contracts to residents. Generally, the major distinction in contract types relates to the health care benefit. The most common contract types are as follows:

Extensive or Life Care Contract ("Type A") – Under a Life Care contract, a resident typically pays an upfront entrance fee and an ongoing monthly fee in exchange for the right to lifetime occupancy of an independent living unit with certain services and amenities. Residents of independent living who require assisted living or nursing care may transfer to the appropriate level of care and continue to pay essentially the same monthly fee they had been paying for their residence, or upon permanent transfer, the fee may be adjusted to the weighted average of all monthly fees.

Modified Life Care Contract ("Type B") - Under a Modified Life Care contract, the resident also generally pays an upfront entrance fee and an ongoing monthly fee for the right to lifetime occupancy of an independent living unit with certain services and amenities. However, under a modified life care contract, the CCRC typically provides assisted living or skilled nursing care to residents either (a) at a discounted rate on the per diem, e.g., 20 percent discount; (b) a certain number of days per year or per lifetime, e.g., 60-90 days; or, (c) a combination of the two.

Fee-for-Service Contract ("Type C") – Fee-for-Service contracts also generally require an upfront entrance fee and an ongoing monthly fee for the right to lifetime occupancy of an independent living unit with certain services and amenities. However, under the fee-for-service contract, residents who require assisted living or nursing care do not receive any discount on assisted living or skilled nursing services.

In addition to the three contract types described above, comparable retirement communities may also include rental communities that offer independent living housing and health care services, such as assisted living or nursing care. The resident is not required to pay an entrance fee, but rather signs a lease for the independent living unit selected and pays for various additional services utilized on a monthly or per diem basis at prevailing market rates.

The Community offers Type A and Type C contracts.

The following profiles the Community, three existing comparable retirement communities within the PMA, three existing and planned comparable retirement communities near the PMA.

Table 22
Entrance Fee Communities Within the Primary Market Area

	The Community	Glenaire
Location and Zip Code	Cary – 27513	Cary – 27511
Driving Miles from the Community	–	4.1
Sponsor/Developer	Samaritan Housing Foundation, Inc..	The Presbyterian Homes, Inc.
Year Opened	–	1991
Type of Contract	Type A/Type C	Type B
For-Profit/Not-for-Profit	Not-for-Profit	Not-for-Profit
Unit Configuration		
<i>Independent Living Units (ILUs)</i>		
Studios	–	9
One-bedroom apartments	40	75
Two-bedroom apartments	91	80
Villas/Cottages	38	48
Total ILUs	169	212
<i>Assisted Living Units</i>	8	49
<i>Nursing Care Beds</i>	16	71
Independent Living		
<i>Square Footage</i>		
Studios	–	485
One-bedroom apartments	930 – 1,280	750 – 979
Two-bedroom apartments	1,215 – 2,173	1,000 – 1,081
Villas/Cottages	1,762 – 2,558	1,750 – 2,200
<i>Entrance Fees</i>		
Studios	–	\$110,200
One-bedroom apartments	\$242,278 – 369,907	\$197,600 – 258,400
Two-bedroom apartments	\$335,296 – 698,714	\$283,100 – 290,700
Villas/Cottages	\$548,371 – 832,832	\$399,000 – 547,200
2nd Person Entrance Fee	–	–
<i>Monthly Fees</i>		
Studios	–	\$1,992
One-bedroom apartments	\$1,322 – 2,104	\$2,332 – 2,728
Two-bedroom apartments	\$1,985 – 3,317	\$2,728
Villas/Cottages	\$3,256 – 4,415	\$2,827 – 3,130
2 nd Person Monthly Fee	\$609	\$973
<i>Refund Options</i>	90% Refund	0% Refund, 50% Refund & 90% Refund (shown)
Assisted Living		
<i>Entrance Fee</i>	–	\$20,000
<i>Monthly Fee</i>	\$4,995	\$3,153 – 4,705
Nursing Care		
<i>Daily Rate</i>	\$285	\$235
Occupancy Rate		
<i>Independent Living</i>	–	98%
<i>Assisted Living</i>	–	100%
<i>Nursing Care</i>	–	100%

Source: Management, surveys and site visits conducted by Dixon Hughes PLLC through September 2010.

Notes to the table:**The Community**

- (a) The Community offers Type A and Type C contracts. Residents choosing a Type A contract who transfer either temporarily or permanently into assisted living and nursing care would continue to pay their then current Monthly Fee plus the cost of two extra meals. Residents choosing a Type C contract who transfer either temporarily or permanently into assisted living and nursing care would pay the then current Monthly Fee for assisted or nursing care services.
- (b) The Entrance Fees shown in the table reflect the Type C contract. The Entrance Fees for the Type A contract are equal to the Type C contract plus a \$45,427 per person life care fee. Both entrance fee plans are 100 percent refundable for charter residents (i.e., residents who have made an Entrance Fee deposit prior to commencement of construction). Once construction of the Community commences, Management only intends to offer a 90 percent refund.
- (c) Two resident service packages are offered at the Community including the "Gold Plan" and the "Platinum Plan". The Gold Plan, which is the most popular plan chosen by Depositors and shown in the table above, offers 15 meals per month and monthly housekeeping. The Platinum Plan, which offers one meal per day and weekly housekeeping, is an additional \$225 per month (plus an additional \$134 for a second person).

Glenaire

- (a) Glenaire offers a Type B contract in which residents receive 14 free days of nursing care per year and pay the then-current monthly rates for assisted living and daily rates for nursing care.
- (b) Entrance fees shown reflect the 90 percent refundable plan. Glenaire also offers a zero percent refundable plan, in which entrance fees decline two percent per month over 48 months with a required four percent administrative fee, and a 50 percent refundable plan. Entrance fees under the zero percent refundable plan and the 50 percent refundable plan are approximately 47 percent and 21 percent lower, respectively, than the 90 percent refundable plan entrance fees shown.
- (c) Direct admissions into assisted living are required to pay an entrance fee ranging from \$17,000 to \$20,000. Direct admissions into nursing care are required to pay a \$20,000 entrance fee.

Table 23
Rental Communities Within the Primary Market Area

	Woodland Terrace	Waltonwood of Cary Parkway
Location and Zip Code	Cary – 27511	Cary – 27511
Driving Miles from the Community	4.8	5.9
Sponsor/Developer	Kisco Senior Living	Waltonwood Senior Living
Year Opened	2000	2010
Type of Contract	Rental	Rental
For-Profit/Not-for-Profit	For-Profit	For-Profit
Unit Configuration		
<i>Independent Living Units (ILUs)</i>		
Studios	16	–
One-bedroom apartments	40	55
Two-bedroom apartments	24	67
Villas/Cottages	24	12
Total ILUs	104	134
<i>Assisted Living Units</i>	76	40
<i>Nursing Care Beds</i>	–	–
Independent Living		
<i>Square Footage</i>		
Studios	492	–
One-bedroom apartments	703 – 800	751 – 980
Two-bedroom apartments	975 – 1,300	989 – 1,183
Villas/Cottages	1,200 – 1,650	1,498
<i>Monthly Fees</i>		
Studios	\$2,680	–
One-bedroom apartments	\$3,440 – 3,510	\$3,245 – 3,950
Two-bedroom apartments	\$3,945 – 4,190	\$3,745 – 4,050
Villas/Cottages	\$4,230 – 4,540	\$4,395
2 nd Person Monthly Fee	\$575	\$300
Assisted Living		
<i>Entrance Fee</i>	–	–
<i>Monthly Fee</i>	\$4,390 – 4,965	\$4,850 – 5,495
Nursing Care		
<i>Daily Rate</i>	–	–
Occupancy Rate		
<i>Independent Living</i>	96%	37%
<i>Assisted Living</i>	100%	95%
<i>Nursing Care</i>	–	–

Source: Management, surveys and site visits conducted by Dixon Hughes PLLC through September 2010.

Notes to the table:**Woodland Terrace**

- (a) Of the 76 assisted living units at Woodland Terrace, 40 are designated for memory support.
- (b) Three additional levels of care are offered in the assisted living units at Woodland Terrace in addition to the base rate shown. Level I is an additional \$370 per month, Level II is an additional \$740 per month and Level III is an additional \$1,110 per month.
- (c) The second person monthly fee for the assisted living and memory support units at Woodland Terrace is \$900 per month.
- (d) Monthly fees for memory support care range from \$5,140 to \$5,300 for a private apartment and \$4,600 to \$4,760 for a semi-private apartment.

Waltonwood Cary Parkway ("Waltonwood")

- (a) Waltonwood opened in May 2010 and is currently in fill-up. The assisted living and memory support units opened in July 2010.
- (b) Of the 40 assisted living units at Woodland Terrace, 17 are designated for memory support.
- (c) Six additional levels of care are offered in the assisted living units at Waltonwood in addition to the base rate shown. Level I is an additional \$350 per month, Level II is an additional \$650 per month and Level III is an additional \$925 per month, Level IV is an additional \$1,300 per month, Level V is an additional \$1,625 per month and Level VI is an additional \$2,035 per month.
- (d) The second person monthly fee for the assisted living and memory support units at Waltonwood is \$900 per month.
- (e) Monthly fees for memory support care range from \$4,700 to \$5,395 for a private apartment and \$3,550 to \$3,750 for a semi-private apartment. Four additional levels of care are offered in the memory support units at Waltonwood in addition to the base rate shown. Level I is an additional \$1,045 per month, Level II is an additional \$1,375 per month and Level III is an additional \$1,705 per month and Level IV is an additional \$2,035 per month.

Table 24
Entrance Fee Communities Near the Primary Market Area

	Carolina Meadows	Springmoor
Location and Zip Code	Chapel Hill – 27517	Raleigh – 27612
Driving Miles from the Community	16.9	20.1
Sponsor/Developer	Carolina Meadows, Inc.	Springmoor, Inc.
Year Opened	1983	1974
Type of Contract	Equity Ownership/ Type C	Type B
For-Profit/Not-for-Profit	Not-for-Profit	Not-for-profit
Unit Configuration		
<i>Independent Living Units (ILUs)</i>		
Studios	–	63
One-bedroom apartments	70	147
Two-bedroom apartments	90	156
Villas/Cottages	229	46
Total ILUs	389	412
<i>Assisted Living Units</i>	75	18
<i>Nursing Care Beds</i>	86	173
Independent Living		
<i>Square Footage</i>		
Studios	–	494
One-bedroom apartments	717 – 1,007	671 – 830
Two-bedroom apartments	1,187 – 1,607	980 – 1,078
Villas/Cottages	1,180 – 1,822	740 – 1,472
<i>Entrance Fees</i>		
Studios	–	\$163,600
One-bedroom apartments	\$116,000 – 186,000	\$225,800 – 242,300
Two-bedroom apartments	\$223,000 – 304,000	\$285,100 – 317,700
Villas/Cottages	\$257,000 – 443,000	\$236,200 – 369,600
2nd Person Entrance Fee	–	\$22,000
<i>Monthly Fees</i>		
Studios	–	\$2,010
One-bedroom apartments	\$2,070	\$2,306 – 2,566
Two-bedroom apartments	\$2,070	\$3,037 – 3,198
Villas/Cottages	\$2,070	\$2,557 – 3,498
2 nd Person Monthly Fee	\$630	\$615
<i>Refund Options</i>	50% of Future Re- sale Value	0% Refund & 50% Refund, 100% Refund (shown),
Assisted Living		
<i>Entrance Fee</i>	\$8,500	\$175,900 – 265,500
<i>Monthly Fee</i>	\$5,232 – 5,870	\$2,583 – 3,159
Nursing Care		
<i>Daily Rate</i>	\$256 – 270	\$264
Occupancy Rate		
<i>Independent Living</i>	98%	93%
<i>Assisted Living</i>	72%	100%
<i>Nursing Care</i>	85%	90%

Source: Surveys conducted by Dixon Hughes PLLC through September 2010.

Carolina Meadows

- (a) Carolina Meadows offers an equity ownership model for the independent living apartments and homes in which the proceeds from the re-sale of the unit (less a five percent remarketing fee and a five percent refurbishment fee) is split 50-50 between the resident and Carolina Meadows. Independent living residents receive assisted living and nursing care services under a fee-for-service contract and health care services are exclusive to independent living residents at the Carolina Meadows and not offered to residents from outside the community.
- (b) Management of Carolina Meadows is planning to construct 20 additional independent living villas on 40 acres of undeveloped land on their existing campus. The floor plans were completed in July 2010 and the collection of 10 percent deposit reservations is expected to begin in Fall 2010. The villas will be built as they are pre-sold and midway through construction, Carolina Meadows will require a 50 percent deposit reservation in order to assist in financing construction costs.
- (c) The 75 assisted living units at Carolina Meadows include 15 units designated for memory support care offered for a monthly fee of \$6,631. The second person monthly fee for traditional assisted living services is \$2,555. Assisted living and nursing care rates are available to independent living residents only and closed to outside direct admissions. Occupancy in the assisted living unit and nursing beds appear low due to the low utilization of these services by the current resident population at Carolina Meadows.
- (d) The monthly fee for the independent living apartments and homes do not include meals or housekeeping.

Springmoor

- (a) The entrance fees shown for assisted living units at Springmoor are for direct admits.
- (b) The daily rates shown for the nursing units at Springmoor are for direct admits. Springmoor lifecare residents received 30 eligible health care days per year up to 90 days. When a resident with eligible days enters the health care center as a short-term patient, the resident is required to use all eligible days and then continue to pay the monthly service fee for the independent living unit as well as 30 percent of the current health care center daily rate. When a resident requires continuing inpatient care in the health care center, residents do not continue to pay the monthly service fee for the independent living unit and instead pay 60 percent of the health care center daily rate.

Non-Comparable Retirement Communities within the PMA

Manor Village at Preston ("Manor Village"), which opened in May 2010, is a for-profit independent living community located approximately three miles northeast of the Community in Cary. Manor Village is a rental community consisting of 166 independent living units. Monthly fees for one-bedroom apartments, which range from 838 to 843 square feet, start at \$3,395 per month and two-bedroom apartments, which range from 1,035 to 1,278 square feet, start at \$3,895 per month. Manor Village also offers an "assurance agreement" in which a resident could pay an admittance fee with starting rates of \$172,908 for a one-bedroom apartment and \$214,980 for a two-bedroom apartment, which reduces the starting monthly fee to \$1,989 and \$2,116 for a one-bedroom and two-bedroom apartment, respectively. As of August 4, 2010, eight percent (13 units) of the independent living units at Manor Village were occupied.

Comparable Retirement Communities Planned or Under Development within or Near the PMA

Based on discussions with representatives of the local planning and permitting agencies and interviews with management at existing retirement communities, there is one independent living expansion project (Carolina Meadows) and one start-up CCRC project (The Cardinal) planned near the PMA. Other than the Community, there are no independent living projects planned within the PMA.

Carolina Meadows

Carolina Meadows, located approximately 17 miles northwest of the Community, received approvals from the Chatham County Planning Department for a 35-unit duplex villa expansion for Carolina Meadows in 2007. Management of Carolina Meadows has chosen to go forward with the construction of 20 units at this time. The floor plans for 20 additional villas were completed in July 2010 and the collection of 10 percent deposit reservations is expected to begin in Fall 2010. The villas are expected to be built as they are pre-sold and midway through construction, Carolina Meadows will require a 50 percent deposit reservation in order to assist in financing construction costs. Due to the location of Carolina Meadows outside of the PMA, the independent living units associated with this development is not included in the penetration rate analysis following.

The Cardinal

The Cardinal at North Hills (the "Cardinal") is a proposed CCRC in Raleigh and is planned to consist of 202 independent living apartments in one and two bedroom unit configurations ranging from 875 to 2,552 square feet. In addition, The Cardinal is also anticipated to include 29 assisted living units, 11 memory support units and 13 nursing care beds. The Cardinal is planning to offer a 90 percent refundable plan in which the entrance fees are expected to range from \$359,625 to \$1,150,680. The monthly fees are expected to range from \$1,795 to \$3,195 with a second person fee of \$875 (in 2010 dollars). As of August 2010, The Cardinal was 60 percent pre-sold with 10 percent deposit reservations.

Management of The Cardinal indicated they anticipate construction to begin in fall 2010 and anticipates completion in 2012. Due to the location of The Cardinal outside of the PMA, the independent living units associated with this development are not included in the following penetration rate analysis.

Summary of Independent Living Units

There are a total of 450 existing independent living units at the three existing comparable retirement communities in the PMA. Including the planned Independent Living Units at the Community, the total number of existing and planned comparable independent living units in the PMA is 619.

Comparable Retirement Communities	Existing	Planned	Total
<u>Entrance Fee Units</u>			
Glenaire	212	—	212
Total Entrance Fee Units	212	—	212
<u>Rental Units</u>			
Woodland Terrace	104	—	104
Waltonwood	134	—	134
Total Rental Units	238	—	238
Total Comparable Units	450	—	450
The Community	—	169	169
Total Units	450	169	619

Source: Management, surveys and site visits conducted through September 2010.

Independent Living Penetration Analysis

Penetration rates are one measure of the degree to which the PMA is either under-served or saturated. As penetration rates increase, units may become more difficult to fill. However, higher penetration rates may not necessarily be an indication of the difficulty in achieving expected occupancy levels. Some markets may have a higher acceptance level for senior living housing options and may support higher penetration rates. Three penetration rate calculations are shown in the following tables:

Project Penetration Rate – The Project Penetration Rate is the percentage of age- and income-qualified households in the PMA the **Project** is expected to capture in order to achieve stabilized occupancy in the year of opening. The Project Penetration Rate is calculated by dividing the number of independent living units at the Project by the number of age- and income-qualified households in the PMA. Seniors currently living in comparable independent living units in the PMA are subtracted from the pool of age- and income-qualified households. Calculations are based on demographics projected/interpolated for the year the Project is expected to be available for occupancy (2012).

Net Market Penetration Rate (Absorption Rate) – The Net Market Penetration Rate is the percentage of age and income qualified households the **available units in the market** are expected to capture in order for the entire market to achieve stabilized occupancy in the year of opening. The Net Market Penetration Rate is calculated by dividing the number of available independent living units in the PMA by the number of age- and income-qualified households in the PMA. Available units include planned units of the Project, proposed units at other communities and units becoming available due to attrition. This calculation is of particular significance when more than one project is entering the market during the same timeframe. Calculations are based on demographics interpolated for the year the Community is expected to be available for occupancy (2012).

Gross Market Penetration Rate – The Gross Market Penetration Rate is the percentage of age- and income-qualified households that the **total market** is expected to absorb for the entire market to achieve stabilized occupancy. Market penetration is calculated by dividing the total number of existing and planned independent living units in the PMA by the number of age- and income-qualified households in the PMA. Calculations are shown for the current year (2010) and are projected for the year the Community is expected to achieve stabilized occupancy (2015).

In both calculations, the total independent living units are adjusted to reflect assumptions about the percentage of units expected to be filled from qualified households in the PMA and occupancy.

These rates should be considered in conjunction with each other and other market factors such as occupancy levels at existing comparable communities within and near the PMA, the number of proposed facilities in the PMA, the design of the units and community spaces at the Community, alternatives for potential residents, and marketing plans and efforts of Management.

The following table presents the Project Penetration Rates which represent the percentage of age- and income-qualified households in the PMA the Project is expected to capture in the year of opening in order to achieve stabilized occupancy, assuming annual household incomes of \$50,000 and over and \$75,000 and over, based on demographic forecast for 2012.

Table 26
Project Penetration Rate – 2012

	Age 75 and Above with Income \$50,000 and Above	Age 75 and Above with Income \$75,000 and Above
Planned units at the Community	169	169
Percentage of units to be occupied from the PMA ⁽¹⁾	55%	55%
Planned units to be occupied from the PMA	93	93
Percentage of units to be occupied from by age 75 and older ⁽¹⁾	75%	75%
Planned units to be occupied from the PMA by age 75 and older	70	70
Total units at the Community to be occupied at 95% occupancy (a)	67	67
Number of age- and income-qualified households ⁽²⁾	1,691	965
Less: Existing inventory of available comparable units ⁽³⁾	(354)	(354)
Net number of age and income qualified households (b)	1,337	611
Project Penetration Rate (a/b)	5.0%	11.0%

Source: Management and Nielson Claritas

- (1) Based on Depositor information as of September 15, 2010.
- (2) Interpolated using 2010 estimated and 2015 projected population statistics as provided by Nielsen Claritas.
- (3) Reflects the 316 existing comparable units (not including Waltonwood) in the PMA at 95 percent occupancy and the 134 comparable units at Waltonwood at 40 percent occupancy (for a total of 354 units).

The following table presents the Net Market Penetration Rate for the year of the Community's planned opening, and indicates the percentage of the age- and income-qualified households in the PMA that must be absorbed in order to fill the available units during that year. The number of age- and income-qualified households is based on 2000 Census data and interpolated for the year 2012.

	Age 75 and Above with Income \$50,000 and Above	Age 75 and Above with Income \$75,000 and Above
Planned units in the PMA:		
The Community	169	169
Other planned units	–	–
Total planned units in the PMA	169	169
Percentage of units to be occupied by age 75 and older ⁽¹⁾	75%	75%
Total planned units to be occupied by age 75 and older	127	127
Total planned units to be occupied from the PMA at 95% occupancy	121	121
Other unoccupied existing units to be filled within the PMA ⁽²⁾	75	75
Total existing units available due to attrition ⁽³⁾	54	54
Total units to be occupied	250	250
Percent of units to be occupied from the PMA ⁽¹⁾	55%	55%
Total units to be occupied from within the PMA by 75 and older (a)	138	138
Estimated number of age and income qualified households ⁽⁴⁾	1,691	965
Less: Existing inventory of available comparable units ⁽⁵⁾	(354)	(354)
Estimated number of age- and income-qualified households (b)	1,337	611
Net Market Penetration Rate (a/b)	10.3%	22.6%

Source: Management and Nielson Claritas

- (1) Based on Depositor information as of September 15, 2010.
- (2) Based on occupancy of approximately 40 percent at Waltonwood, approximately 75 additional independent living units at Waltonwood would need to be filled to achieve 95 percent occupancy.
- (3) Reflects the 212 existing entrance fee units in the PMA at 95 percent occupancy and assuming 10.8 percent attrition (22 units), the 104 existing rental units (not including Waltonwood) in the PMA at 95 percent occupancy and assuming 21.0 percent attrition (21 units) and the 134 at Waltonwood at 40 percent occupancy, assuming 21.0 percent attrition (11 units) for a total of 54 units available due to attrition. (Source: AAHSA State of Seniors Housing 2009)
- (4) Interpolated using 2010 estimated and 2015 projected population statistics as provided by Nielsen Claritas.
- (5) Reflects the 316 existing comparable units (not including Waltonwood) in the PMA at 95 percent occupancy and the 134 comparable units at Waltonwood at 40 percent occupancy (for a total of 354 units).

The following table presents the Gross Market Penetration Rate, which represents the percentage of age- and income-qualified households in the PMA that the entire market is expected to capture when the entire market has reached stabilized occupancy. The Gross Market Penetration Rate is shown in the current year (2010) and the stabilized year (2015) in order to show the rate of change between years.

Table 28
Gross Market Penetration Rate
Age 75 and Above and Income \$50,000 and Above

	Income \$50,000 and Above		Income \$75,000 and Above	
	2010	2015	2010	2015
Market inventory of retirement communities:				
The Community	—	169	—	169
Comparable retirement communities				
Existing units	450	450	450	450
Proposed units	—	—	—	—
Total units in the PMA	450	619	450	619
Percent to be filled from the PMA ⁽¹⁾	55%	55%	55%	55%
Total units to be occupied from the PMA	248	340	248	340
Total units to be filled at 95% occupancy (a)	236	323	236	323
Number of age- and income-eligible households ⁽²⁾ (b)	1,441	2,066	793	1,224
Gross Market Penetration Rate (a/b)	16.4%	15.6%	29.8%	26.4%

Source: Management and Nielson Claritas

(1) Based on the origin data of Depositors as of September 15, 2010.

(2) Interpolated using 2010 estimated and 2015 projected population statistics as provided by Nielsen Claritas.

Marketing the Community

The success of the Community is dependent, in part, on Management's ability to achieve specified pre-sales, fill-up rates and turnover rates for the Independent Living Units. Management began marketing activities in 2005 and began accepting 10 percent Entrance Fee Deposits in October 2006.

As of September 15, 2010, 100 Depositors have reserved 100 Independent Living Units (net of cancellations) at the Community out of a total of 169 Independent Living Units, or 60 percent of the total Independent Living Units.

If a Depositor cancels the Residency Agreement prior to the opening of the Community, the Corporation shall return the Depositor's Entrance Fee Deposit, including interest earned, within five days of receipt of the Depositor's written rescission request, less any nonstandard costs incurred by the Corporation.

All Entrance Fee Deposits are being held in an escrow account in accordance with the North Carolina CCRC regulations. The Entrance Fee Deposit and any accrued interest is applied to the balance of the Entrance Fee owed by the Resident.

The following table presents the total number of Independent Living Unit's Entrance Fee Deposits received and refunds processed by month.

Table 29
Marketing of the Community

Year	Number of Units Reserved	Number of Cancellations/Refunds	Net Reservations for Month	Cumulative Units Reserved	Cumulative Percentage of Total Units
2006:					
October ⁽¹⁾	6	—	6	6	3.6%
November	4	(1)	3	9	5.3%
December	4	(1)	3	12	7.1%
2007:					
January	3	—	3	15	8.9%
February	8	—	8	23	13.6%
March	7	(1)	6	29	17.2%
April	1	—	1	30	17.8%
May	5	—	5	35	20.7%
June	4	(1)	3	38	22.5%
July	0	—	—	38	22.5%
August	2	—	2	40	23.7%
September	4	—	4	44	26.0%
October	3	(1)	2	46	27.2%
November	4	(4)	—	46	27.2%
December	9	—	9	55	32.5%
2008:					
January	1	—	1	56	33.1%
February	—	—	—	56	33.1%
March	1	—	1	57	33.7%
April	2	—	2	59	34.9%
May	3	—	3	62	36.7%
June	3	—	3	65	38.5%
July ⁽²⁾	1	—	1	66	39.1%
August	3	(2)	1	67	39.6%
September	2	—	2	69	40.8%
October	—	(2)	(2)	67	39.6%
November	1	(2)	(1)	66	39.1%
December	1	(2)	(1)	65	38.5%
2009:					
January	6	—	6	71	42.0%
February	3	—	3	74	43.8%
March	2	(1)	1	75	44.4%
April	1	—	1	76	45.0%
May	2	—	2	78	46.2%
June	—	—	—	78	46.2%
July	3	—	3	81	47.9%
August	4	(1)	3	84	49.7%
September	2	(2)	—	84	49.7%
October	—	—	—	84	49.7%
November	2	(1)	1	85	50.3%
December	2	—	2	87	51.5%
2010:					
January	3	(1)	2	89	52.7%
February	7	—	7	96	56.8%
March	4	(2)	2	98	58.0%
April	4	—	4	102	60.4%
May	3	(1)	2	104	61.5%
June ⁽²⁾	1	—	1	105	62.1%
July ⁽²⁾	—	(1)	(1)	104	61.5%
August ⁽²⁾	—	—	—	104	61.5%
September ⁽²⁾⁽³⁾	—	(4)	(4)	100	59.2%
Total⁽⁴⁾	131	(31)	100	100	59.2%

Source: Management

(1) The Community has been waiting since June 24, 2010 for approval from the Department to begin accepting Deposits again.

(2) Information as of September 15, 2010.

(3) Three of the 100 Depositors have not have not placed a full 10 percent deposit on their reserved Independent Living Unit.

The following table presents the total number and type of Independent Living Units available in relation to the units reserved with an Entrance Fee Deposit as of September 15, 2010.

Table 30
Inventory of Independent Living Units

Unit Type	Unit Name	Square Footage	Total Units	Number of Units Sold	Percentage of Available Units Sold
<i>One Bedroom Apartments:</i>					
One bedroom, one bath	Asturia	934	14	10	71.4%
One bedroom, one and a half bath	Belgian	1,202	4	4	100.0%
One bedroom, one and a half bath	Clydesdale	1,243	2	1	50.0%
One bedroom, one and a half bath	Danube	1,280	6	5	83.3%
One bedroom, one and a half bath	Finnhorse	1,150	4	4	100.0%
One bedroom, one bath	Breton	930	4	1	25.0%
One bedroom, one bath	Galacian	1,052	6	1	16.7%
<i>Two Bedroom Apartments:</i>					
Two bedroom, two bath	Buckskin	1,215 – 1,694	25	16	64.0%
Two bedroom, two bath	Dartmoor	1,685	12	9	75.0%
Two bedroom, two bath	Hackney	1,408 – 1,438	5	2	40.0%
Two bedroom, two bath ⁽¹⁾	Highland	1,653 – 1,843	16	5	31.3%
Two bedroom, two bath, den	Campolina	1,848	4	4	100.0%
Two bedroom, two bath, den	Caspian	1,812	2	2	100.0%
Two bedroom, two bath, den	Estonian	2,173	6	4	66.7%
Two bedroom, two bath, den	Haflinger	1,515 – 1,545	5	2	40.0%
Two bedroom, two bath, den	Pegasus	1,697	8	1	12.5%
Two bedroom, two bath, den	Shetland	1,539	8	5	62.5%
Total Apartments			131	76	58.0%
<i>Homes :</i>					
Two bedroom, two bath	Jutland	1,762	10	5	50.0%
Two bedroom, two bath	Lipizzan	1,941	2	1	50.0%
Two bedroom, two bath	Morgan	2,470	2	1	50.0%
Two bedroom, two bath	Murgese	1,788 – 2,137	14	11	78.6%
Two bedroom, two bath	Norland	2,137	2	1	50.0%
Two bedroom, two bath	Percheron	2,530	2	1	50.0%
Two bedroom, two bath	Selle	2,028	2	2	100.0%
Two bedroom, two bath, den	Shire	2,406 – 2,449	2	2	100.0%
Two bedroom, two bath	Palamino	2,558	2	0	0.0%
Total Homes			38	24	63.2%
Total Independent Living Units			169	100	59.2%

Source: Management

(1) Eight of the Highland two-bedroom apartments include a den.

Independent Depositor Confirmation

An independent confirmation process was performed by Dixon Hughes PLLC through the mailing of a questionnaire to the 100 Depositors as of August 5, 2010. As of September 15, 2010, 96 of the 100 Depositors (96 percent) had completed the questionnaire. The following information was compiled for the 96 completed questionnaires.

- 94 (98 percent) of the respondents indicated that they had signed the Residency Agreement and paid an Entrance Fee Deposit for their Independent Living Units. Two respondents (two percent) did not respond to the question.
- 90 (94 percent) indicated that they intend to reside in a Community Independent Living Unit, six (six percent) indicated that were uncertain as to their intention to reside in an Independent Living Unit.
- 36 (38 percent) indicated that they would reside alone and 60 (62 percent) indicated that they would reside with a spouse, relative or friend.
- 93 (97 percent) indicated that they currently own their home.
- 71 of the 93 Depositors who currently own their home (76 percent) indicated that they intend to sell their home before paying the balance of their Entrance Fee and assuming occupancy of their Independent Living Unit.
- 13 (14 percent) of the respondents indicated they had reserved an Independent Living Unit or were on a waiting list of a competitive community; Eight of these respondents indicated that they intend to reside in an Independent Living Unit at the Community and five indicated that they were unsure where they would reside.

Respondents indicated the following as to how soon they intended to move into their Independent Living Unit after it becomes available.

Table 31
Move-ins After Unit Becomes Available

	Number of Respondents	Percentage of Respondents
1 – 30 days	16	16.7%
31 – 60 days	10	10.4%
61 – 90 days	5	5.2%
Upon the sale of home	59	61.4%
Other/did not respond	6	6.3%
Total	96	100.0%

Source: Questionnaire responses

Respondents indicated their primary reason(s) for choosing the Community were as follows.

Table 32
Project Suitability

	Number of Respondents⁽¹⁾	Percentage of Respondents⁽¹⁾
Proximity to friends and relatives	64	66.7%
Access to health care and wellness programs	63	65.6%
Geographic location	58	60.4%
Social/recreational activities and fellowship	33	34.4%
Physical security	32	33.3%
Reputation of SearStone	29	30.2%
Other	23	24.0%

Source: Questionnaire responses

(1) Respondents had the option of indicating more than one reason for choosing the Community.

The following table presents information regarding the self-reported net worth (after payment of the Entrance Fee) and estimated annual income of the 100 Depositors as of September 15, 2010.

Table 33
Reported Annual Income and Net Worth of Depositors

Annual Income	Net Worth						Percent of Total
	Net Assets Not Available	Less than \$500,000	\$500,000 to \$999,999	\$1,000,000 to \$1,999,999	Greater than \$2,000,000	Total	
Income Not Available	1	—	—	—	—	1	1.0%
Less than \$50,000	—	1	8	1	1	11	11.0%
\$50,000 to \$74,999	—	—	9	11	1	21	21.0%
\$75,000 to \$99,999	—	1	4	15	6	26	26.0%
\$100,000 to \$124,999	—	1	1	12	8	22	22.0%
\$125,000 and up	—	—	—	7	12	19	19.0%
Total ⁽¹⁾	1	3	22	46	28	100	100.0%
Percent of Total	1.0%	3.0%	22.0%	46.0%	28.0%	100.0%	

Source: Depositor applications

(1) The median net asset amount of the 100 Depositors who reported their financial information is approximately \$1,361,000 and the median annual income amount is approximately \$91,000.

Depositor File Vouching

Dixon Hughes read Management's policies and procedures for accepting Depositors and confirmed that each Depositor met Management's criteria. Dixon Hughes performed the following procedures regarding the 100 Depositors (100 Independent Living Units) for the Community:

- Confirmed 100 percent to have a Reservation Agreement executed by both the Depositor(s) and the Corporation;
- Confirmed 97 percent to include copies of a deposit check equal to the Entrance Fee Deposit for the selected Community Independent Living Unit and plan;
- Confirmed 100 percent that the amount of the Entrance Fee and the Monthly Fee equaled the Community Independent Living Unit and plan selected; and
- Based on reported income and asset levels, confirmed that 100 percent of the Depositors either met Management's asset and income qualification test, or displayed sufficient financial resources as approved by Management.

In addition to the above, Dixon Hughes reconciled the Entrance Fee Deposits to an escrow account statement through June 30, 2010.

Description and Utilization of Assisted Living

Adult Care Homes and Multi-Unit Assisted Housing with Services ("MAHS") are regulated by DHHS, under Chapter 131-D, Article 1 of the North Carolina General Statutes and Title 10A, Subchapter 13F of the North Carolina Administrative Code. The North Carolina Medical Care Commission has rulemaking authority over Adult Care Homes. According to DHHS, most assisted living facilities are licensed as Adult Care Homes.

Adult Care Homes, licensed by DHHS, are defined as assisted living residences in which the housing management provides 24-hour scheduled and unscheduled personal care services to two or more residents, either directly or for scheduled needs, through formal written agreement with licensed home care or hospice agencies.

DHHS defines MAHS as an assisted living residence in which hands-on personal care services and nursing services which are arranged by housing management are provided by a licensed home care or hospice agency through an individualized written care plan. Residents must not be in need of 24-hour supervision. MAHS must register with DHHS and provide a Disclosure Statement.

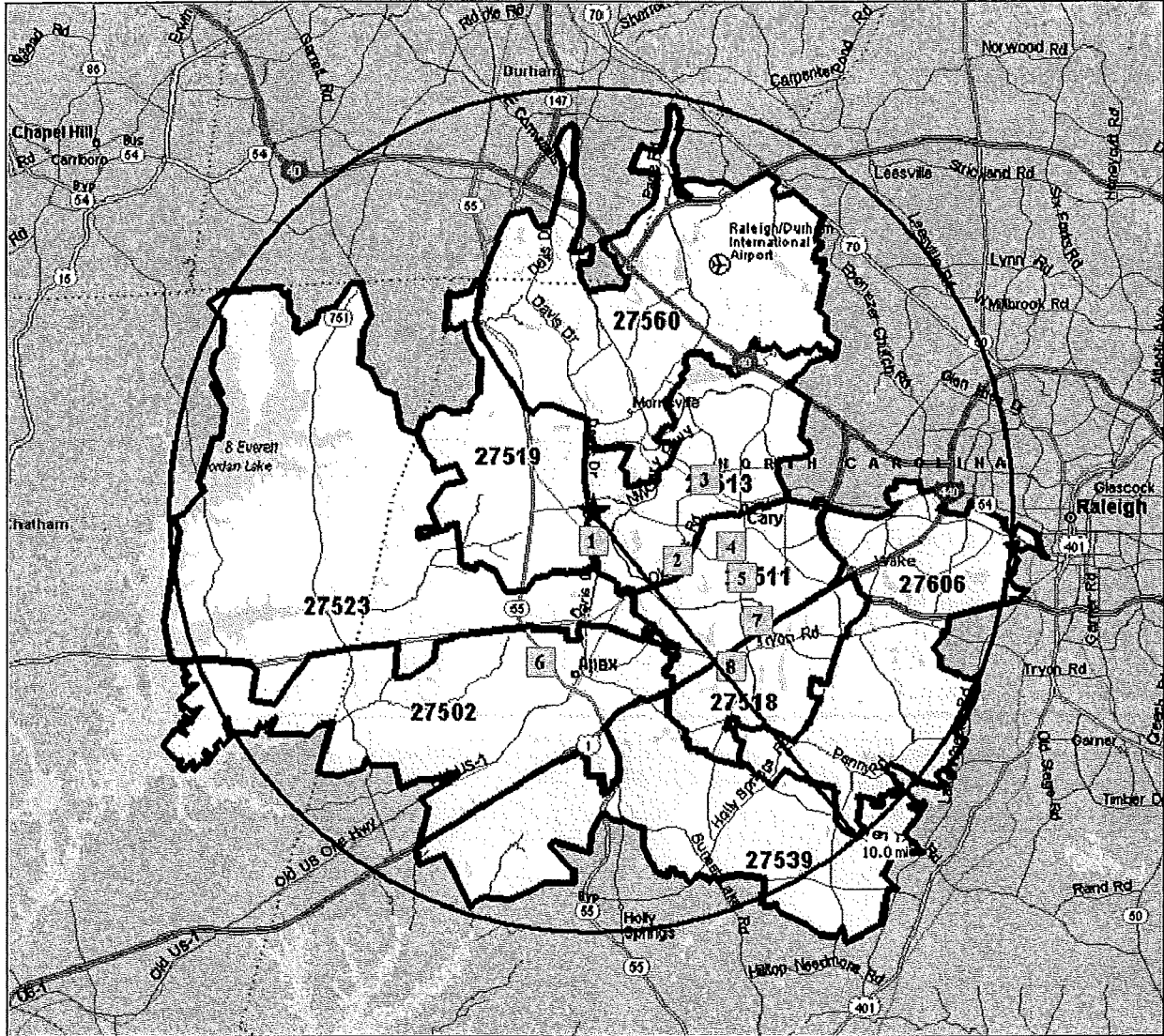
For the purpose of the report, the term "assisted living" is utilized to denote both licensed Adult Care Homes and unlicensed MAHS. Management does not consider foster homes or assisted living facilities with less than 20 beds or lower fee structures to be considered comparable to the Assisted Living Units at the Community.

For purposes of determining bed need and issuing CONs for Adult Care Homes, DHHS reviews each application on a case by case basis and applies a bed need methodology to the corresponding county's bed need. The following factors are used to determine projected bed need by county: bed-to-population ratios, reasonable levels of geographic access for the population, and beds developed as part of a CCRC.

CCRCs may qualify for an exemption from the CON requirement for any new or reconfigured Adult Care Home beds by demonstrating that the proposed assisted living beds would be used exclusively to meet the needs of persons with whom the facility has continuing care contracts (or internal resident transfers through the continuum of care) and who have lived in an independent living unit of the CCRC for a period of at least 30 days.



The Community has received a CON for the development of the Assisted Living Units.

Management has defined the primary market area for assisted living services be the same as independent living. The following map shows the existing assisted living communities with dedicated assisted living units located within the PMA of the Community.



Source: Microsoft MapPoint

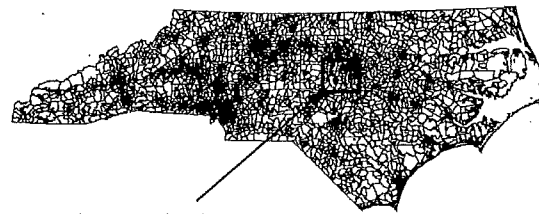
Legend

-  The Primary Market Area
-  The Community

Existing Assisted Living Competition in the PMA

- 1 – Carolina House of Cary
- 2 – Sunrise of Cary
- 3 – Clare Bridge of Care
- 4 – Glenaire
- 5 – Woodland Terrace
- 6 – Spring Arbor of Apex
- 7 – Waltonwood
- 8 – Heartfields of Cary

North Carolina



Primary Market Area



Source: Microsoft MapPoint and MapInfo

Existing Comparable Assisted Living Facilities

The following table identifies the comparable assisted living facilities (CCRC based or stand-alone facilities with 20 or more units) located within the PMA and summarizes the number of units, the percentage occupied and current monthly fees.

Table 34
Comparable Assisted Living Facilities within the PMA

Name	Miles from the Project	Year Opened	Number of Assisted Living Units	Number of Specialty Care Units	Square Footage	Occupancy Percentage	Assisted Living Monthly Fees	Memory Support Monthly Fees
The Community	—	2012	8	—	360	—	\$4,995	—
Carolina House of Cary ^{(1),(2)}	0.9	1996	55	25	300 – 390	96%	\$3,645 – 4,525	\$4,275
Sunrise of Cary ^{(3),(4),(5),(6)}	3.1	2009	46	26	350 – 700	96%	\$4,289 – 4,928	\$4,532 – 5,049
Clare Bridge of Cary ⁽⁷⁾	4.0	1996	—	44	275 – 500	90%	—	\$5,495 – 5,995
Glenaire ⁽⁸⁾	4.1	1991	49	—	200 – 350	100%	\$3,153 – 4,705	—
Woodland Terrace ^{(9),(10),(11)}	4.8	2000	36	40	406 – 517	100%	\$4,390 – 4,965	\$5,140 – 5,300
Spring Arbor of Apex ⁽¹²⁾	5.7	2000	62	—	351	97%	\$3,799 – 4,249	—
Waltonwood ^{(13),(14),(15)}	5.9	2010	23	17	417 – 897	95%	\$4,850 – 5,495	\$4,700 – 5,395
Heartfields at Cary ^{(16),(17),(18)}	6.7	1998	74	15	214 – 560	94%	\$3,545 – 6,460	\$4,620 – 7,170
Total /Weighted Average – Within the PMA (excluding the Community)			345	167		96%		

Source: Management, survey and site visits conducted through September 2010.

- (1) There is a second person fee of \$1,500 for the assisted living units at Carolina House of Cary.
- (2) Companion suites are available for \$3,215 per month in the assisted living units and \$3,775 per month in the memory support units at Carolina House of Cary.
- (3) Companion suites are available at Sunrise at Cary as follows: \$3,711 per month for an assisted living unit and \$3,741 for a memory support unit.
- (4) Four additional levels of care are offered in the assisted living units at Sunrise of Cary in addition to the base rate shown. Level I is an additional \$456 per month, Level II is an additional \$912 per month, Level III is an additional \$1,460 per month and Level IV is an additional \$2,008 per month.
- (5) Four additional levels of care are offered in the memory support units at Sunrise of Cary in addition to the base rate shown. Level I is an additional \$1,308 per month, Level II is an additional \$1,855 per month, Level III is an additional \$2,220 per month and Level IV is an additional \$2,707 per month.
- (6) In addition to basic assisted living care and memory support care, Sunrise of Cary offers services for residents who are starting to experience short-term memory loss. Monthly fees range from \$4,441 to \$4,988 per month for basic care. Two additional levels of care are offered for an additional monthly fee per month as follows: Level I is \$1,065 and Level II is \$1,612.
- (7) Companion suites are available at Clare Bridge of Cary for \$4,895 per month.
- (8) An entrance fee ranging from \$17,000 to \$20,000 is required for direct admits into the assisted living unit at Glenaire.
- (9) The second person monthly fee for the assisted living and memory support units at Woodland Terrace is \$900 per month.
- (10) Three additional levels of care are offered in the assisted living units at Woodland Terrace in addition to the base rate shown. Level I is an additional \$370 per month, Level II is an additional \$740 per month and Level III is an additional \$1,110 per month.
- (11) The monthly fees shown the memory support units at Woodland Terrace are for private accommodations. Monthly fees for a semi-private apartment range from \$4,600 to \$4,760.
- (12) The monthly fees shown the assisted living units at Spring Arbor of Apex are for private accommodations. The monthly fee for a companion suite is \$2,859 and a semi-private apartment is \$3,325. Level of care fees range from \$150 to \$900 depending on an individual assessment.
- (13) The second person monthly fee for the assisted living and memory support units at Waltonwood is \$900 per month.
- (14) Six additional levels of care are offered in the assisted living units at Waltonwood in addition to the base rate shown. Level I is an additional \$350 per month, Level II is an additional \$650 per month and Level III is an additional \$925 per month, Level IV is an additional \$1,300 per month, Level V is an additional \$1,625 per month and Level VI is an additional \$2,035 per month.
- (15) The monthly fees shown the memory support units at Waltonwood are for private accommodations. Monthly fees for a semi-private apartment range from \$3,550 to \$3,750 for a semi-private apartment. Four additional levels of care are offered

See Independent Accountants' Examination Report

in the memory support units at Waltonwood in addition to the base rate shown. Level I is an additional \$1,045 per month, Level II is an additional \$1,375 per month and Level III is an additional \$1,705 per month and Level IV is an additional \$2,035 per month.

- (16) There is a second person fee of \$850 for the assisted living and memory support units at Heartfields at Cary.
- (17) Companion suites are available for \$3,115 to \$3,230 per month in the assisted living units and \$3,115 to \$3,585 per month in the memory support units at Heartfields at Cary.
- (18) The range of monthly fees shown for Heartfields at Cary is for the base level of care. Five additional levels of care are offered in the assisted living units for the additional monthly fees as follows: Level I is \$325, Level II is \$700, Level III is \$940, Level IV is \$1,075 and Level V is \$1,200. Two additional levels of care are offered in the memory support units for the additional monthly fees as follows: Level I is \$1,250 and Level II is \$1,400.

Planned Assisted Living Development

Based on discussions with representatives of the local planning agencies and interviews with assisted living facilities and retirement communities, other than the Community, there are no assisted living beds or memory support units planned in the PMA.

Description and Utilization of Skilled Nursing

DHHS license and regulated nursing facilities. Nursing facilities are defined under the North Carolina Nursing Home Licensure Act (Part 1 of Article 6, Chapter 131E of the North Carolina General Statutes) (the "North Carolina Nursing Home Licensure Act") and Title 10 of the North Carolina Administrative Code as facilities that provide nursing or convalescent care for three or more persons, unrelated to the licensee. According to the North Carolina Nursing Home Licensure Act, a nursing home provides care for persons who have remedial ailments or other ailments for which medical and nursing care are required, but who are not sick enough to require general hospital care.

There is currently a CON requirement for new nursing beds under the State Medical Facilities Plan. CCRCs may qualify for an exemption from the CON requirements for any new nursing beds would be used exclusively to meet the needs of persons with whom the facility has continuing care contracts under the sheltered bed policy.

The Community has received a CON to allow for the development of the Skilled Nursing Beds.

Management has defined the primary market area for nursing services be the same as independent living. The following map depicts the Community and the three skilled nursing facilities within the PMA.



Source: Microsoft MapPoint

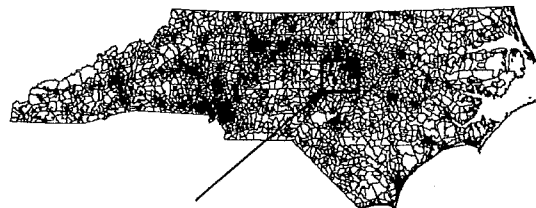
Legend

- The Primary Market Area
- ★ The Community

Existing Skilled Nursing Competition in the PMA

- 1 – Glenaire
- 2 – Rex Rehab and Nursing Care of Center of Apex
- 3 – Cary Health and Rehab

North Carolina



Primary Market Area



Source: Microsoft MapPoint and MapInfo

Comparable Skilled Nursing Facilities

The following table identifies the Community and the three skilled nursing facilities located within the PMA and summarizes the number of units, the percentage occupied and lowest daily rate based on surveys conducted through September 2010.

Table 35
Profile of Competitive Nursing Facilities Within the PMA

	Driving Miles from the Community	Year Opened	Number of Beds	Private Beds	Semi- Private Beds	Current Occupancy	Daily Rates	
							Private	Semi- Private
The Community	-	-	16	16	-	-	\$285	-
Glenaire	4.1	1991	71	71	-	100%	\$235	-
Rex Rehab and Nursing Care Center of Apex ⁽¹⁾	5.8	1991	107	20	87	95%	\$236	\$220
Cary Health and Rehab ⁽²⁾	7.1	1989	120	5	115	95%	\$210	\$199
Total Beds/Average Occupancy (excluding the Community)			298			96%		

Source: Management and surveys conducted by Dixon Hughes PLLC through September 2010.

(1) The rates shown for Rex Rehab and Nursing Care Center of Apex are effective October 1, 2010.

(2) In addition to the 120 nursing beds at Cary Health and Rehab, the facility offers 30 intermediate care beds. The daily fee for a private intermediate care bed is \$105 and the daily fee for a semi-private intermediate care bed is \$95.

Assumed Independent Living Utilization

The Independent Living Units are assumed to achieve and maintain a 95 percent occupancy level in September 2015 and remain at that level throughout the projection period. The following table summarizes the projected utilization of the Independent Living Units.

Years ended December 31,	Average Units Occupied	Average Units Available	Average Occupancy
Projected:			
2011	-	-	-
2012 ⁽¹⁾	10.0	169.0	5.9%
2013	78.5	169.0	46.5%
2014	131.0	169.0	77.5%
2015 ⁽¹⁾	154.8	169.0	91.6%
2016	160.6	169.0	95.0%

Source: Management

(1). Management assumes that the Independent Living Units to be available for occupancy beginning October 2012, and are expected to achieve and maintain 95 percent occupancy by September 2015.

Residents are assumed to begin moving into the Independent Living Units in October 2012. The following table summarizes the assumed move-in pattern for the Independent Living Units.

Table 37
Monthly Move-in Pattern (Net of Move-Outs) Independent Living Units

Fiscal Year/Month	Monthly Total	Cumulative Total	Cumulative Percentage
FY 2012			
October	10.0	10.0	5.9%
November	10.0	20.0	11.8%
December	10.0	30.0	17.8%
FY 2013			
January	9.0	39.0	23.1%
February	9.0	48.0	28.4%
March	9.0	57.0	33.7%
April	8.0	65.0	38.5%
May	8.0	73.0	43.2%
June	8.0	81.0	47.9%
July	8.0	89.0	52.7%
August	7.0	96.0	56.8%
September	6.0	102.0	60.4%
October	5.0	107.0	63.3%
November	4.0	111.0	65.7%
December	4.0	115.0	68.0%
FY 2014			
January	3.0	118.0	69.8%
February	3.0	121.0	71.6%
March	3.0	124.0	73.4%
April	3.0	127.0	75.1%
May	3.0	130.0	76.9%
June	2.0	132.0	78.1%
July	2.0	134.0	79.3%
August	2.0	136.0	80.5%
September	2.0	138.0	81.7%
October	2.0	140.0	82.8%
November	2.0	142.0	84.0%
December	2.0	144.0	85.2%
FY 2015			
January	2.0	146.0	86.4%
February	2.0	148.0	87.6%
March	2.0	150.0	88.8%
April	2.0	152.0	89.9%
May	2.0	154.0	91.1%
June	2.0	156.0	92.3%
July	2.0	158.0	93.5%
August	2.0	160.0	94.7%
September	0.6	160.6	95.0%
Total	160.6		

Source: Management

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 based, in part, on the report of the actuary, CCRC Actuaries, Inc. (the "Actuary").

Refunds of Entrance Fees are generated upon termination of the Residency Agreement and withdrawal from the Community. The following table presents the assumed initial and turnover Entrance Fees received and the total Entrance Fee refunds.

Table 38
Initial and Turnover Entrance Fee Receipts and Total Entrance Fee Refunds
Independent Living Units
(In Thousands)

Fiscal Year Ending December 31,	2011	2012	2013	2014	2015	2016
<i>Initial</i>						
Number of Entrance Fees Received	-	30.0	85.1	29.0	16.4	-
Entrance Fees Received	-	\$14,658	\$42,695	\$16,342	\$9,768	-
<i>Turnover</i>						
Number of Entrance Fees Received	-	0.0	1.6	4.1	6.3	7.9
Entrance Fees Received	-	\$39	\$896	\$2,481	\$3,867	\$4,954
<i>Refunded</i>						
Number of Entrance Fees Refunded	-	0.0	1.1	2.9	4.1	5.0
Entrance Fees Refunded	-	\$(24)	\$(518)	\$(1,303)	\$(1,879)	\$(2,277)
Entrance Fees Received, Net of Refunds	-	\$14,673	\$43,073	\$17,520	\$11,756	\$2,677

Source: Management and the Actuary

Management has offered a Charter Benefit Program to prospective Residents of the Independent Living Units. One of the benefits of the Charter Benefit Program is 100 percent refund of the Entrance Fee. Management intends to offer the Charter Benefit Program to the first 70 percent of depositors for the Community. Management has assumed 55.9 percent of first generation Residents would utilize the Charter Benefit Program due to cancellations at re-sales at higher, post-construction pricing.

At the commencement of construction, it is anticipated that Management will cease to offer the Charter Benefit Program. Management assumes a 5.0 percent annual increase to Entrance Fees beginning January 1, 2011 and a 3.0 percent increase beginning January 1, 2013 and annually thereafter.

The following table presents the assumed Entrance Fee pricing for first generation Residents.

Table 39
First Generation Entrance Fee Pricing

	Percentage	Number of Residents
Charter Benefit Program	55.9%	89.7
2011 Pricing	14.2%	22.8
2012 Pricing	11.2%	18.0
2013 Pricing	11.2%	18.0
2014 Pricing	7.5%	12.1
Total	100.0%	160.5

Source: Management

Based upon the aforementioned utilization of the Charter Benefit Program and the Entrance Fee price increases, Management has assumed an average entrance fee of approximately \$520,000 for the Independent Living Unit first generation of Residents at the Community.

The double occupancy percentage in the Independent Living Units is assumed to be 60 percent in fiscal year 2012, declining to 52 percent in fiscal year 2016 based upon Management's assumptions and information provided by the Actuary.

The double occupancy percentage in the Assisted Living Units is assumed to be five percent in fiscal year 2012, and remain at that level throughout the projection period.

Assumed Healthcare Center Utilization

The Community plans to have 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 can arrange for temporary care in the Independent Living Unit by a certified home health agency until space becomes available. If home health care is not reasonably possible, Management can attempt to arrange for temporary care in another facility that can provide the same care that may have otherwise been provided at the Community.

The Assisted Living Units are assumed to achieve and maintain a 95 percent occupancy level beginning in August 2013 and remain constant at that level throughout the projection period. The following table summarizes the assumed utilization of the Assisted Living Units.

Years ended December 31,	Average Units Occupied	Average Units Available	Average Daily Occupied
Projected:			
2011	-	-	-
2012	-	-	-
2013 ⁽¹⁾	5.2	8.0	65.0%
2014	7.6	8.0	95.0%
2015	7.6	8.0	95.0%
2016	7.6	8.0	95.0%

Source: Management

(1). Management assumes that the Assisted Living Units to be available for occupancy beginning January 2013, and are expected to achieve 95 percent occupancy by August 2013.

The Skilled Nursing Beds are assumed to achieve and maintain a 95 percent occupancy level in January 2016 and remain constant at that level throughout the projection period. The following table summarizes the projected utilization of the Skilled Nursing Beds.

Table 41
Utilization of the Skilled Nursing Beds

Years ended December 31,	Average Number of Type A Residents	Average Number of Type C Residents	Average Number of Medicare Residents	Average Number of Beds Occupied	Average Number of Beds Available	Average Total Occupancy
Projected:						
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013 ⁽¹⁾	0.2	0.3	1.6	2.1	16.0	13.1%
2014	0.7	2.3	2.9	5.9	16.0	36.9%
2015	1.5	5.3	3.7	10.5	16.0	65.6%
2016	2.6	8.4	4.1	15.1	16.0	94.4%

Source: Management

(1). Management assumes that the Skilled Nursing Beds to be available for occupancy beginning January 2013, and are expected to achieve 95 percent occupancy by January 2016.

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) Deferred Costs

The marketing costs incurred by the Corporation in connection with acquiring initial entrance fee contracts are capitalized and amortized on a straight-line basis over a period approximating the average life expectancy of the initial Residents occupying the Independent Living Units.

Costs associated with the issuance of the Series 2011 Bonds are assumed to be capitalized and amortized over the expected life of the Series 2011 Bonds using the effective interest method.

(c) 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.

(d) 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.

(e) Investment Income

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

(f) 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.

(g) Deferred Revenue from Entrance Fees

The non-refundable portion of an Entrance Fee is amortized into income over the estimated remaining life expectancy of the Resident in the Independent Living Units, assumed to be 9.1 years. The refundable portion of an Entrance Fee received is assumed to be earned on a straight-line basis over the remaining useful life of the Community, assumed to be 40 years.

(h) 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.

Revenue

Resident Service 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 Independent Living Unit's Monthly Fees increase approximately 4.0 percent beginning in January 2011 and 3.0 percent beginning in January 2013 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 select the Type A Plan and are transferred to the Healthcare Center would 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 would also be provided home health services in the Resident's Independent Living Unit at no additional fee. If a Resident requires additional nursing services, Management would arrange for nursing care to be provided in an appropriate nursing establishment until available occupancy in the Skilled Nursing Beds is available.

Residents who select 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 would be provided home health services in the Resident's Independent Living Unit at an additional charge.

The Skilled Nursing Beds are assumed to provide services to private-pay and Medicare Residents only. Management assumes Healthcare Center fees to increase 3.0 percent beginning January 2013 and annually thereafter.

Earned Entrance Fees

Earned entrance fees are 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. In addition, the refundable portion of the entrance fees received is assumed to be earned on a straight-line basis over the remaining useful life of the Community.

Turnover of the Independent Living Units has been based on information provided by the Actuary, the experience of comparable facilities, and the Community's existing Depositor information. Management assumes the Entrance Fees would increase annually by 5.0 percent beginning January 1, 2011, and by 3.0 percent beginning January 1, 2013 and annually thereafter.

Investment Income

Management's assumption for average annual rate of return on the unrestricted cash is assumed to approximate 2.0 percent in 2011 and 2012, 2.5 percent in 2013, 3.0 percent in 2014, 3.5 percent in 2015, and 4.0 percent in 2016 and thereafter. Management has assumed average annual rates of return on the bond funds as follows: 0.75 percent on the Project Fund, 0.75 percent on the Funded Interest Fund, and 2.25 percent on the Series 2011 Bonds Debt Service Reserve Funds.

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 4.0 percent annually throughout the projection period.

Operating Expenses

Operating expenses are provided by Management based on their experience with the development of other similar retirement communities. Salaries, wages and employee benefits are assumed to increase 4.0 percent beginning January 1, 2013 and annually thereafter. Management assumes employee benefits would approximate 23 percent of salaries during the projection period. The following table summarizes the assumed staffing levels for all departments.

Table 42
Staffing Levels and Weighted Average Salaries – FY 2016

Department	Full-time Equivalent (FTE's)
Administrative	8.2
Activities	2.0
Assisted living and nursing services	21.5
Building and maintenance	3.6
Dining	21.3
Emergency systems	3.8
Ground maintenance	1.0
Housekeeping and laundry	7.8
Transportation	1.0
Marketing	2.0
Total FTE's	72.2

Source: Management

Management has assumed the Percentage Fee (monthly management fee) of 4.5 percent of revenues per month with a minimum fee of \$25,000 per month. Payment of the Percentage Fee would commence upon opening of the Community.

Management has assumed an expense for the "Community Benefit", which includes unreimbursed costs to the Community of providing some of the following services; recreation, community research, and education activities to the Community; charitable donations; donated volunteer services; and donations and voluntary payments to governmental agencies. The Community benefit is assumed to approximate 1.0 percent of revenues in 2012, 2.0 percent of revenues in 2013, 3.0 percent of revenues in 2014, 4.0 percent of revenues in 2015, and 5.0 percent of revenues in 2016 and thereafter.

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 annually throughout the projection period.

Assets Limited as to Use

Permanent financing for the Community is assumed by Management to be obtained from the issuance of the Series 2011 Bonds. The Series 2011 Bonds' trustee is assumed to maintain the following funds and accounts for the Series 2011 Bonds under the terms of the bond documents related to the Series 2011 Bonds:

- (1) Project Fund, to be funded at closing from Series 2011 Bonds proceeds to be used to pay construction costs to complete the Community.
- (2) Funded Interest Fund, net funded from Series 2011 Bonds proceeds, to be used to fund interest for approximately 25 months.
- (3) The Debt Service Reserve Fund – Series 2011 Bonds, to be established at closing from Series 2011 Bonds proceeds. According to the Underwriters, the portion of the Debt Service Reserve Fund attributable to each series of the Series 2011 Bonds would be released and available to pay debt service in the year that the respective series of the Series 2011 Bonds is repaid in full.
- (4) Entrance Fee Fund, to be funded with initial Entrance Fees from the Community. The first \$14,079,000 of initial Entrance Fees received is assumed to fund the Working Capital Fund. In addition, approximately \$982,000 of initial Entrance Fees is assumed to be used to pay a portion of the Marketing Fee.
- (5) Bond Fund, which is to contain the bond principal and interest payments due on the Series 2011 Bonds.
- (6) Working Capital Fund, to be initially funded with approximately \$14,079,000 from initial Entrance Fees received from the Independent Living Units to fund pre-opening costs and ongoing working capital needs of the Community.

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.

Construction-related costs as well as routine capital additions during the projection period are summarized in the table below.

Table 43
Schedule of Property and Equipment
(In Thousands)

Years Ending December 31,	2011	2012	2013	2014	2015	2016
Property and equipment, gross beginning balance	\$ -	\$55,350	\$101,818	\$102,763	\$103,612	\$103,877
Project costs	47,798	39,893	845	749	115	-
Capitalized interest	7,552	6,575	-	-	-	-
Routine capital additions	-	-	100	100	150	200
Property and equipment, gross	55,350	101,818	102,763	103,612	103,877	104,077
Accumulated depreciation	-	(618)	(3,113)	(5,634)	(8,167)	(10,712)
Property and equipment, net ending balance	\$55,350	\$101,200	\$99,650	\$97,978	\$95,710	\$93,365

Source: Management

Long-Term Debt and Interest ExpenseSeries 2011 Bonds

The North Carolina Medical Care Commission intends to issue \$112,315,000 of bonds, the proceeds of which are to be lent to pay for the project construction and other project-related costs of the Community. The Series 2011 Bonds are assumed to consist of:

- \$51,315,000 of non-rated fixed rate term bonds (the "Series 2011A Bonds") which are assumed to be issued at an average interest rate of 8.50 percent per annum. Interest on the Series 2011A Bonds is to be payable March 1 and September 1 of each year beginning September 1, 2011. Principal on the Series 2011A Bonds is to be paid annually commencing March 1, 2017 with a final maturity on March 1, 2041.
- \$61,000,000 of Entrance Fee Principal Redemption Bonds (the "Series 2011B Bonds") which are assumed to be issued at an average interest of 7.25 percent per annum. Interest on the Series 2011B Bonds is to be payable March 1 and September 1 of each year beginning September 1, 2011. Principal on the Series 2011B Bonds is to be paid annually commencing September 1, 2013 and is assumed to be repaid by September 1, 2015.

Principal on the Series 2011B Bonds is anticipated to be repaid from certain available initial Entrance Fees from the Community, according to the Underwriters.

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

Table 44
Annual Debt Service
(In Thousands)

Year Ending December 31,	<u>Series 2011 Bonds</u>		Total Debt Service ⁽¹⁾
	Principal	Interest	
2011	-	\$ 4,392	\$ 4,392
2012	-	8,784	8,784
2013	\$ 25,000	8,784	33,784
2014	17,500	6,609	24,109
2015	18,500	5,449	23,949
2016	-	4,362	4,362
Thereafter	\$ 51,315	\$ 75,236	\$ 126,551
Total ⁽¹⁾	\$ 112,315	\$ 113,616	\$ 225,931

Source: Management and the Underwriters

(1). The Maximum Annual Debt Service is assumed to be approximately \$4,927,000 and does not include debt service on the Series 2011B Bonds.

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:

Table 45
Working Capital – Days on Hand

Cash	30	days operating expenses
Accounts receivable	10	days operating revenues
Inventories	1	days operating expense
Prepaid expenses	15	days operating expenses
Accounts payable	30	days operating expenses
Other accrued liabilities	15	days operating expenses

Source: Management

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. 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.