

DISCLOSURE STATEMENT

OF

GRACE LIFECARE, INC., d/b/a

**GRACE RIDGE
RETIREMENT COMMUNITY
500 LENOIR ROAD
MORGANTON, NORTH CAROLINA 28655
(828) 580-8300
www.graceridge.org**

Dated May 21, 2019

**IN ACCORDANCE WITH CHAPTER 58, ARTICLE 64 OF THE NORTH CAROLINA
GENERAL STATUTES OF THE STATE OF NORTH CAROLINA:**

- **THIS DISCLOSURE STATEMENT MAY BE DELIVERED UNTIL REVISED,
BUT NOT AFTER OCTOBER 18, 2020;**
- **DELIVERY OF THE DISCLOSURE STATEMENT TO A CONTRACTING
PARTY BEFORE EXECUTION OF A CONTRACT FOR CONTINUING CARE
IS REQUIRED;**
- **THIS DISCLOSURE STATEMENT HAS NOT BEEN REVIEWED OR
APPROVED BY ANY GOVERNMENT AGENCY OR REPRESENTATIVE TO
ENSURE ACCURACY OR COMPLETENESS OF THE INFORMATION SET
OUT.**

**EVERY PROSPECTIVE RESIDENT IS ENCOURAGED TO REVIEW THE
FOLLOWING INFORMATION WITH THEIR LEGAL, FINANCIAL AND/OR
PERSONAL ADVISOR.**

**THE TEXT OF THIS DISCLOSURE STATEMENT SHALL CONSIST OF ALL THE
SECTIONS AND ATTACHMENTS LISTED IN THE TABLE OF CONTENTS.**

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PART I

I. ORGANIZATION INTRODUCTION AND INFORMATION

A. Description of Organization and Its Operation. Grace LifeCare, Inc. (herein "Grace LifeCare") is a non-profit North Carolina corporation with offices at 500 Lenoir Road, Morganton, North Carolina 28655. Telephone Number (828) 580-8300. Grace LifeCare's principal purpose is to provide housing and long-term healthcare to Residents of Grace Ridge, a continuing care retirement community, also referred to as a Life Plan Community.

Grace LifeCare is wholly-owned by Blue Ridge Healthcare Hospitals, Inc. (herein "BRH"), a nonprofit North Carolina corporation, with its principal office at 2201 South Sterling Street, Morganton, North Carolina 28655. BRH and its subsidiaries are part of Blue Ridge Healthcare System, Inc., which is managed by Carolinas Healthcare System (See Section VII. B.).

Grace LifeCare is operated under a management agreement with BRH, which is automatically renewable annually unless prior to the renewal date either party gives thirty (30) days written notice of intention to terminate.

B. Non-Profit Status. BRH and Grace LifeCare have been determined by the Internal Revenue Service to be tax-exempt organizations under the provisions of Section 501(c)(3) of the Internal Revenue Code.

C. Affiliation. Grace Ridge was acquired by Grace Hospital on February 19, 1991. Following the acquisition, ownership of the land and buildings was transferred to Grace Properties, Inc. (herein "Grace Properties") and ownership of all furnishings, fixtures, equipment and other personal property used in the operation of Grace Ridge was transferred to Grace LifeCare. The land and buildings were leased by Grace Properties to Grace LifeCare. Grace Properties ended the lease and transferred the land and buildings to Grace Lifecare in 2004. In 2012, Grace Hospital merged with Valdese Hospital to form Blue Ridge Hospitals, Inc.

Simultaneously with the 1991 acquisition, Grace LifeCare assumed the former owner's obligations to Residents under their Residency Agreements. Subsequent to the acquisition Residents have entered into residence and care agreements with Grace LifeCare, which is responsible for the management and day-to-day operations of Grace Ridge. Management services will continue to be provided by BRH under a contract, which is annually renewable, unless BRH or Grace LifeCare gives notice of intention to terminate thirty (30) days prior to the renewal date. The estimated annual payments by Grace LifeCare to BRH under the management agreement will be one hundred forty-nine three thousand seventy-six dollars (\$149,376). This estimate is based upon 2019 budgeted charges. In addition, a management fee of one hundred sixty-seven thousand nine hundred and eighteen dollars (\$167,918) will be made to Carolinas HealthCare System, based on the 2019 budget. See Section VII. B. for information regarding relationship with Carolinas HealthCare System.

Grace Ridge is not affiliated with any religious or charitable provider other than its owner, BRH. All financial and contractual obligations of Grace Ridge will be the sole responsibility of Grace Ridge; the owner will not be responsible for any of these obligations.

II. FACILITY INTRODUCTION AND INFORMATION

A. Description of Facility and Its Operation. Grace Ridge is located on fifty-two wooded acres in a beautiful area in the foothills of the Blue Ridge Mountains with a sweeping view of the Catawba River Valley. The facility consists of a central building that includes the main dining room, a private dining room, a seventy-two (72) bed Health Care Center, common areas, administrative offices, five (5) apartments for guests, one (1) apartment used as a sales model and one hundred eighteen (118) apartment residences. Duplexes, containing Cottages, are being constructed in three phases. The first two phases containing twenty-seven (27) cottages has been completed. Phase III of the Cottage Program contains the last four (4) remaining units and will be constructed as needed based on future demand.

Grace Ridge provides the opportunity for active, independent retirement living and has its own Health Care Center to provide for Residents health and personal care needs. Residents are relieved of many day-to-day responsibilities. At Grace Ridge, Residents appreciate financial security, availability of health and personal services, and companionship of neighbors with common interests.

Health care programs provide Grace Ridge Residents with medical and health care. The on-site Health Care Center provides outpatient care, home care services, short-term and long-term inpatient care. In the Health Care Center, Residents may receive physical therapy, and other outpatient medical and health care services. There are seventy-two (72) private rooms for inpatient care. Forty-seven (47) beds are licensed as Adult Care beds, with twelve (12) of these enclosed in a separate unit and designated for patients with a diagnosis of memory loss, and twenty-five (25) are licensed for Nursing Care. Residents may elect to use physicians and other health care providers of their choice.

The amenities and services of Grace Ridge are comprehensive. Full membership to Phifer Wellness Center, a full-service fitness facility located on the campus of BRH is available to Grace Ridge residents. There is a chapel for private meditation or small group services. There are regular services and other opportunities for worship and religious expression for residents living independently and for residents in the Health Care Center. Residents enjoy arts and crafts, vegetable and flower gardens, exercise classes, games and many scheduled activities and outings, entertainment and opportunities for social enrichment.

Grace Ridge has a well-organized library, theatre, chapel, exercise room, game rooms, beauty/barbershop and a roof top solarium-type lounge with a spectacular panoramic view of the Blue Ridge Mountains. Grace Ridge provides scheduled transportation to shopping centers, grocery stores, activities, entertainment and recreation in the Morganton area, and provides scheduled transportation for medical and health care in the Morganton area as approved by Grace LifeCare. The availability of quality medical care facilities, recreational and cultural opportunities combined with a leisurely and comfortable lifestyle in a beautiful setting make Grace Ridge an excellent choice for retirement.

B. Accreditation. Grace LifeCare offers continuing care to Residents of Grace Ridge under North Carolina law contained in Article 64, of Chapter 58 of the North Carolina General Statutes and the rules and regulations adopted pursuant to its provisions. The North Carolina Department of Insurance has responsibility for the registration, licensing and financial monitoring of Grace Ridge and other continuing care retirement communities in North Carolina. The responsibility of the North Carolina Department of Insurance includes overseeing compliance with disclosure and contract requirements by Grace LifeCare in offering continuing care. Grace LifeCare is licensed by the North Carolina Department of Insurance to provide continuing care to Residents of Grace Ridge.

In 2006, 2011, and 2016 Grace Ridge received accreditation from CCAC/CARF (Continuing Care Accreditation Commission / Commission on Accreditation of Rehabilitation Facilities). This accreditation means Grace Ridge has passed an in-depth review of our services. It is an assurance that Grace Ridge meets rigorous CARF guidelines for service and quality – a qualified endorsement that Grace Ridge conforms to nationally and internationally recognized service standards and is focused on delivering the most favorable results for persons served.

A Health Care Center is operated by Grace LifeCare as a part of Grace Ridge. The North Carolina Department of Health and Human Services has the responsibility of overseeing compliance with applicable State and Federal laws and regulations in the licensing and operation of Nursing and Adult Care beds in the Health Care Center. Grace LifeCare is licensed by the North Carolina Department of Health and Human Services, Division of Facility Services, to operate the Health Care Center at Grace Ridge and to operate a Home Care (In-Home Aide) Agency.

Grace LifeCare operates Grace Ridge and its Health Care Center to meet or exceed the requirements of the North Carolina Department of Insurance and the North Carolina Department of Health and Human Services.

C. Identification and Background of Officers, Directors and Management Staff of Grace LifeCare. The Officers and Directors of Grace LifeCare are:

Directors:

- 1. Edward Plyler, MD, CMD** - 2201 S Sterling St, Morganton, NC 28655 - Dr. Plyler is the Chief Medical Officer of Continuing Care, Medical Director Long-Term Care Division at Carolinas Healthcare System Blue Ridge. Dr. Plyler, a family physician and certified medical director has been with Blue Ridge Healthcare as the Chief Medical Officer for continuing care since January 2013. He has thirty-two years of experience in healthcare, as a family physician in Burke County. He serves on the Regional Advisory Board of Medical Mutual of North Carolina Insurance Company. He completed his BA in chemistry from the University of North Carolina in 1977 and received his doctorate in medicine from the University of North Carolina in 1981. He completed a three-year residence program in family medicine in 1984 at the University of South Carolina/Richland Memorial Hospital in Columbia, SC.
- 2. Kathy C. Bailey, PhD, President/CEO Blue Ridge Healthcare,** - 2201 S. Sterling St., Morganton, NC 28655 - Ms. Bailey was named President and CEO of

Blue Ridge Healthcare System in January 2013. Prior to becoming CEO, she held the position of CEO at Blue Ridge Healthcare since 2005. Previously Ms. Bailey served as Inaugural CEO of The Outer Banks Hospital in Nags Head, NC, and the VP of Patient Care of Rowan Regional Medical Center in Salisbury, NC. Ms. Bailey earned a BS degree in nursing from UNCG, a master's in public health – health policy and administration from UNC-CH, and completed a non-accredited doctoral program in health administration from La Salle University in Louisiana.

3. **Rudy Bell**, 500 Lenoir Rd, Apt. 366, Morganton, NC 28655 - Mr. Bell is a resident of Grace Ridge Retirement Community. Mr. Bell and his wife moved to Grace Ridge in 2004. He is a broker specializing in commercial real estate investments in the Morganton, NC area and is an active member of the Grace Ridge Resident Finance Committee.
4. **Janice Branstrom**, 225 West Union St., Morganton, NC 28655 – Ms. Branstrom and her husband John, along with three other couples founded the Children's School in 1978. During the summer of 2006, the Children's School changed its name to Morganton Day School. The school is dedicated to a philosophy of education and parental involvement. Ms. Branstrom is active in the community and serves on several boards.
5. **John Cantrell**, 660 Hopewell Rd., Morganton, NC 28655 – Mr. Cantrell is Vice-President of Bridgeway Solutions, Inc. of Morganton, NC. He served as Controller of Toner Machining Technologies from 2003 to 2010. Mr. Cantrell serves as a City Councilman for the City of Morganton and serves as treasurer for Burke County Habitat of Humanity. Mr. Cantrell is a Wake Forest University graduate.
6. **Reverend Earl Cross**, 210 Brookwood Road, Morganton, NC 28655 – Reverend Earl Cross is a local minister who has been serving the Burke County community for over 18 years. Reverend Cross completed an associates degree from Fruitland Bible Institution in Religious Studies and a Liberal Arts degree with a concentration in Psychology from Wingate University.
7. **DaVida Roseman**, 2201 S. Sterling St., Morganton, NC 28655 – DaVida Roseman is Vice President of Nursing and Chief Nurse Executive. She holds a BS and MS in Nursing. Ms. Roseman has her ANCC Nurse Executive Advanced Board Certification (NEA-BC), is AONE Nurse Executive Finance certified, holds membership with the American Nurses Association, North Carolinas Nurses Association, and the American College of Nursing; and is currently an Advisory Board Member for Press Ganey (NDNQI).
8. **Helen Wilson**, 4866 Burkemont Road, Morganton, NC 28655 - Ms. Wilson holds a BS and MS in Nursing. She was with J. Iverson Riddle in Morganton as the Director of Staff Development and then spent 29 years as their Director of Nursing. Ms. Wilson is an active volunteer in the community.
9. **Golnush Sharafsaleh, MD**, 111-B Foothills Drive, Morganton, NC 28655. Ms. Sharafsaleh is a physician in the Blue Ridge Healthcare Geriatrics office. She holds a Master's Degree in Gerontology and has a clinical interest in

preventative care. She is Board Certified with the American Board of Family Medicine and Geriatric Medicine.

Management Staff:

1. **Robert G. Fritts, Sr. Vice President/Chief Financial Officer**, 2201 S. Sterling St., Morganton, NC 28655 - Mr. Fritts joined the Blue Ridge Healthcare System in September 2001 as Chief Financial Officer/VP Finance. Prior to his employment with Blue Ridge Healthcare, Mr. Fritts served as Chief Financial Officer for Frye Regional Medical Center in Hickory. Frye Regional is part of the Tenet Health System, and Mr. Fritts was associated with Tenet for sixteen years. He holds a BA in Accounting from Georgia State University and is a Certified Public Accountant.
2. **Jon Mercer, Sr. Vice President/Chief Operating Officer**, 2201 S. Sterling St., Morganton NC 28655 – Mr. Mercer started with Blue Ridge Healthcare in 1998 in a clinical role before transferring into various leadership and administrative roles. He holds a BA in Biology from Western Carolina and Master’s Degrees in Exercise Physiology, Business Administration, and Health Administration.
3. **Christopher T. Romick, Executive Director**, 500 Lenoir Rd., Morganton, NC 28655 – Mr. Romick is a US Navy veteran and holds a BA in Gerontology Administration from Kent State University, and an MBA in Marketing from American Public University. Mr. Romick has held positions as a licensed nursing homes administrator in three states, Marketing Director, Regional Director and Executive Director.

D. Professional Service Firms of Directors and Officers Providing Goods or Services to Grace Ridge. There is no professional service firm, association, trust, partnership or corporation in which any officers, directors, or members of the management staff of Grace LifeCare has a ten percent (10%) or greater interest or any entity that has a 10% or greater interest in any officer, director or members of the management staff of Grace Lifecare which it is presently intended shall currently or in the future provide goods, leases or services to Grace LifeCare, or to the residents of Grace Ridge, of an aggregate value of Five Hundred Dollars (\$500) or more within any year except the following:

- 1) The management agreement between BRH, Inc. and Grace LifeCare, Inc.

E. Criminal Violation/Civil Fraud Statement. Section 58-64-20(a)(3)(c) of the North Carolina General Statutes requires that Grace LifeCare provide for each of the Officers, Directors, and Management Staff listed above the following:

A description of any matter in which the person (i) has been convicted of a felony or pleaded nolo contendere to a felony charge, or been held liable or enjoined in a civil action by final judgment, if the felony or civil action involved fraud, embezzlement, fraudulent conversion, or misappropriation of property; or (ii) is subject to a currently effective injunctive or restrictive court order, or within the past five years, had any State or federal license or permit suspended or revoked as a result of an action brought by a governmental agency or department, if the order or action

arose out of or related to business activity of health care, including actions affecting a license to operate a foster care facility, nursing home, retirement home, home for aged, or facility subject to this Article or a similar law in another state.

ANSWER: NONE.

F. Location and Description of Physical Property. Grace Ridge is located on fifty-two wooded acres in a beautiful site on the north side of Morganton, NC at the intersection of Lenoir Road (N.C. Highway 18) and Kirksey Drive. Improvements now existing at Grace Ridge consist of a building with access from Highway 18 to parking lots in the front and rear of the building, which are landscaped and lighted. The main building contains one hundred eighteen (118) residence apartments, five (5) guest apartment residences, one (1) apartment used as a sales model, a seventy-two (72) bed Health Care Center, and common areas. In addition, there are now thirteen (13) duplexes, and one (1) single-family building, for a total of twenty-seven (27) cottages located to the north of the main building.

Construction at Grace Ridge was completed in October 1987, with two exceptions. The cottages were added in three phases and a new wing was added to the main building in May 2001. Grace Ridge is presently licensed as a continuing care retirement community by the North Carolina Department of Insurance and the beds in the Health Care Center are licensed by the North Carolina Department of Health and Human Services, Division of Facility Services. The facility is completely furnished and equipped.

With regard to the existing units, there are sixteen (17) types of apartments, which include studio apartments, five (5) types of one-bedroom apartments and ten (11) types of two-bedroom apartments. All the apartments are equipped with a kitchen, closets, a full bath in the studio and one-bedroom apartments and two (2) full baths in the two-bedroom apartments.

There is one (1) basic design for cottage residence with options and custom features available for selection prior to the construction of the cottage. A basic designed cottage consists of two (2) bedrooms, two (2) bathrooms, living-dining room, kitchen, breakfast room, carport and wood deck. Options available include Carolina room, fireplace, screened porch and wood decks, microwave oven, garage and vaulted ceiling in living-dining room.

The common areas for use by Residents living independently in the apartments and cottages consist of a main lobby, main dining room, reading room, private dining room, exercise room, mailroom, conference room, a library, card room, TV room, game room, theatre, chapel, and community room. All floors, except the North Wing of the first floor, contain apartments, activity rooms, lounges, a laundry room at the end of each wing, and equipment and storage rooms. A lounge on the fifth floor of the building, with an enclosed solarium, has a panoramic view of the surrounding mountains and the Catawba River.

The Health Care Center has seventy-two (72) private rooms. Forty-seven (47) of these rooms are licensed as Adult Care beds and twenty-five (25) for Nursing Care beds. The Health Care Center also contains a living room, dining areas, waiting room, physical therapy room, examining room, medication room, nutrition room, storage and equipment rooms, and a nurse's station.

An applicant who needs assistance in activities of daily living may apply for direct admission to one of the private rooms licensed for adult care in the Health Care Center. If accepted for admission, the applicant and Grace LifeCare can enter into a Residence and Care Agreement for

Adult Care Residence. Residents of an Adult Care Residence in the Health Care Center have access to the living room, dining areas, waiting room and other common areas located within the Health Care Center. After a Resident has resided in an adult care residence for thirty (30) days, the Resident may then be transferred to a Nursing Care bed, if necessary, in the Health Care Center or another licensed facility if a bed is not available at Grace Ridge.

G. Estimated Number of Residents. As of April 30, 2019, two hundred and five (205) residents are living at Grace Ridge; with one hundred fifty-six (156) residents living independently in apartments and cottages and forty-nine (49) residents occupying beds in the Health Care Center. Thirty-three (33) Health Care Center residents are in the Adult Care beds and sixteen (16) are in nursing care beds.

III. POLICIES

A. Health Criteria Policies.

1. Health Criteria for Admission to Apartment and Cottage Residences. An applicant for admission to live in an apartment or cottage residence must be able to live independently, able to care for himself or herself without assistance in normal activities of daily living and must receive the approval of the Grace Ridge Admissions Committee.

An applicant must furnish a report of a physical examination and a medical history at the time of application. After review of the physical examination report and medical history, Grace LifeCare may request additional medical information, which may include an examination of the applicant by the Medical Director or other physician selected by Grace LifeCare. The applicant is responsible for all costs associated with the medical information submitted and requested.

2. Reservation by Grace LifeCare to Offer Health Care under Alternative Contract. After review of the medical information submitted by an applicant, Grace LifeCare may, in its sole discretion, decline to admit the applicant under a Residence and Care Agreement for an apartment or cottage residence unless applicant agrees to an adjustment of the Health Care Center charges. As a condition for admission, Grace LifeCare may require the applicant to pay either discounted per diem rate or full per diem rate for care in the Health Care Center. Grace LifeCare's decision to require the full per diem rate as a condition for admission may apply to: (i) a single applicant for an apartment or cottage residence; (ii) either or both of the applicants for double occupancy of an apartment or cottage residence; (iii) the spouse of a Resident who marries while at Grace Ridge; (iv) a new second occupant of an occupied apartment or cottage; (v) an applicant who has a change in physical or mental condition after approval for admission and prior to occupancy; and (vi) a Resident who is unable to live independently in an apartment within ninety (90) days after taking occupancy.

3. Health Criteria for Admission under Adult Care Residence. An applicant for direct admission to live in an Adult Care Residence will require assistance in normal activities of daily living and will not require services which may only be

rendered in a nursing care bed. An applicant must furnish a report of a physical examination and a medical history at the time of application. The Grace Ridge Admissions Committee must approve an applicant for admission.

4. Health Criteria after Admission to Apartment or Cottage Residence. After taking occupancy of an Apartment or Cottage Residence, a Resident must be able to live independently, and able to care for himself or herself without assistance in normal activities of daily living for a period of ninety (90) days. If, within such period, a Resident becomes unable to live independently, or unable to care for himself or herself without assistance in normal activities of daily living, the Residence and Care Agreement may be canceled at the option of either the Resident or Grace LifeCare. The determination of the Grace Ridge Medical Director shall be conclusive on whether the Resident is able to live independently, and able to care for himself or herself without assistance in normal activities of daily living.

If there are two Residents of an Apartment or Cottage Residence and it is determined within a period of ninety (90) days following occupancy that one of the Residents is unable to live independently, or unable to care for himself or herself without assistance in normal activities of daily living as determined in the preceding paragraph, and if such second occupant is a spouse or sibling of the other Apartment or Cottage Resident, Resident or Grace LifeCare may terminate the Residence and Care Agreement. If the Residence and Care Agreement is not terminated, Grace LifeCare reserves the right, in its sole discretion, to charge the discounted per diem rate or the full per diem rate for the periods during which one of the Residents receives care in the Health Care Center. Grace LifeCare also reserves the right to cancel the Residence and Care Agreement if Grace LifeCare, in its sole discretion, determines that the financial condition of the Residents is inadequate to meet the financial obligations of the Residents under the Residence and Care Agreement.

5. Cancellation/Termination of Adult Care Residence after Admission. If, within thirty (30) days after admission to an Adult Care Residence, an Adult Care Resident requires a level of care other than is permitted in the Adult Care Residence, the Residence and Care Agreement between such Resident and Grace LifeCare may be terminated by either the Adult Care Resident or Grace LifeCare. In addition to the foregoing right of termination Grace LifeCare may terminate the rights of an Adult Care Resident for just cause as provided in Subsection G below.

B. Financial and Insurance Criteria.

1. Financial Criteria for Admission to Apartment and Cottage Residences under the Lifecare and Standard Options. As a rule, an applicant for an apartment or cottage residence under a Lifecare or Standard Entrance Fee option must have a net worth, after paying the entrance fee, of two (2) times the Entrance Fee for the apartment or cottage residence. The monthly income of a Lifecare or Standard entrance fee option resident must generally be in excess of twice the Monthly Service Fee. Age and health status can have an impact on the net worth and income requirements. If an applicant does not have sufficient resources, a person, who has income and net worth that meets Grace LifeCare's requirements, may sign as guarantor of applicant's financial obligations. An applicant is required to submit information on the financial

condition of the applicant and the financial condition of a Guarantor, if applicable. The Grace Ridge Admissions Committee must approve applicant's financial condition.

2. Financial Criteria for Admission to Apartment and Cottage Residences under the Fee-For-Service Option. As a rule, an applicant for an apartment or cottage residence under a Fee-For-Service Entrance Fee option must have a net worth, after paying the entrance fee, of three (3) times the Entrance Fee for the apartment or cottage residence. The monthly income of a Fee-For-Service entrance fee option resident must generally be in excess of twice the monthly full per diem rate for nursing care in the Health Care Center. Age and health status can have an impact on the net worth and income requirements. If an applicant does not have sufficient resources, a person, who has income and net worth that meets Grace LifeCare's requirements, may sign as guarantor of applicant's financial obligations. An applicant is required to submit information on the financial condition of the applicant and the financial condition of a Guarantor, if applicable. The Grace Ridge Admissions Committee must approve applicant's financial condition

3. Financial Criteria for Admission to Adult Care Residence. As a rule, an applicant for an Adult Care Residence must have a net worth, after paying the Entrance Fee, of Two Hundred Thousand Dollars (\$200,000). The monthly income of the applicant must generally be in excess of one and one-half (1 1/2) times the monthly full per diem rate for nursing care in the Health Care Center. If an applicant does not have sufficient resources, a person, who has income and net worth that meet Grace LifeCare's requirements, may sign as guarantor of applicant's financial obligations. An applicant is required to submit information on the financial condition of the applicant and the financial condition of a Guarantor, if applicable. The Grace Ridge Admissions Committee must approve applicant's financial condition.

4. Insurance Requirement. Each Resident must have and maintain in effect Medicare Hospital Insurance (Part A) and Medicare Medical Insurance (Part B) and must have Medicare Supplemental Insurance which covers, as a minimum, the Basic Benefits (plan A). If Resident is not eligible for the foregoing Medicare Insurance, Resident must purchase or obtain health insurance acceptable to Grace LifeCare. Resident will also apply for any other public hospital and/or medical insurance benefits which may be enacted by the State of North Carolina or by the Federal Government as a successor or supplement to Medicare.

4. Monthly Service Fee Payments. Grace Ridge policy with respect to Monthly Service Fee payments is that in addition to the Entrance Fee, Resident agrees to pay a First Person Monthly Service Fee plus a Second Resident Monthly Service Fee if there is double occupancy, (collectively referred to as Monthly Service Fee), during the term of this Agreement which shall be payable in advance by the 15th each month. As of the date of this Disclosure Statement the Monthly Service Fee is as set forth in Section V, Paragraph B & C. The first payment of the Monthly Service Fee will be due on the earlier of the date of occupancy or the mutually agreed upon move-in date. Monthly Service Fees will be prorated for the given month, if applicable. Upon termination of the Residence and Care Agreement, the Resident

or Resident's estate shall continue to be responsible for the Monthly Service Fee through the date that the Residence is vacated and accepted by Grace Ridge. If the Residence is not vacated within a thirty (30) day period, in addition to the Monthly Service Fee, an additional storage fee of thirty dollars (\$30.00) per day may be charged. Contents remaining in the Residence after the thirty (30) day period may be moved to a storage area to be determined by Grace LifeCare, Inc. Grace LifeCare, Inc. accepts no liability for damages that may occur during the move or during the storage period. After termination of residence, Monthly Service Fees paid for any period beyond the date when the Resident vacates the Residence and Grace LifeCare accepts the Residence will be refunded to the Resident or Resident's estate within sixty (60) days.

If Resident fails to pay any of the Monthly Service Fees or charges for additional services by the 15th of the month, Grace LifeCare will provide a second monthly statement. If the Resident fails to pay that invoice by the 25th of the month, or has not provided satisfactory explanation, documentation or justifiable reason for non-payment to Grace LifeCare, then Grace LifeCare has the right to terminate the Residence and Care Agreement. Grace LifeCare will charge a late penalty on any fees paid after the 15th of the month at the rate of one and one-half percent (1 1/2%) per month.

C. Age Requirements.

- 1. Initial Age Requirement.** Residents must be sixty (60) years of age or older at the time of initial occupancy, except that in the case of a married couple, or sibling combination, one occupant may be younger than sixty (60) years of age.
- 2. Additional Fee for Exceptions.** The first-person entrance fee will be increased by 1.5% for every year the occupant is below 60 years of age. The additional fee will be prorated by month.

D. Changes of Condition of Resident Prior To Occupancy.

1. Change in Physical or Mental Condition Prior To Occupancy of an Apartment or Cottage Residence. If the physical or mental condition of a Resident, who is to be a single occupant of an apartment or cottage residence, changes during the period between Resident entering into a Residence and Care Agreement and prior to the occupancy of the residence, the Residence and Care Agreement is canceled if such change makes the Resident ineligible for admission to Grace Ridge. The determination on whether a Resident is eligible for admission is made in the sole discretion of Grace LifeCare.

If the application is for a married couple, or siblings, and the physical or mental condition of one spouse or a sibling changes prior to occupancy, one spouse or one sibling may be admitted directly to the Health Care Center at the time the other Resident takes occupancy of an apartment or cottage residence at Grace Ridge. The determination of whether a spouse or sibling may be admitted directly to the Health Care Center is made in the sole discretion of Grace LifeCare. If such change in the mental or physical condition of a spouse or sibling precludes the spouse or sibling

from occupying an Apartment or Cottage, either Resident or Grace LifeCare may cancel the Residence and Care Agreement.

If, because of a change of mental or physical condition, a spouse or sibling moves directly into the Health Care Center, Grace LifeCare, in its sole discretion, reserves the right to require the Resident admitted directly to the Health Care Center to pay the full per diem rate, for care in the Health Care Center. Grace LifeCare also reserves the right to cancel the Residence and Care Agreement if Grace LifeCare, in its sole discretion, determines that the financial condition of the Resident is inadequate to pay the increased Health Care Center cost and to meet the financial obligations of the Residents under the Residence and Care Agreement.

2. Change in Financial Condition Prior To Occupancy of an Apartment or Cottage Residence. If the financial condition of a Resident of an Apartment or Cottage Residence changes during the period between Resident entering into a Residence and Care Agreement and prior to occupancy of the Residence, Grace LifeCare, in its sole discretion, may terminate the Residence and Care Agreement.

3. Changes in Physical, Mental or Financial Condition Prior To Occupancy of Adult Care Residence. If the Resident is to be an occupant of an Adult Care Residence and during the period between Resident entering into a Residence and Care Agreement and prior to occupancy of the Adult Care residence, a change in the physical, mental, or financial condition of the Resident, as determined in the sole discretion of Grace LifeCare, makes the Resident ineligible for admission to an Adult Care Residence at Grace Ridge, Grace LifeCare shall terminate the Residence and Care Agreement.

E. Refunds of Fees and Entrance Fees. No interest shall be paid to a prospective Resident, a Resident, or the legal representative of a Resident upon refund of a fee, deposit, or payment made by, or on behalf of, a prospective Resident or a Resident. No interest shall accrue and be credited on any obligation of a prospective Resident or a Resident, on any fee, deposit, or payment made by, or on behalf of a prospective Resident.

1. Reservation Fee under Wait List Agreement. The reservation fee under the Wait List Agreement is One Thousand Two Hundred Fifty Dollars (\$1,250) per application. Of this reservation fee, \$250 is considered a processing fee and is nonrefundable. The remaining \$1,000 is a non-interest-bearing reservation fee to reserve placement on a waiting list for an existing Apartment or Cottage Residence and will be credited toward the future resident's Entrance Fee upon their eventual move to Grace Ridge. The \$1,000 reservation fee is 50% refundable with a written request from the future resident should the future resident terminate this agreement.

2. Application Processing Fee. An Application Processing Fee, in the amount of One Thousand Two Hundred Fifty Dollars (\$1,250) per application, is paid at the time a prospective Resident applies for admission. Of this Application Processing Fee, \$250 is considered a processing fee and is nonrefundable. The remaining \$1,000 will be credited toward the Entrance Fee. If applicant should decide not to move to Grace Ridge, the applicant may request in writing and receive a full refund of the \$1,000.

3. Advance Deposit Fee and Rescission Fee. To secure a particular cottage or apartment home, an advance deposit of 10% of the Entrance Fee may be made. The deposit will be credited toward the Entrance Fee at the time of closing. With this deposit, the home is taken off the available unit list and not offered to anyone else. The Advance Deposit is accepted in good faith that Resident will move in at an agreed upon date. If Residents rescinds within thirty days following execution of the Residence and Care Agreement or receipt of the Disclosure Statement, whichever is the later to occur, Grace Ridge will retain a Rescission Fee of \$1,000 or 2% of the total Entrance Fee, whichever is greater. If resident should rescind after the 30-day period above, Grace Ridge will retain 6% of the total Entrance Fee.

4. Refunds Following Rescission, Death, Change In Condition From Injury, Illness, Or Incapacity Prior to Occupancy; Change In Financial Condition Prior to Occupancy; Cancellation For Inability To Live Independently After Occupancy; Cancellation For Inadequate Financial Condition From Increased Health Care Costs; Or Cancellation For Change In Condition Of Adult Care Resident. Refunds, as provided below, shall be paid to Resident(s) following termination of a Residence and Care Agreement arising from:

- a. **Rescission.** Resident exercising the right of rescission to rescind the Residence and Care Agreement with Grace LifeCare within thirty (30) days following execution of the Residence and Care Agreement by the Resident or receipt of the Disclosure Statement, whichever is the later to occur;
- b. **Death.** The death of a Resident prior to occupancy;
- c. **Injury, Illness or Incapacity Prior to Occupancy.** Injury, illness, or incapacity occurring after Resident's acceptance for admission to Grace Ridge, and prior to occupancy as determined by Grace Ridge, which precludes Resident from occupancy;
- d. **Change in Financial Condition Prior To Occupancy.** A change in Resident's financial condition after Resident's acceptance for admission to Grace Ridge and prior to occupancy;
- e. **Inability to Live Independently after Occupancy.** Termination of Residence and Care Agreement for Apartment or Cottage Residence upon Resident being unable to live independently within ninety (90) days after occupancy;
- f. **Financial Condition upon Increase in Health Care Center Costs.** Termination of Residence and Care Agreement by Grace LifeCare when Resident becomes unable to meet the financial obligations of Resident under the Residence and Care Agreement as a result of Resident, or one Resident where there is double occupancy, being required by Grace LifeCare to pay the full per diem rate or the discounted per diem rate for care in the Health Care Center; or

g. Change in Physical or Mental Condition of Adult Care Resident Prior to Occupancy. Change in physical or mental condition of an Adult Care Resident prior to occupancy.

Upon termination of a Residence and Care Agreement for any of the foregoing reasons, the Resident shall receive a refund of all money or property transferred to Grace LifeCare, less (i) periodic charges specified in the Residence and Care Agreement and applicable only to the period the Residence was actually occupied by the Resident; (ii) those nonstandard costs specifically incurred by Grace LifeCare or Grace Ridge (or contractor where there is a New Cottage Residence) at the request of the Resident and described in the Residence and Care Agreement (or Cottage Construction Agreement, if a New Cottage Residence) or any amendment thereto signed by the Resident; (iii) those non-refundable fees that are set out in the Residence and Care Agreement or Cottage Construction Agreement or any amendment thereto signed by the Resident; and (iv) the service charge set out in the Residence and Care Agreement or Cottage Construction Agreement which will not exceed One Thousand Dollars (\$1,000.00) or 2 percent (2%) of the Entrance Fee, whichever is greater. If resident should rescind after the thirty-day period but prior to occupancy, Grace Ridge will retain 6% of the total Entrance Fee.

Refunds that a Resident is entitled to receive following termination of a Residence and Care Agreement for an Apartment, Cottage or Adult Care Residence under this paragraph shall be paid within sixty (60) days following termination. Refunds that a Resident is entitled to receive following termination of a Residence and Care Agreement for a New Cottage Residence shall be paid as provided in the Cottage Construction Agreement, but in no event, no later than two (2) years following termination. However, when reason is rescission (a), a refund is made within 60 days.

5. Refunds of Unamortized Entrance Fees and Refunds under Ninety Percent Refund Entrance Fee Options. Entrance Fees for Apartment and Cottage Residences may be paid under five (5) options. Under each of the options, the Entrance Fee is amortized at the rate of four percent (4%) per month for an initial period of varying length depending upon the option selected. Amortization begins at the date of Resident's occupancy of an Apartment or Cottage Residence or ninety-one (91) days after Resident and Grace LifeCare sign a Residence and Care Agreement, whichever is the first to occur. The time during which the Entrance Fee is amortized under either of the options shall be referred to as the amortization period. If the Residence and Care Agreement for an Apartment or Cottage Residence is terminated after occupancy by Resident: by the death of Resident (or when double occupancy, the death of both Residents), by voluntary termination by Resident after occupancy under Section III, Paragraph F or by Grace LifeCare for cause under Section III, Paragraph G, the refund of the unamortized portion of the Entrance Fee, if any, to which Resident is entitled shall be determined as provided below.

The entrance fee for Direct Admission to Adult Care is not refundable, unless resident cancels agreement within 30 (thirty) days after date of admission.

If Resident selected a Cottage, there are certain options and custom features that are enhancements or additions to the standard cottage plan. Payments made for

options and custom features are not included as a part of the Entrance Fee in determining refunds of the unamortized portion of the Entrance Fee under any of the five (5) Entrance Fee options.

Refunds of the unamortized portion of the Entrance Fee under all five (5) Entrance Fee options are as follows:

The LifeCare and Standard Entrance Fee Option under which the Entrance Fee is amortized at four percent (4%) per month for twenty-five (25) months and is fully amortized twenty-five (25) months after the beginning date of the amortization period;

The Fee-For-Service Entrance Fee Option under which the Entrance Fee is amortized at four percent (4%) per month for twenty-five (25) months and is fully amortized twenty-five (25) months after the beginning date of the amortization period; and

The LifeCare and Standard 90% Refund Entrance Fee Option under which the Entrance Fee is amortized at four percent (4%) per month and is amortized to the extent of ten percent (10%) after two and one-half (2-1/2) months from the beginning date of the amortization period and the remaining ninety percent (90%) is returned to the Resident or the Resident's Estate after residence at Grace Ridge is terminated.

The entrance fee under the Adult Care Plan is fully amortized 30 days after occupancy and is not refundable.

The refund will be reduced to the extent of any obligation owed by the Resident to Grace LifeCare. Refund of the unamortized portion of the Entrance Fees under any of the foregoing Options, if applicable, is made sixty (60) days following occupancy by a new Resident of the apartment or cottage residence but then only if the Entrance Fee from the new Resident has been received by Grace LifeCare, but in any event, not later than two years following the date the resident releases the apartment or cottage.

6. Termination of Residence and Care Agreement for Cause. If Grace LifeCare terminates a Residence and Care Agreement for cause as provided in Section III, Paragraph G, a refund will be made to the Resident, or Resident's estate, for any portion of the Entrance Fee, which is refundable under the provisions of Section III, Paragraph E.

F. Voluntary Termination by Resident. The Residence and Care Agreement gives Resident the right to rescind the Agreement and to terminate the Agreement for specific reasons. If Resident terminates the Agreement other than by rescission or pursuant to a specific reason under the Agreement, it shall be deemed to be a voluntary termination. If Resident voluntarily terminates the Agreement prior to occupancy, any refund to which Resident may be entitled is determined under Section III, Paragraph E. If Resident voluntarily terminates the Agreement after occupancy, the refund, if any, to which Resident is entitled shall be the unamortized portion of the Entrance Fee determined under Section III, Paragraph E.

G. Grace LifeCare's Termination Rights for Cause. Grace LifeCare may terminate the Residence and Care Agreement for Apartment, Cottage or Adult Care Residence after occupancy by the Resident for just cause following notice as hereafter provided. Just cause shall exist if:

1. Resident does not submit accurate and complete medical and financial information when applying for admission to Grace Ridge. The representations by applicant that complete and accurate medical and financial information have been submitted is a continuing representation and will constitute grounds for termination at any time Grace LifeCare determines that such representation has been breached.
2. Resident does not comply with the terms of the Residence and Care Agreement or the published operating procedures and covenants of Residents of Grace LifeCare;
3. Resident does not pay the balance of the Entrance Fee;
4. Resident does not pay the Monthly Service Fee as a result of Resident transferring assets for less than adequate consideration or assuming new liability which results in Resident's inability to pay obligations under the Residence and Care Agreement; or becomes unable to pay monthly service fees due to disposal of assets or taking on new liability.
5. Resident creates a condition within Grace Ridge which is detrimental to the comfort, health, safety or peaceful lodging of other Residents;
6. (a) Resident becomes infected with a dangerous and contagious disease or becomes mentally or emotionally disturbed, and the Medical Director determines that the Resident's condition is detrimental to the health, safety or welfare of other Residents or the staff of Grace Ridge or, (b) the Resident's condition cannot appropriately be cared for at a level of care available in the Health Care Center at Grace Ridge licensed by the North Carolina Department of Health and Human Services; or
7. Resident has been temporarily transferred to an independent health care center and has declined to return to the Grace Ridge Health Care Center upon being notified of an available bed at a corresponding level of care at Grace Ridge and also refuses to execute an agreement to hold harmless Grace LifeCare for charges at the independent health care center.

If Grace LifeCare has given notice to terminate for a reason under Subparagraph 1, above, termination shall be effective thirty (30) days after notice is given.

Before any termination of this Agreement by Grace LifeCare as described in Subparagraphs 2, 3, 4, 5, 6 and 7 above, Grace LifeCare will give Resident notice in writing of the reason for termination. Resident will have thirty (30) days after that notice to correct the problem to the satisfaction of Grace LifeCare, in its sole discretion. If the problem is

corrected within the thirty (30) days to the satisfaction of Grace LifeCare, this Agreement will not be terminated. If the problem is not corrected within that period of time, the Agreement shall terminate at the end of the thirty (30) day notice period.

If Grace LifeCare has given notice to terminate for any reason under Subparagraphs (6) or (7) above, Grace LifeCare is expressly authorized during the thirty (30) day notice period to immediately transfer Resident from Grace Ridge and to assist a physician with admitting responsibilities to transfer Resident to an appropriate hospital or other facility, and Grace Ridge will promptly notify Resident's representative or Resident's personal physician, if any.

H. Moves within Grace Ridge. Grace Ridge policy on moves and transfers within Grace Ridge is:

1. Transfer to the Health Care Center. If it is determined by the Medical Director and Grace LifeCare, in consultation with the Resident's personal physician, if any, that the Resident needs permanent care in the Health Care Center then the Resident shall be transferred to the appropriate level of care in the Health Care Center. When only one Resident is occupying the Residence, and that Resident is transferred to the Health Care Center, Grace LifeCare may assign the Residence to someone else during the period the Resident receives care in the Health Care Center; but if the Medical Director and Grace LifeCare, (in consultation with the Resident's personal physician, if any) later determine that the Resident is able to return to a Residence, Grace LifeCare will provide the Resident with a Residence of the same type as soon as one is available.

If there are two (2) Residents, one (1) of whom is still occupying the Residence, that Resident shall pay the First Person Monthly Service Fee and may continue to occupy the Residence, under the terms of the Residence and Care Agreement, while the other Resident pays the applicable Health Care Center charge, while that Resident is receiving temporary or permanent care in the Health Care Center. The applicable Health Care Center charge is determined under the Residence and Care Agreement of the Resident and may be: (i) the First Person Monthly Service Fee, plus the cost attributed to two (2) meals per day; (ii) the discounted per diem rate; or (iii) the full per diem rate.

2. Transfers between Apartment and Cottage Residences. If a Resident desires to move from an Apartment Residence to another Apartment Residence, from a Cottage Residence to an Apartment Residence, from an Apartment Residence to a Cottage Residence, or from a Cottage Residence to another Cottage Residence, a written request must be submitted to the management of Grace Ridge for review and consideration by the Admissions Committee. Transfers shall be made subject to conditions and policies determined in the sole discretion of Grace LifeCare. Transfers will be subject to the execution of any additional documents and payment of such additional fees as Grace LifeCare deems appropriate, in its sole discretion. The provisions of this paragraph are applicable to transfers by a Resident who marries another Resident.

I. Occupancy by Person Other Than Resident, (New Spouse of Resident, or New Second Occupant.) The policy on occupancy by a person other than a Resident, (new spouse of a Resident or a new second occupant) is:

1. Occupancy by Person Other Than Resident. No person other than the Resident (or both Residents, if applicable) may occupy an apartment or cottage Residence without express written approval of Grace LifeCare.

2. Marriage and New Second Occupancy. If a Resident marries while at Grace Ridge and the Spouse is not already a party to the Residence and Care Agreement, or if a Resident wishes to invite a non-Resident other than a Spouse to share a living accommodation, the acceptance of the Spouse or the proposed new second occupant as a Resident will be in accordance with the then current admission policies and Grace LifeCare will require that upon acceptance, the Spouse or the proposed new second occupant execute a Residence and Care Agreement and be bound by all of its terms and conditions. Grace LifeCare may, in its sole discretion, determine that the Spouse or the proposed new second occupant is not eligible to become a Resident. In such event, the Spouse or the proposed new second occupant will not be eligible for residence at Grace Ridge. If accepted, the Spouse or the new second occupant shall pay an Entrance Fee in an amount which is no less than one-half (1/2) and no greater than the full Entrance Fee for single occupancy then in effect for the Residence. The amount of the Entrance Fee will be determined in the sole discretion of Grace LifeCare. The additional Entrance Fee will be subject to the same refund policies in effect for Entrance Fees. Upon admission, the Spouse or the new second occupant will pay the then current Second Person Monthly Service Fee during the period of double occupancy of the Residence. In addition, Grace LifeCare, in its sole discretion, may require the Resident and the Spouse, or the Resident and the new second occupant, to execute any documents deemed necessary by Grace LifeCare to resolve any issues concerning ownership of property in the event of the death of either of them.

3. Resident Marries Another Resident. If a resident marries while at Grace Ridge and the spouse is already party to another Grace Ridge Resident and Care agreement, both residents will continue to be covered by the terms of the Resident and Care Agreement they signed upon entrance to Grace Ridge. Any transfers requested by a resident who marries another resident will be determined under Section III, Paragraph H, Subparagraph 2.

J. Inability to Pay. Grace Ridge policy with respect to a Resident under Residence and Care Agreement who is unable to pay monthly service fees and other charges is as follows:

Without in any way qualifying any rights of Grace LifeCare under the Residence and Care Agreement, it is currently a declared policy of Grace LifeCare that a Resident shall not be dismissed nor his or her Residence and Care Agreement terminated solely because of the Resident's inability to pay the Monthly Service Fee, when the Resident has provided explanation, documentation, or justifiable reasons for non-payment in a way that is satisfactory to Grace LifeCare, in its sole discretion.

Residents admitted under the previous Lease Agreement who are unable to pay may be dismissed and their Lease Agreement terminated pursuant to Section 6.1.1 of that Lease Agreement.

The explanation, documentation or justifiable reasons provided by Resident must show that Resident is paying monthly service fees and other charges to the maximum extent of Resident's ability to pay Resident's obligations to Grace LifeCare. Resident's disposition of assets for less than adequate consideration or taking on new liability which results in Resident's inability to pay obligations under the Residence and Care Agreement, subsequent to signing the Residence and Care Agreement and use of income for purposes other than payment to Grace Ridge, will be included in the factors considered by Grace LifeCare in determining whether Resident is paying to the maximum extent of Resident's ability to pay. The determination of whether Resident is paying to the maximum extent of Resident's ability to pay is a determination made in the sole discretion of Grace LifeCare.

Grace LifeCare's decision to not terminate Resident's Residence and Care Agreement is subject to Grace LifeCare's continuing ability to operate Grace Ridge on a sound financial basis while receiving less than full payment from Resident of his or her obligations. The determination of whether Grace LifeCare may continue to operate on a sound financial basis while receiving less than full payment by Resident is a determination made in the sole discretion of Grace LifeCare.

K. Race, Religion or Place of Origin. Admission shall not be based on, or take into consideration, race, religion, gender, national origin, military status, or other legally protected status of a Resident and shall be consistent with applicable law.

L. Availability of Nursing and Adult Care Beds. Nursing Care beds are available for Residents who have entered into a Residence and Care Agreement for an Apartment, Cottage or Adult Care Residence. The availability of nursing care beds is limited however to Residents who have entered into a Residence and Care Agreement and have resided in the Apartment or Cottage for thirty (30) days or Adult Care Residence for thirty (30) days; subject to the rights of Grace LifeCare as outlined in Section III (A-4) and Section III (A-5).

When there is to be double occupancy of an Apartment or Cottage Residence by a Resident and his or her spouse, or other relative, Grace LifeCare may, in its sole discretion, allow a spouse or other relative to be admitted directly to an Adult Care bed or a Nursing Care bed in the Health Care Center at the time the other spouse or other relative takes occupancy of the Residence. When a Resident and his or her spouse, or two (2) relatives, have taken occupancy of an Apartment or Cottage Residence, Grace LifeCare may, in its sole discretion, allow a spouse or other relative to be transferred to an Adult Care bed or a Nursing Care bed in the Health Care Center within thirty (30) days after occupancy. Admission of a spouse or other relative to the Health Care Center at the time of occupancy or within thirty (30) days following occupancy is subject to the cancellation or termination of the Residence and Care Agreement by Resident or Grace LifeCare and is further subject to Grace LifeCare, in its sole discretion, requiring the Resident admitted to an Adult Care bed or a Nursing Care bed in the Health Care Center to pay the full per diem rate or the discounted per diem rate. This policy is a function of an exception allowed for the use of the beds by the State Medical Facilities Plan and does not apply to persons other than spouses and other relatives.

Transfers to an Independent Health Care Center. Should a Resident be temporarily transferred to an Adult Care or Nursing Care bed in an independent health care center due to lack of bed availability, the Resident will be returned to Grace Ridge's Health Care Center as soon as one of the beds in the Grace Ridge Health Care Center becomes available, either at the corresponding level of care or the level of care required by the Resident upon readmission. When there is more than one (1) Resident who has been transferred to an independent health care center, for Adult Care or Nursing Care, the Resident who has lived in an independent health care center for the longest period of time will be given the first available bed at the corresponding level of care or the level of care required by the Resident upon readmission to the Health Care Center. Upon notification of the availability of a bed at Grace Ridge, the Resident will return to the Grace Ridge Health Care Center.

Should the Resident choose not to return to the Grace Ridge Health Care Center, Grace LifeCare may take action to terminate the Resident's Residence and Care Agreement under the provisions of Section III-G.

Unless Resident declines to return to an available bed in the Grace Ridge Health Care Center, Grace LifeCare will pay the Resident's applicable per diem charges in an independent health care center approved by Grace LifeCare. During the period Resident is in an approved independent health care center, Resident will pay Grace LifeCare the lesser of the Health Care Center charge required under Resident's Residence and Care Agreement with Grace LifeCare or the applicable per diem charge in the approved independent health care center.

IV. SERVICES

A. Standard Services Available for Apartment and Cottage Residents. The Residence and Care Entrance Fee paid when a person moves to an apartment or cottage at Grace Ridge, together with the monthly service fee, covers expenses of Residents for the following services:

- * one (1) meal per day from the dining room for Lifecare and Standard Contracts. Fee-For-Service Contract meals are a la carte.
- * all utilities: heat, air-conditioning, water, sewer, garbage disposal, and lights;
- * routinely scheduled housekeeping service for apartments and cottages for Lifecare and Standard Contracts. Fee-For-Service housekeeping services are at the expense of the resident.
- * routinely scheduled laundering/changing bed and bath linens for apartments and cottages for Lifecare and Standard Contracts. Fee-For-Service routinely scheduled laundering/changing of bed and bath linens for apartments and cottages is at the expense of the resident.
- * common laundry facilities for washing and drying of personal laundry for apartments;
- * planned social, cultural, and recreational activities;
- * designated parking for Resident and limited parking for guests of the Resident;
- * all maintenance and repairs except to Resident's personal property;
- * care of lawn and grounds;
- * 24-hour emergency call service;
- * scheduled transportation for shopping, activities, and medical care within a

10-mile radius of the Grace Ridge Campus for Lifecare and Standard Contract residents and scheduled transportation for medical care within a five-mile radius for Fee-For-Service Contract residents

- * central smoke and fire system;
- * use of grounds for exercise, recreation, and relaxation;
- * special diet provided when needed by Resident and prescribed by Resident's attending physician;
- * wireless internet access in common areas of the main building;
- * use of Phifer Wellness Center for Lifecare and Standard Contract residents. Use of Phifer Wellness Center by Fee-For-Service Contract residents is at the expense of the resident, but at lower Grace Ridge monthly rates.
- * notary services for residents;
- * daily local newspaper subscription.

B. Services Available to Apartment and Cottage Residents at Extra Charge.

1. Additional Meals. Each Lifecare or Standard Contract resident may obtain additional meals beyond the one (1) meal per day included in the Monthly Service Fee at the then current rate. Meals for Fee-For-Service residents are a la carte. Also, residents may invite guests for meals that will be charged at the then current rate. Delivery of meals is also available for an additional charge.

2. Recreation and Entertainment. Special group trips are planned periodically by Grace Ridge. The cost is shared by participating Residents. Grace Ridge provides transportation for many local area programs. The participating Resident pays for entry tickets to such programs.

3. Transportation. Grace Ridge provides transportation for independent living and HealthCare Center residents as outlined in the Transportation Guidelines. A copy of the guidelines can be located in the Resident's Handbook.

4. Guest Accommodations. Some apartment units are furnished and available for a fee for overnight guests of Residents. Guest accommodations are based upon availability.

5. Personal Expenses. Expenses normally incurred in the activities of daily living are paid by the Resident such as dry cleaning, laundry services (except bed and bath linens), and food for preparation by Residents, newspapers, telephone service and internet.

6. Television Service. Grace Ridge provides television connections in each apartment and cottage. The Resident pays Grace Ridge for basic television service. Premium television service is also available for an additional charge.

7. Personal Property. When staff is available, Grace Ridge may repair or provide services in handling Resident's personal property. There is a fee for this service.

8. Beauty / Barbershop. Grace Ridge provides beauty / barbershop services within the main building. Appointments can be made directly with the beauty

and/or barber attendant. Charges for these services are included and billed with the monthly service statement.

9. Internet. Internet service is available in the apartments and cottages through the local cable or telephone service providers. In addition, Grace Ridge provides wireless internet service in common areas of the main building.

C. Additional Charges for Apartment and Cottage Residents in the Health Care Center.

a. **Meals.** Residents who select the LifeCare Entrance Fee shall pay the cost of two (2) additional meals per day for each day Resident is admitted to Health Care Center.

b. **Ancillary Services.** There are charges for any ancillary services which will include all services not included in the First-Person Monthly Service Fee, the discounted per diem rate or the full per diem rate, whichever is applicable. Examples of such additional charges include, but are not limited to, the cost of prescription and non-prescription medications; surgical, diagnostics, dental and optical services; optional home care service in apartments and cottages; speech, occupational and physical therapy; podiatry, oxygen, medical and nursing supplies, physical examinations and any other medical services beyond that available in the Grace Ridge Health Care Center. Also, any professional services (medical or otherwise) contracted by Resident or on behalf of Resident may be billed directly to Resident.

D. Health and Personal Services Available to Apartment and Cottage Residents.

Grace Ridge Residents have available the facilities of the on-site Health Care Center. Adult Care and Nursing Care beds are available to meet the health care needs of Residents who are temporarily or permanently unable to live independently. A wide range of nursing and personal care services are available to Grace Ridge Residents in the Health Care Center. Residents may be seen on an outpatient basis for visits with a physician, physical therapist, or other health care providers. Grace Ridge residents living independently may qualify for optional Enhanced Care Services for a fee.

When emergency medical care is needed, the physician of the Resident, the physician's alternate, or the Medical Director of Grace Ridge is notified and the Resident is transferred to a local hospital emergency room, if necessary.

When transportation is needed for medical and health care, Residents are encouraged to provide their own transportation if they have an automobile. Limited scheduled transportation is available for Residents' medical and health care needs. (see transportation guidelines)

V. FEES

A. Reservation Fees, Application Fees, Deposit Fees, and Rescission Fees

- 1. Reservation Fee under Wait List Agreement.** The reservation fee under the Wait List Agreement is One Thousand Two Hundred Fifty Dollars (\$1,250) per application. Of this reservation fee, \$250 is considered a processing fee and is nonrefundable the remaining \$1,000 is a non-interest-bearing reservation fee to reserve placement on a waiting list for an existing Apartment or Cottage Residence, and will be credited toward the future resident's Entrance Fee upon their eventual move to Grace Ridge. The \$1,000 reservation fee is 50% refundable with a written request from the future resident should the future resident terminate this agreement.
- 2. Application Processing Fee.** The application processing fee under a Residence and Care Agreement for an apartment, cottage, or an Adult Care residence is One Thousand Two Hundred Fifty Dollars (\$1,250) per application. The application processing fee is paid at the time a prospective Resident applies for admission. Of this Application Processing Fee, \$250 is considered a processing fee and is nonrefundable. The remaining \$1000 will be credited toward the Entrance Fee. If applicant should decide not to move to Grace Ridge, the applicant may request in writing and receive a full refund of the \$1,000.
- 3. Advance Deposit Fee and Rescission Fee.** To secure a particular cottage or apartment home, an advance deposit of 10% of the Entrance Fee may be made. The deposit will be credited toward the Entrance Fee at the time of closing. With this deposit, the home is taken off the available unit list and not offered to anyone else. The Advance Deposit is accepted in good faith that Resident will move in at an agreed upon date. If Residents rescinds within thirty days following execution of the Residence and Care Agreement or receipt of the Disclosure Statement, whichever is the later to occur, Grace Ridge will retain a Rescission Fee of \$1,000 or 2% of the total Entrance Fee, whichever is greater. If resident should rescind after the thirty-day period above, Grace Ridge will retain 6% of the total Entrance Fee.

B. Entrance Fees for Apartment, Cottage and Adult Care Residence

Entrance Fees paid to Grace Lifecare for Apartment, Cottage and Adult Care Residences assures a resident a place in the facility for a term of years or for life. The portion of the Entrance Fee which the initial Resident or Residents of a New Cottage Residence are required to pay to a contractor under a Cottage Construction Agreement is held by Grace LifeCare in a separate Cottage Construction Account pursuant to the provisions of the Cottage Construction Agreement between the Resident(s) and the contractor. The applicant(s) for an Apartment Residence, Cottage Residence or an Adult Care Residence has the choice as applicable, of the following Entrance Fee options:

1. Lifecare Entrance Fee for Apartments (Plan A). The Lifecare Entrance Fee and Monthly Service Fee for Apartments (Effective 01/01/2019) are shown below. Under the Lifecare Entrance Fee the Health Care Center cost to the Resident is the First Person Monthly Service Fee shown in Section V, Paragraph C:

Type	Location	Name	Sq. Ftge.	Single Occupancy		Double Occupancy	
				Entrance Fee	Monthly Fee	Entrance Fee	Monthly Fee
Studio		Beech	456	\$ 95,343	\$ 1,745	\$ 149,281	\$ 2,563
Standard 1 Bedroom	C-south	Elm	560	\$ 127,749	\$ 2,384	\$ 181,687	\$ 3,203
Standard 1 Bedroom	B-East	Elm	560	\$ 130,304	\$ 2,384	\$ 184,242	\$ 3,203
Standard 1 Bedroom	C-North	Elm	560	\$ 138,239	\$ 2,384	\$ 192,176	\$ 3,203
Standard 1 Bedroom	B-West	Elm	560	\$ 140,896	\$ 2,384	\$ 194,834	\$ 3,203
Standard 1 Bedroom	A-East	Elm	560	\$ 138,280	\$ 2,384	\$ 192,218	\$ 3,203
Special 1 Bedroom		Birch	640	\$ 145,362	\$ 2,402	\$ 199,299	\$ 3,221
Standard 2 Bedroom	C-south	Walnut	864	\$ 170,550	\$ 3,016	\$ 224,488	\$ 3,835
Standard 2 Bedroom	B-East	Walnut	864	\$ 172,258	\$ 3,016	\$ 226,195	\$ 3,835
Standard 2 Bedroom	C-North	Walnut	864	\$ 179,309	\$ 3,016	\$ 233,247	\$ 3,835
Standard 2 Bedroom	B-West	Walnut	864	\$ 181,048	\$ 3,016	\$ 234,985	\$ 3,835
Standard 2 Bedroom	A-East	Walnut	864	\$ 177,476	\$ 3,016	\$ 231,414	\$ 3,835
Deluxe 2 Bedroom	B-East	Sycamore	1152	\$ 229,677	\$ 3,334	\$ 283,615	\$ 4,153
Deluxe 2 Bedroom	B-West	Sycamore	1152	\$ 241,967	\$ 3,334	\$ 295,904	\$ 4,153
Deluxe 2 Bedroom	A-West	Sycamore	1152	\$ 239,003	\$ 3,334	\$ 292,940	\$ 4,153
Deluxe 2 Bedroom	A-West	Redbud	2256	\$ 374,950	\$ 4,746	\$ 428,887	\$ 5,565
Grande 2 Bedroom	C-South	Willow	1152	\$ 227,405	\$ 3,334	\$ 281,342	\$ 4,153
Grande 2 Bedroom	B-West	Willow	1152	\$ 239,623	\$ 3,334	\$ 293,561	\$ 4,153
Grande 2 Bedroom	B-East	Walnut Grande	1424	\$ 271,318	\$ 3,300	\$ 325,255	\$ 4,119
2 Bedroom w/Den	B-West	Magnolia	1680	\$ 320,106	\$ 3,616	\$ 374,043	\$ 4,435
2 Bedroom w/Den	B-East	Mimosa	1712	\$ 325,434	\$ 3,616	\$ 379,371	\$ 4,435
1 Bedroom		Oak	830	\$ 163,469	\$ 2,836	\$ 217,407	\$ 3,655
1 Bedroom w/Den		Holly	918	\$ 180,801	\$ 2,960	\$ 234,739	\$ 3,779
1 Bedroom w/Den		Holly Grande	1095	\$ 215,661	\$ 3,041	\$ 269,598	\$ 3,860
2 Bedroom		Maple	1134	\$ 223,342	\$ 3,185	\$ 277,280	\$ 4,004
2 Bedroom		Maple Grande	1134	\$ 223,342	\$ 3,185	\$ 277,280	\$ 4,004
2 Bedroom w/Den		Dogwood	1384	\$ 272,581	\$ 3,300	\$ 326,519	\$ 4,119
2 Bedroom w/Den		Dogwood Grande	1577	\$ 310,593	\$ 3,420	\$ 364,530	\$ 4,239
(2nd person-apt)					\$ 819	\$ 53,938	
Cottage (Base Fee without Options. See Cottage Pricing List for Price with Options)			1650 avg.	\$ 250,082	\$ 3,129	\$ 304,020	\$ 4,113
(2nd person-cottage)					\$ 984	\$ 53,938	

2. **Standard Entrance Fee for Apartments (Plan B).** The Standard Entrance Fee and Monthly Service Fee for Apartments (Effective 01/01/2019) are shown below. Under the Standard Entrance Fee, the Health Care Center costs to the Resident is the discounted per diem rate shown below and in Section V, Paragraph C:

Type	Location	Name	Sq. Ftge.	Single Occupancy		Double Occupancy	
				Entrance Fee	Monthly Fee	Entrance Fee	Monthly Fee
Studio		Beech	456	\$ 68,338	\$ 1,745	\$ 106,610	\$ 2,563
Standard 1 Bedroom	C-south	Elm	560	\$ 89,425	\$ 2,384	\$ 127,697	\$ 3,203
Standard 1 Bedroom	B-East	Elm	560	\$ 91,213	\$ 2,384	\$ 129,485	\$ 3,203
Standard 1 Bedroom	C-North	Elm	560	\$ 98,366	\$ 2,384	\$ 136,637	\$ 3,203
Standard 1 Bedroom	B-West	Elm	560	\$ 100,226	\$ 2,384	\$ 138,498	\$ 3,203
Standard 1 Bedroom	A-East	Elm	560	\$ 96,795	\$ 2,384	\$ 135,067	\$ 3,203
Special 1 Bedroom		Birch	640	\$ 103,352	\$ 2,402	\$ 141,623	\$ 3,221
Standard 2 Bedroom	C-south	Walnut	864	\$ 119,385	\$ 3,016	\$ 157,657	\$ 3,835
Standard 2 Bedroom	B-East	Walnut	864	\$ 120,580	\$ 3,016	\$ 158,852	\$ 3,835
Standard 2 Bedroom	C-North	Walnut	864	\$ 127,116	\$ 3,016	\$ 165,387	\$ 3,835
Standard 2 Bedroom	B-West	Walnut	864	\$ 128,333	\$ 3,016	\$ 166,604	\$ 3,835
Standard 2 Bedroom	A-East	Walnut	864	\$ 124,233	\$ 3,016	\$ 162,505	\$ 3,835
Deluxe 2 Bedroom	B-East	Sycamore	1152	\$ 160,775	\$ 3,334	\$ 199,046	\$ 4,153
Deluxe 2 Bedroom	B-West	Sycamore	1152	\$ 170,975	\$ 3,334	\$ 209,247	\$ 4,153
Deluxe 2 Bedroom	A-West	Sycamore	1152	\$ 167,301	\$ 3,334	\$ 205,573	\$ 4,153
Grande 2 Bedroom	C-South	Willow	1152	\$ 159,183	\$ 3,334	\$ 197,455	\$ 4,153
Grande 2 Bedroom	B-West	Willow	1152	\$ 169,334	\$ 3,334	\$ 207,606	\$ 4,153
Grande 2 Bedroom	B-East	Walnut Grande	1424	\$ 189,922	\$ 3,300	\$ 228,194	\$ 4,119
2 Bedroom w/Den	B-West	Magnolia	1680	\$ 229,403	\$ 3,616	\$ 267,674	\$ 4,435
2 Bedroom w/Den	B-East	Mimosa	1712	\$ 224,074	\$ 3,616	\$ 262,345	\$ 4,435
1 Bedroom		Oak	830	\$ 114,428	\$ 2,836	\$ 152,700	\$ 3,655
1 Bedroom w/Den		Holly	918	\$ 126,561	\$ 2,960	\$ 164,832	\$ 3,779
1 Bedroom w/Den		Holly Grande	1095	\$ 150,962	\$ 3,041	\$ 189,234	\$ 3,860
2 Bedroom		Maple	1134	\$ 156,339	\$ 3,185	\$ 194,610	\$ 4,004
2 Bedroom		Maple Grande	1134	\$ 156,339	\$ 3,185	\$ 194,610	\$ 4,004
2 Bedroom w/Den		Dogwood	1384	\$ 190,808	\$ 3,300	\$ 229,079	\$ 4,119
2 Bedroom w/Den		Dogwood Grande	1577	\$ 217,414	\$ 3,420	\$ 255,686	\$ 4,239
(2nd person-apt)					\$ 819	\$ 38,272	
Cottage (Base Fee without Options. See Cottage Pricing List for Price with Options)			1650 avg.	\$ 175,057	\$ 3,129	\$ 213,328	\$ 4,113
(2nd person-cottage)					\$ 984	\$ 38,272	

- 3. Schedule of Cottage Pricing for Lifecare and Standard Entrance Fees.** Cottage options and prices vary by individual cottage. The following schedule shows prices by individual cottage under both Plan A and Plan B. Under the Life Care Entrance Fee (Plan A) the Health Care Center cost to the Resident is the First Person Monthly Service Fee shown in Section V, Paragraph C. Under the Standard Entrance Fee (Plan B) the Health Care Center costs to the Resident is the discounted per diem rate shown below and in Section V, Paragraph C:

COTTAGE PRICING WITH OPTIONS - PLANS A & B					
Effective January 1, 2019					
Plan A - Lifecare			Plan B- Standard Continuing Care		
	Single	Double		Single	Double
Unit	Occupancy	Occupancy	Unit	Occupancy	Occupancy
120A	\$299,885	\$354,823	120A	\$223,960	\$262,732
120B	\$307,946	\$362,884	120B	\$232,021	\$270,793
122A	\$288,031	\$342,969	122A	\$212,106	\$250,878
122B	\$300,828	\$355,766	122B	\$224,903	\$263,675
124A	\$328,756	\$383,694	124A	\$252,831	\$291,603
124B	\$299,885	\$354,823	124B	\$223,960	\$262,732
125A	\$307,532	\$362,470	125A	\$231,507	\$270,279
125B	\$274,487	\$329,425	125B	\$198,462	\$237,234
127A	\$274,487	\$329,425	127A	\$198,462	\$237,234
127B	\$274,487	\$329,425	127B	\$198,462	\$237,234
201A	\$294,885	\$349,823	201A	\$218,860	\$257,632
201B	\$308,457	\$363,395	201B	\$232,432	\$271,204
205A	\$309,222	\$364,160	205A	\$233,197	\$271,969
205B	\$294,885	\$349,823	205B	\$218,860	\$257,632
207A	\$321,369	\$376,307	207A	\$245,344	\$284,116
207B	\$318,711	\$373,649	207B	\$242,686	\$281,458
209A	\$295,828	\$350,766	209A	\$219,803	\$258,575
209B	\$306,471	\$361,409	209B	\$230,446	\$269,218
213B	\$315,736	\$370,674	213B	\$239,711	\$278,483
214A	\$276,987	\$331,925	214A	\$200,962	\$239,734
214B	\$300,426	\$355,364	214B	\$224,401	\$263,173
216A	\$297,385	\$352,323	216A	\$221,360	\$260,132
216B	\$300,444	\$355,382	216B	\$224,419	\$263,191
218A	\$276,987	\$331,925	218A	\$200,962	\$239,734
218B	\$288,844	\$343,782	218B	\$212,819	\$251,591
220A	\$295,962	\$350,900	220A	\$219,937	\$258,709
220B	\$303,178	\$358,116	220B	\$227,153	\$265,925
Monthly Fee			Health Care Center Rates -Plan B		
	Plan A or B			30% Discount	
Single	\$3,129			Daily Rates	
(2nd Person)	\$984		Assisted Living	\$155.88	
Double	\$4,113		Skilled Nursing	\$210.39	
			Special Care	\$210.39	

4. Fee-For-Service Entrance Fee for Apartments (Plan C). The Fee-For-Service Entrance Fee and Monthly Service Fee for Apartments (Effective 01/01/2019) are shown below. Under the Fee-For-Service Entrance Fee the Health Care Center costs to the Resident is the full per diem rate shown below and in Section V, Paragraph C:

Type	Location	Name	Sq. Ftge.	Single		Double	
				Entrance Fee	Monthly Fee	Entrance Fee	Monthly Fee
Studio		Beech	456	\$ 53,504	\$ 1,195	\$ 53,504	\$ 2,014
					\$ -		
Standard 1 Bedroom	C-south	Elm	560	\$ 72,380	\$ 1,328	\$ 72,380	\$ 2,147
Standard 1 Bedroom	B-East	Elm	560	\$ 72,380	\$ 1,328	\$ 72,380	\$ 2,147
Standard 1 Bedroom	C-North	Elm	560	\$ 77,708	\$ 1,328	\$ 77,708	\$ 2,147
Standard 1 Bedroom	B-West	Elm	560	\$ 77,708	\$ 1,328	\$ 77,708	\$ 2,147
Standard 1 Bedroom	A-East	Elm	560	\$ 72,380	\$ 1,328	\$ 72,380	\$ 2,147
Special 1 Bedroom		Birch	640	\$ 86,544	\$ 1,354	\$ 86,544	\$ 2,173
Standard 2 Bedroom	C-south	Walnut	864	\$ 100,603	\$ 1,659	\$ 100,603	\$ 2,478
Standard 2 Bedroom	B-East	Walnut	864	\$ 100,603	\$ 1,659	\$ 100,603	\$ 2,478
Standard 2 Bedroom	C-North	Walnut	864	\$ 105,931	\$ 1,659	\$ 105,931	\$ 2,478
Standard 2 Bedroom	B-West	Walnut	864	\$ 105,931	\$ 1,659	\$ 105,931	\$ 2,478
Standard 2 Bedroom	A-East	Walnut	864	\$ 100,603	\$ 1,659	\$ 100,603	\$ 2,478
Deluxe 2 Bedroom	B-East	Sycamore	1152	\$ 135,124	\$ 1,858	\$ 135,124	\$ 2,677
Deluxe 2 Bedroom	B-West	Sycamore	1152	\$ 140,453	\$ 1,858	\$ 140,453	\$ 2,677
Deluxe 2 Bedroom	A-West	Sycamore	1152	\$ 135,124	\$ 1,858	\$ 135,124	\$ 2,677
Grande 2 Bedroom	C-South	Willow	1152	\$ 135,124	\$ 1,858	\$ 135,124	\$ 2,677
Grande 2 Bedroom	B-West	Willow	1152	\$ 140,453	\$ 1,858	\$ 140,453	\$ 2,677
Grande 2 Bedroom	B-East	Walnut Grande	1424	\$ 162,295	\$ 2,000	\$ 162,295	\$ 2,819
2 Bedroom w/Den	B-West	Magnolia	1680	\$ 198,850	\$ 2,027	\$ 198,850	\$ 2,846
2 Bedroom w/Den	B-East	Mimosa	1712	\$ 197,398	\$ 2,027	\$ 197,398	\$ 2,846
1 Bedroom		Oak	830	\$ 98,700	\$ 1,592	\$ 98,700	\$ 2,411
1 Bedroom w/Den		Holly	918	\$ 108,943	\$ 1,725	\$ 108,943	\$ 2,544
1 Bedroom w/Den		Holly Grande	1095	\$ 129,955	\$ 1,792	\$ 129,955	\$ 2,611
2 Bedroom		Maple	1134	\$ 129,249	\$ 1,858	\$ 129,249	\$ 2,677
2 Bedroom		Maple Grande	1134	\$ 129,249	\$ 1,858	\$ 129,249	\$ 2,677
2 Bedroom w/Den		Dogwood	1384	\$ 164,499	\$ 1,925	\$ 164,499	\$ 2,744
2 Bedroom w/Den		Dogwood Grand	1577	\$ 187,175	\$ 1,960	\$ 187,175	\$ 2,779
(2nd person-apt)					\$ 819		
Cottage (Base Fee without Options. See Cottage Pricing List for Price with Options)			1650 avg.	\$ 156,802	\$ 1,991	\$ 156,802	\$ 2,810
(2nd person-cottage)					\$ 819		
Health Care Center Rates							
	Full						
	Daily Rates						
Assisted Living	\$222.69						
Skilled Nursing	\$300.55						
Special Care	\$300.55						

5. Fee-For-Service Entrance Fee for Cottages (Plan C). The Fee-For Service Entrance Fee and Monthly Service Fee for Cottages (Effective 01/01/2019) are shown below. Under the Fee-For-Service Entrance Fee the Health Care Center costs to the Resident is the full per diem rate shown below and in Section V, Paragraph C:

Unit	Entrance Fee
120A	\$205,405
120B	\$213,466
122A	\$193,551
122B	\$206,348
124A	\$234,276
124B	\$205,405
125A	\$212,852
125B	\$179,807
127A	\$179,807
127B	\$179,807
201A	\$200,205
201B	\$213,777
205A	\$214,542
205B	\$200,205
207A	\$226,689
207B	\$224,031
209A	\$201,148
209B	\$211,791
213B	\$221,056
214A	\$182,307
214B	\$205,746
216A	\$202,705
216B	\$205,764
218A	\$182,307
218B	\$194,164
220A	\$201,282
220B	\$208,498
Monthly Service Fee	
	FFS
Single	\$1,991
(2nd Person)	\$819
Double	\$2,810
Health Care Center Rates	
	Full
	Daily Rates
Assisted Living	\$222.69
Skilled Nursing	\$300.55
Special Care	\$300.55

6. Lifecare or Standard Entrance Fee with Ninety Percent (90%) Refund. The Lifecare or Standard Entrance Fee with Ninety Percent (90%) Refund is determined based on the Entrance Fee selected, plus an additional amount, which is calculated based on the age of the Resident as shown below. The Health Care Center cost to the Resident is the per diem rate for the Entrance Fee Plan selected as shown in Section V, Paragraph C. The following schedule shows the percentage of the Entrance to be added to such Fee to determine the 90% Refund Entrance Fee based on a Resident's attained age at the time of occupancy. When there is to be double occupancy, the attained age of the older Resident shall be used in making the determination.

Percentage Over Lifecare or Standard Fee

Age at Occupancy	90% Refund Option additional %
60	34
61	35
62	36
63	37
64	38
65	39
66	41
67	44
68	46
69	49
70	52
71	56
72	59
73	63
74	67
75	73
76	77
77	82
78	87
79	94
80	100
81 and above	Not Available

7. **Direct Admission to Adult Care Residence (Plan D).** The Entrance Fee and Monthly Service Fee (Effective 01/01/2019) for the Direct Admission to Adult Care Residence Plan is shown below. Under the Adult Care Entrance Fee Plan the Health Care Center costs of the resident is the full per diem rate shown below and in Section V, Paragraph C:

Direct Admission to Adult Care Residence Entrance Fee Option

Adult Care Residence.....\$15,000 per person

Health Care Center Rates	
	Full
	Daily Rates
Assisted Living	\$222.69
Skilled Nursing	\$300.55
Special Care	\$300.55

(There are no refund options for the Entrance Fee for Adult Care Residence.)

All fees are established by Grace LifeCare and are subject to change.

The Entrance Fee option selected by the Resident will be shown in the Residence and Care Agreement executed between Resident and Grace LifeCare.

The difference in the options is the amount of the Entrance Fee, the monthly service fee amount, the Health Care Center charge to be paid by the Resident and the amount of the Entrance Fee that is refunded to the Resident or the estate of the Resident after residence is terminated. The services and monthly fees for Apartments and Cottages are based on the Entrance option chosen at the time of occupancy.

The Entrance Fee where there is more than one (1) person occupying an apartment residence or a cottage residence shall be the Entrance Fee for double occupancy. The Entrance Fees for the various types of apartment residences with single and double occupancy are as shown in Section V, Paragraph B, Subparagraph 1 and 2 and 4.

The Entrance Fee paid on a New Cottage by the initial Cottage Resident(s) is the Basic Fee shown in Section V, Paragraph B, Subparagraph 3 and 5 plus the cost of options and custom features chosen. The Entrance Fee paid for a New Cottage by the initial Cottage Resident may change from time to time due to changes in the cost of construction of the Cottages. The Entrance Fees for existing Cottage residences with single and double occupancy are as shown in Section V, paragraph B, Subparagraph 3 and 5.

Entrance Fees for Apartment and Cottage Residences may be paid under five options with the exceptions that a LifeCare or Standard option is required for new cottage construction. Under all the options the Entrance Fee is amortized at the rate of four percent (4%) per month for an initial period of varying length depending on the option selected. Amortization begins at the date of Resident's occupancy of an Apartment or Cottage or ninety-one (91) days after Resident and Grace LifeCare sign the Residence and Care Agreement, whichever is the first to occur. The time during which the Entrance Fee is being amortized under either of the options shall be referred to as the

amortization period. If the Residence and Care Agreement for an Apartment or Cottage is terminated by the death of Resident (or when double occupancy, the death of both Residents), by voluntary termination by Resident after occupancy under Section III, Paragraph F, or by Grace LifeCare for cause under Section III, Paragraph G, the refund of the unamortized portion of the Entrance Fee, if any, to which Resident is entitled shall be determined under Section III, Paragraph E, Subparagraph 5.

If an Apartment or Cottage Resident is entitled to a refund under the 90% Refund Entrance Fee Options, the amount of the refund shall be determined under Section III, Paragraph E, Subparagraph 5.

The Entrance Fee for Direct Admission to Adult Care Residences may be paid under one (1) option and is 100% amortized 30 days after Resident's occupancy.

C. Monthly Service Fees and Per Diem Charges for Care in the Health Care Center.

The Monthly Service Fees and per diem charges for care in the Health Care Center are shown below:

Basis for Charge	Charge
First Person Monthly Service Fee =	Applicable First Person Monthly Service Fee Above, plus cost of two additional meals/day.
 Adult Care - Effective January 1, 2019	
a. Full Per Diem Rate =	\$222.69 per day
b. Discounted Per Diem Rate =	\$155.88 per day
 Nursing Care - Effective January 1, 2019	
a. Full Per Diem Rate =	\$300.55 per day
b. Discounted Per Diem Rate =	\$210.39 per day
 Special Care Unit – Effective January 1, 2019	
a. Full Per Diem Rate =	\$300.55 per day
b. Discounted Per Diem Rate =	\$210.39 per day

D. Notification of Fee Increase. The Monthly Service Fee and per diem charges for care in the Health Care Center are assessed to provide the facilities, programs and costs associated with the operation of Grace Ridge. Grace LifeCare may adjust the Monthly Service Fee from time to time during the term of this Agreement, as Grace LifeCare, in its sole discretion deems necessary in order to reflect changes in the costs of providing such facilities, programs and services described herein consistent with operating on a sound financial basis and maintaining the quality of services called for herein. Any such increases in the Monthly Service Fee or per diem charges for care in the Health Care Center may be made by Grace LifeCare upon issuance of written notice thirty (30) before the change. The written notice will be sent to Residents by depositing the notice in the U.S. Mail or in the Residents' in-house mail boxes at Grace Ridge. Grace LifeCare also reserves the right to revise and amend the basis of all charges. No adjustment in the Monthly Service Fee will be made for any absence from the facility except the credit for unused meals for absences

from Grace Ridge in excess of fourteen (14) consecutive days for Lifecare and Standard Entrance Fee Option residents.

E. Changes in Fees for The Previous Five (5) Years. Changes in monthly service fees for single occupancy for the previous five (5) year period of operation of the facility are shown below:

Historical Adjustments in Monthly Service Fees

Average Dollar Change –Lifecare and Standard Contracts

Date of Adjustment	Studio	One Bedroom	Two Bedroom	Two Bedroom Deluxe/Grande	Cottage	Health Care Center
1/1/15	\$72.00	\$ 106.00	\$ 106.00	\$ 138.00	\$ 130.00	\$ 11.00/diem
1/1/16	\$64.00	\$ 94.00	\$ 138.00	\$ 123.00	\$ 115.00	\$ 10.00/diem
5/1/17	\$59.00	\$ 86.00	\$ 105.00	\$ 113.00	\$ 106.00	\$ 9.00/diem
1/1/18	\$53.00	\$ 77.00	\$ 94.00	\$ 100.00	\$ 94.00	\$ 8.00/diem
1/1/19	\$51.00	\$ 74.00	\$ 91.00	\$ 97.00	\$ 91.00	\$ 8.00/diem

Average Dollar Change –Fee for Service Contracts

Date of Adjustment	Studio	One Bedroom	Two Bedroom	Two Bedroom Deluxe/Grande	Cottage	Health Care Center
1/1/15	\$50.00	\$ 59.00	\$ 72.00	\$ 78.00	\$ 83.00	\$ 10.00/diem
1/1/16	\$44.00	\$ 53.00	\$ 66.00	\$ 69.00	\$ 73.00	\$ 10.00/diem
5/1/17	\$40.00	\$ 49.00	\$ 59.00	\$ 64.00	\$ 67.00	\$ 9.00/diem
1/1/18	\$36.00	\$ 43.00	\$ 53.00	\$ 57.00	\$ 60.00	\$ 8.00/diem
1/1/19	\$35.00	\$ 42.00	\$ 51.00	\$ 55.00	\$ 58.00	\$ 8.00/diem

F. Conditions under Which an Apartment or Cottage Residence May Be Made Available to A Different or New Resident Other Than on The Death of A Resident.

No conditions exist under which an Apartment or Cottage Residence occupied by a Resident may be made available by Grace LifeCare to a different or new Resident other than on the death of the prior Resident, permanent transfer of the prior Resident to health care, or termination for cause by Grace LifeCare as provided in Section III, Paragraph G of this Disclosure Statement.

G. Conditions under Which an Adult Care Residence May Be Made Available to a Different or New Resident Other Than on the Death of Adult Care Resident.

No conditions exist under which an Adult Care Residence occupied by a Resident may be made available by Grace LifeCare to a different or new Resident other than on the death of the Resident, or permanent transfer of the prior Resident to nursing care, or termination by Grace LifeCare for cause as provided in Section III, Paragraph G of this Disclosure Statement.

H. Right of Rescission and Cancellation of Contract by Death or Change of Condition.

A prospective Resident has a right to rescind a Residence and Care Agreement for Apartment, Cottage, or Adult Care Residence for a period of thirty (30) days following

the later of the execution of the Residence and Care Agreement or receipt of a Disclosure Statement. A contract is automatically canceled in the event a Resident dies before occupying an Apartment, Cottage, or an Adult Care Residence or, if on account of illness, injury or incapacity, a Resident is precluded from occupying such a Residence under the terms of the Residence and Care Agreement.

Grace LifeCare may terminate a Residence and Care Agreement for either: (1) a change in Resident's financial condition occurring after Resident's acceptance for admission to Grace Ridge and prior to occupancy; (2) a Resident being unable to live independently within ninety (90) days after occupancy of an Apartment or Cottage Residence; (3) change in physical or mental condition of an Adult Care Resident within thirty (30) days following occupancy; or (4) when Resident becomes unable to meet the financial obligations of Resident under the Residence and Care Agreement as a result of Resident (or both Residents where there is double occupancy) being required by Grace LifeCare to pay the discounted per diem rate or the full per diem rate in the Health Care Center.

Upon rescission, or cancellation, Grace LifeCare shall refund, or cause to be refunded, all money without interest to the prospective Resident or Residents, except (i) periodic charges specified in the Residence and Care Agreement and applicable only to the period a living unit was actually occupied by the Resident; (ii) those nonstandard costs (including options and custom features for New Cottages) specifically incurred at the request of the Resident and described in the Residence and Care Agreement, the Cottage Construction Agreement, or any amendment thereto signed by the Resident; (iii) those nonrefundable fees that are set out in the Residence and Care Agreement, the Cottage Construction Agreement or any amendment thereto signed by the Resident; and (iv) a service charge equal to the greater of One Thousand Dollars (\$1,000) or two percent (2%) of the Entrance Fee. If resident should rescind after the thirty-day period but prior to occupancy, Grace Ridge will retain 6% of the total Entrance Fee.

VI. FINANCIAL INFORMATION

A. Financial Overview Statement and Current Operating Funds. Grace Lifecare is wholly-owned by Blue Ridge Healthcare Hospitals, Inc. a non-profit North Carolina corporation. Blue Ridge Healthcare Hospitals and its subsidiaries are part of Blue Ridge Healthcare System, Inc., which is managed by Carolinas HealthCare System (See Section VII.B.).

Prior to the 1991 acquisition by BRH, Grace Ridge was owned and operated by Residential Retirement Center, Inc. under the name of Mountain House. Residents of Mountain House had entered into Residency Agreements with the former owner. As a part of the acquisition of Grace Ridge, Grace LifeCare agreed with the Residents of Mountain House, and the estates, or successors to the interest of former Residents, to assume the obligations of the former owner and for the repayment of entry fee refunds under their respective Residency Agreements. Prior to the assumption by Grace LifeCare of the obligations of the former owner under the Residency Agreements, the Residency Agreements were modified. The modification provides for the return of entry fee refunds under the Residency Agreements in ten (10) equal annual installments on a non-interest-bearing basis, with no payment being made prior to, and the first installment being made on, December 1, 1993 and with such payments further being conditioned upon a re-occupancy by a subsequent Resident of the Apartment Residence of the former Resident.

In December 1993, Grace LifeCare gave designees entitled to receive entry fee refunds, under the Mountain House return of capital contracts, the option to receive a lump sum pay out equal to sixty five percent (65%) of the total entry fee refund. This option remains in effect for those designees entitled to such entry fee refunds, until changed by further action of the Directors and Management of Grace LifeCare, in their sole discretion.

Under the Entrance Fee Options for future Residents, the Grace LifeCare policy is to refund Entrance Fees within sixty (60) days after the residential unit is re-occupied, provided, however, the refund shall be paid no later than two (2) years following termination of the Residence and Care Agreement. The foregoing policy assures that refunds do not impact cash reserves.

The fund balance (net assets) of Grace LifeCare as of December 31, 2018 is shown in the Current Certified Financial Statements of Grace LifeCare, Inc. provided as Attachment "One".

B. Current Certified Financial Statements. These statements are provided in Attachment "One". Certified financial statements for Grace Lifecare, Inc. are provided for the years ended December 31, 2018 and 2017.

C. Interim Financial Statements. Interim internal financial statements for the three-month period ended March 31, 2019 are provided as Attachment "Two".

D. Financial Forecasted Statements. The forecasted financial statements for the five-year period ending December 31, 2023 are shown in Attachment "Three".

E. Reserves, Escrow, and Trust. The provisions of North Carolina General Statute 58-64-33 require Grace LifeCare to disclose the provisions made for reserve funding or security to enable it to perform its obligations under continuing care contracts.

Investments shown in Financial Statements are stated at fair value per SFAS No. 124, Accounting for Certain Investments Held for Not-for-Profit Organizations. Forecasts contained in the Financial Forecasted Statements, provided in Attachment Three, indicate at the end of fiscal year 2019 Grace LifeCare expects to accumulate approximately four million, eight hundred, fifty-five thousand dollars (4,855,000) in operating reserve assets. This amount includes the projected cash of three hundred twenty-nine thousand dollars (\$329,000) and projected investments of four million, five hundred, and twenty-six thousand dollars (\$4,526,000). These projections show the achievement of the forecasted required reserve fund of four million, one hundred, and seventy-one thousand dollars (\$4,171,000) at the end of fiscal year 2019, which will enable Grace LifeCare to continue to meet the reserve requirements of G.S. 58-64-33.

Grace LifeCare expects to meet its reserve requirements separate and apart from financial assistance funds. Income from the Financial Assistance Endowment and annual contributions for financial assistance are used to provide charitable assistance to Residents who otherwise would not be able to afford residence at Grace Ridge.

Investments of funds are currently in mutual funds managed by investment professionals.

Overall policies and decisions relative to the magnitude of reserve funds, investment of reserve funds and financial assistance funds and application of financial assistance funds are under the direction of the Blue Ridge HealthCare Board of Directors. Within the parameters of these policies, specific investment decisions may be authorized by the Chief Financial Officer of Blue Ridge HealthCare and the Executive Director.

VII. OTHER MATERIAL INFORMATION, AS APPLICABLE

A. Past/Current Litigation, Bankruptcy, Receivership, Liquidation, Impending Actions, or Peril.

None.

B. Affiliation. On August 2, 1999, the Parent Company and the Company entered into an Integration Agreement (the Agreement) effective December 8, 1999, with The Charlotte-Mecklenburg Hospital Authority, d/b/a Carolinas HealthCare System, (CHS) and Valdese General Hospital, Inc. (Valdese). Valdese, a subsidiary of CHS, is a nonprofit organization which provides health care services to the residents of Burke County, North Carolina, and surrounding areas. The purpose of the Agreement is to integrate the functions of the Parent Company, the Company and Valdese so that they are operated as a unified healthcare delivery system through the formation of the Blue Ridge Healthcare System, Inc. (BRHS), a North Carolina nonprofit, non-stock, nonmember corporation exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Under the Agreement, the Parent Company, the Company and Valdese will continue to own and exercise ultimate control over their assets and shall maintain the existing identity of their facilities.

Under the Agreement, the Parent Company, the Company and Valdese will share the consolidated annual net income (excluding investment income and extraordinary items), as defined in the Agreement, of BRHS beginning January 1, 2000, based on predetermined contribution percentage of 63 percent for the Parent Company and the Company and 37 percent for Valdese. The Parent Company, the Company and Valdese will also be responsible for funding their share of the total combined capital requirements of BRHS using the respective contribution percentages.

Effective December 8, 1999, BRHS entered in to a Management Services Contract (the Contract) with CHS to manage BRHS on a day-to-day basis. The terms of the Contract call for BRHS to pay CHS an annual management fee based upon BRHS net operating revenues. In addition, CHS is required to furnish BRHS with a chief executive officer, chief operating office and chief financial officer. BRHS reimburses CHS for the costs of salary and benefits of these individuals. The Contract will cease on the termination of the Agreement unless earlier terminated for cause.

In 2002, the Agreement, as well as the articles of incorporation and bylaws of BRHS, Grace and Valdese, were amended to restructure the governance of BRHS, Grace and Valdese. Subsequent to the restructuring, Grace operates under the leadership of the BRHS Board of Directors, the Grace Community Council and the Grace Hospital,

Incorporated Board of Directors. Likewise, Valdese operates under the leadership of the BRHS Board of Directors, Carolinas Hospital Network, Inc. (“CHN”), the Valdese Community Council and Valdese General Hospital, Incorporated Board of Directors.

As a result of the agreement, the BRHS Board of Directors has the authority to take action on all matters relating to the operation of the System with the exception of reserve powers retained by the Grace and Valdese Community Councils and CHN that include approving new participants in the System, amendments to corporate documents affecting board composition, amendments to the Agreement, and the sale, merger, liquidation or dissolution of any entity.

On December 1, 2012, Grace Hospital, Inc. and Valdese Hospital, Inc. both previously under common control of BRHS, merged. The surviving organization, Grace Hospital, Inc. simultaneously changed its name to Blue Ridge Healthcare Hospitals, Inc. (“BRH”), which is a nonprofit North Carolina corporation qualified as a tax-exempt organization under IRS Code Section 501(c) (3). The new entity retains all wholly-owned subsidiaries including Grace Lifecare, Inc. The sharing of expenses expired on December 1, 2012 with the merger of Grace and Valdese Hospitals to form BRH.

BLUE RIDGE HEALTHCARE SYSTEM, INC.
BOARD OF DIRECTORS
2019

OFFICERS

J. Michael Bridges, Chairman
M. H. (Mac) McCrary, Vice Chairman
Sherrod Salsbury, Secretary
Jeff Carswell, Treasurer
Clay Richardson, MD, Member at Large

John Branstrom
Lisa Buff
Alan Griffin
Susan Haire
Felicia Simmons

Atrium Board Representatives

Allen VanNoppen
Brian Gwyn
Frieda Lowder

C. Explanation of Variances for the Year Ended 12/31/2018 from Forecasted Statement of Operations for Grace Lifecare, Inc.

Material Variance Threshold based on management judgment: \$150,000

GRACE LIFECARE, INC. STATEMENTS OF OPERATIONS FORECAST VS. ACTUAL			
	Forecast 2018	Actual 2018	Variance
OPERATING REVENUES:			
1. HEALTH CENTER REVENUES	\$ 3,032,467	\$ 2,810,501	\$ (221,966)
2. INDEPENDENT LIVING UNIT REVENUES	3,962,926	4,234,474	271,548
3. AMORTIZATION OF DEFERRED REVENUE FROM ENTRANCE FEES	2,442,924	2,285,380	(157,544)
OTHER	102,560	77,530	(25,030)
TOTAL OPERATING REVENUES	9,540,877	9,407,885	(132,992)
OPERATING EXPENSES:			
4. GENERAL AND ADMINISTRATIVE	2,396,282	2,132,515	(263,767)
5. MAINTENANCE AND SECURITY	1,398,279	1,814,966	416,687
HOUSEKEEPING AND LAUNDRY	484,958	509,985	25,027
DINING SERVICES	1,519,337	1,587,923	68,586
HEALTHCARE	2,188,046	2,149,558	(38,488)
LIFE ENRICHMENT	372,282	355,259	(17,023)
DEPRECIATION	1,159,920	1,016,886	(143,034)
INTEREST EXPENSE	0	0	0
TOTAL OPERATING EXPENSES	9,519,104	9,567,092	47,988
GAIN FROM OPERATIONS	21,773	(159,207)	(180,980)
NONOPERATING GAINS, NET:			
6. INVESTMENT INCOME, NET	67,877	372,701	304,824
7. NET UNREALIZED GAIN (LOSS) ON INVESTMENTS	150,000	(660,195)	(810,195)
CONTRIBUTIONS/GIFTS	3,750	2,085	(1,665)
OTHER	0	803	803
TOTAL NONOPERATING GAINS, NET	221,627	(284,606)	(506,233)
INCREASE IN UNRESTRICTED NET ASSETS	\$ 243,400	\$ (443,813)	\$ (687,213)

1. Health Center Revenues:

Lower than forecast census in the Health Care Center resulted in revenue that was \$221,966 less than forecast.

2. Independent Living Unit Revenues:

Higher than forecast census in the Independent Living Units resulted in revenue that was \$271,548 higher than forecast.

3. Amortization of Deferred Revenue from Entrance Fees:

Normal recognition of deferred revenue from entrance fees was \$24,652 lower than forecast. Early recognition of revenue from entrance fees due to resident deaths/contract terminations was \$132,892 less than forecast.

4. General and Administrative:

The costs of employee benefits was \$165,933 less than forecast, executive administration was \$31,333 less than forecast, and other facility administrative expenses were \$63,120 less than forecast.

5. Maintenance and Security:

The costs of renovating apartments were greater than anticipated for remodeling to prepare for new move-ins. This overage was the major contributor to the result of \$416,687 more than forecasted maintenance and security expenses.

6. Investment Income, Net:

Positive investment activity resulted in income and realized gains resulting in \$304,824 more than forecasted income.

7. Net Unrealized Gain/Loss on Investments:

Unfavorable market conditions resulted in a loss of \$810,195 below the forecast amount.

D. Explanation of Variances for the Year Ended 12/31/2018 from the Forecasted Balance Sheet for Grace Lifecare, Inc.

Material Variance Threshold based on management judgment: \$150,000

GRACE LIFECARE, INC. BALANCE SHEETS FORECAST VS. ACTUAL			
	Forecast 2018	ACTUAL 2018	Variance
ASSETS			
CURRENT ASSETS:			
1. CASH AND CASH EQUIVALENTS	\$ 357,342	\$ 615,248	\$ 257,906
ACCOUNTS RECEIVABLE, NET	301,155	273,325	(27,230)
INVENTORIES	26,083	23,028	(3,055)
PREPAID EXPENSES	36,471	44,778	8,307
TOTAL CURRENT ASSETS	721,051	956,379	235,328
ASSETS LIMITED AS TO USE			
2. STATUTORY OPERATING RESERVE	4,625,695	4,089,281	(536,414)
3. MARKETABLE SECURITIES	425,803	206,841	(218,962)
4. PROPERTY, PLANT AND EQUIPMENT, NET	16,643,948	16,263,236	(380,712)
OTHER ASSETS:			
EXCESS OF COST OVER VALUE ASSIGNED TO NET ASSETS ACQUIRED, NET	1,013,373	1,013,373	0
RESIDENT AND RESTRICTED FUNDS	43,168	45,211	2,043
TOTAL OTHER ASSETS	1,056,541	1,058,584	2,043
TOTAL ASSETS	\$ 23,473,038	\$ 22,574,921	\$ (898,117)
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
5. CURRENT PORTION OF LONG-TERM DEBT	\$ 641,431	-	\$ (641,431)
REFUNDABLE ENTRANCE FEES, CURRENT	172,443	109,179	(63,264)
ADVANCE DEPOSITS	257,037	112,874	(144,163)
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	166,454	200,058	33,604
6. DUE TO RELATED PARTY	5,245,880	6,123,379	877,499
ACCRUED EMPLOYEE COMPENSATION AND BENEFITS	238,895	283,150	44,255
TOTAL CURRENT LIABILITIES	6,722,140	6,828,642	106,502
LONG-TERM LIABILITIES:			
7. LONG-TERM DEBT, NET OF CURRENT PORTION	1,344,921	0	(1,344,921)
8. REFUNDABLE ENTRANCE FEES, NET OF CURRENT PORTION	4,285,279	4,797,077	511,798
DEFERRED REVENUES FROM ENTRANCE FEES, REFUNDABLE	0	0	0
9. DEFERRED REVENUES FROM ENTRANCE FEES, NON-REFUNDABLE	9,292,272	9,805,484	513,212
TOTAL LONG-TERM LIABILITIES	14,922,473	14,602,561	(319,912)
TOTAL LIABILITIES	21,644,613	21,431,203	(213,410)
NET ASSETS			
UNRESTRICTED	1,787,918	1,100,723	(687,195)
TEMPORARILY RESTRICTED	40,508	43,013	2,505
TOTAL NET ASSETS	1,828,425	1,143,718	(684,707)
TOTAL LIABILITIES AND NET ASSETS	\$ 23,473,038	\$ 22,574,921	\$ (898,117)

1. Cash and Cash Equivalents:

Cash was \$257,906 higher than forecast due to less payments being made to Due to Related Parties than anticipated at the close of the year.

2. Statutory Operating Reserve:

Statutory Operating Reserve was less than forecasted as a result of a \$614,430 reduction in annual forecasted expenses due to having paid off the short & long term debt, which therefore reduced the operating reserve amount required.

3. Marketable Securities:

Unfavorable market conditions resulted in investment losses of \$218,962 below the forecast amount.

4. Property, Plant, and Equipment, Net:

Net Property, Plant, and Equipment difference was largely due to capital expenditures ending less than forecasted.

5. Current Portion of Long-Term Debt:

The expansion loan owed to the hospital was paid off early unexpectedly upon leadership request. This early payoff was not forecasted.

6. Due to Related Party:

The Due to Related Party payable is \$877,499 greater than forecast due to diverting funds that would have been used to reduce AP to the early payoff of the expansion loan owed to the hospital (mentioned in #5. Above).

7. Long-Term Debt, Net of Current Portion:

The expansion loan owed to the hospital was paid off early unexpectedly upon leadership request. (Same loan as in #5 explanation above.)

8. Refundable Entrance Fees, Net of Current Portion:

Refundable Entrance Fees were \$511,798 higher than forecast due to higher than forecasted sales of Lifecare, Standard, and Fee for Service Contracts.

9. Deferred Revenues From Entrance Fees, Non-Refundable:

Deferred Revenues from Entrance Fees were \$513,212 higher than forecast due to higher than forecasted sales of Lifecare, Standard, and Fee for Service Contracts.

E. Explanation of Variances for the Year Ended 12/31/2018 from Forecasted Cash Flow for Grace Lifecare, Inc.

Material Variance Threshold based on management judgment: \$150,000

GRACE LIFECARE, INC. STATEMENTS OF CASH FLOWS FORECAST VS. ACTUAL			
	Forecast 2018	Actual 2018	Variance
CASH FLOWS FROM OPERATING ACTIVITIES:			
Change in net assets	\$ 228,503	\$ (456,205)	\$ (684,708)
Adjustments to reconcile change in net assets provided by (used in) operating activities			
Depreciation	1,159,920	1,016,886	(143,034)
1. Amortization of deferred revenue from entrance fees	(2,442,924)	(2,285,380)	157,544
2. Unrealized (gain) loss on investments	(150,000)	660,195	810,195
Gain on sale of property and equipment	0	1,581	1,581
Change in operating assets and liabilities:			
Accounts receivable, net	15,711	42,941	27,230
Inventories	(5,946)	(2,891)	3,055
Prepaid expenses	135,947	127,640	(8,307)
Other assets and liabilities	13,859	11,816	(2,043)
Accounts payable and accrued expenses	45,295	78,901	33,606
3. Due to related parties	482,714	1,005,570	522,856
Accrued employee compensation and benefits	(22,501)	21,754	44,255
Net cash provided by (used in) operating activities	(539,422)	222,808	762,230
CASH FLOWS FROM INVESTING ACTIVITIES:			
4. Capital expenditures	(1,848,800)	(971,992)	876,808
Net change in assets limited to use and marketable securities	432,123	377,304	(54,819)
Net cash used in investing activities	(1,416,677)	(594,688)	821,989
CASH FLOWS FROM FINANCING ACTIVITIES:			
5. Repayment of long-term debt to parent	(641,431)	(2,627,783)	(1,986,352)
6. Proceeds from entrance fees / deposits	3,096,091	3,965,370	869,279
7. Refunds of refundable entrance fees / deposits	(496,783)	(706,023)	(209,240)
Net cash provided by financing activities	1,957,877	631,564	(1,326,313)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,778	259,684	257,906
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	355,564	355,564	0
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 357,342	\$ 615,248	\$ 257,906

1. Amortization of Deferred Revenue from Entrance Fees:

See Statement of Operations explanation 3.

2. Unrealized Gain/Loss on Investments:

See Statement of Operations explanation 7.

3. Due to Related Parties:

See Balance Sheet explanation 6.

4. Capital Expenditures:

See Balance Sheet explanation 4.

5. Repayment of Long-Term Debt to Parent:

See Balance Sheet explanations 5 and 7.

6. Proceeds from Entrance Fees/Deposits:

Proceeds received were \$869,279 greater than forecast due to more than anticipated contract sales.

7. Refunds of Refundable Entrance Fees/Deposits:

Refunds issued were \$209,240 greater than forecast due to more than anticipated refunds issued due to resident deaths and move-outs.

PART II: ADDITIONAL INFORMATION NOT REQUIRED TO BE INCLUDED IN THE DISCLOSURE STATEMENT

I. Grace Ridge Residents Association. Each Resident of Grace Ridge is independent and acts on his or her own behalf. If a Resident has limitations, the Resident may designate a person to act on his or her behalf under a Power of Attorney. Collectively, the Grace Ridge Residents Association represents the Residents as a group. Annually, Residents of Grace Ridge elects Officers and two Members-at-Large to the Grace Ridge Residents Association Board of Directors to represent them in matters relating to care and management, and to provide leadership in the matters of common interest.

Overall leadership is provided by the Association's Board of Directors, which consists of the President, Vice President, Secretary, Treasurer, Past President and two members-at-large. There are working committees appointed by the Residents Association Board in each major area of Grace Ridge life, including, library, religious life, newsletter, decorating, activities, finance, welcoming, and others.

The Residents Association's purpose is to provide leadership in representing the interests of Residents to management and others, and in providing information and recommendations to Residents on specific issues that impact on them.

Further information on the activities of the Grace Ridge Residents Association and its work is available from officers of the Residents Association and the By-Laws.

II. Tax Deductible Donations to Grace Ridge. Residents and other persons interested in Grace Ridge have the opportunity to establish cash endowments, bequests or to donate personal property (furniture, art and paintings, musical instruments, craft or shop tools, books, etc.) to Grace Ridge. The purpose of this section is to inform you of the Grace Ridge policy and procedure in this area.

Grace LifeCare is a North Carolina non-profit corporation, which has been determined to be tax exempt by the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code. Tax-deductible contributions may be made to Grace LifeCare, Inc.

Cash, endowments or other donations are deductible for income tax purposes by the donor so long as the gift relates to Grace LifeCare's exempt function of providing continuing care services and facilities and maintaining Residents who become unable to pay fees through no fault of their own.

Grace LifeCare will provide donors with detailed receipts of cash and in-kind contributions. It will be the donor's responsibility to establish the fair market value of in-kind donations. We recommend that donors consult with their tax advisor regarding the structuring of donations and the particular tax consequences that they may expect to receive.

The Resident's Fund Development Committee oversees charitable giving activities at Grace Ridge. This Committee in cooperation with Administration and the overall facility strategic plan will recommend charitable funds to the Grace LifeCare Board of Directors for approval. The following separate funds have been established: (1) Friendship Fund which assists Residents of Grace Ridge with special financial circumstances; (2) Enhancement Fund which receives funds for designated or undesignated projects (3) Education Loan Fund which provides assistance to employees for

higher education contingent upon continued employment at Grace Ridge, (4) Landscaping Fund, and (5) Chapel Fund.

PART III
ATTACHMENTS

- Attachment One - Current Grace LifeCare, Inc. Certified Financial Statements
- Attachment Two - Interim Financial Statements
- Attachment Three - Five Year Forecasted Financial Statements
- Attachment Four - Summary of Significant Assumptions and Accounting Policies
- Attachment Five - Actuarial Report
- Attachment Six - Residence and Care Agreement for Apartments and Cottages-Lifecare and Standard
- Attachment Seven - Residence and Care Agreement for Apartments and Cottages-Fee-For-Service
- Attachment Eight - Residence and Care Agreement for Adult Care Residence

ATTACHMENT ONE



Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor.

GRACE LIFECARE, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



GRACE LIFECARE, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Grace LifeCare, Inc.
Morganton, North Carolina

We have audited the accompanying financial statements of Grace LifeCare, Inc. (Grace LifeCare) which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Board of Directors
Grace LifeCare, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grace LifeCare as of December 31, 2018 and 2017, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
April 2, 2019

GRACE LIFECARE, INC.
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 615,248	\$ 355,564
Resident and Other Accounts Receivable	273,925	316,866
Inventories	23,028	20,137
Prepaid Expenses	44,778	172,418
Total Current Assets	<u>956,979</u>	<u>864,985</u>
ASSETS LIMITED AS TO USE	4,089,281	4,500,307
MARKETABLE SECURITIES	206,841	833,314
PROPERTY AND EQUIPMENT, NET	16,263,236	15,955,068
OTHER ASSETS, NET	<u>1,058,584</u>	<u>1,070,400</u>
Total Assets	<u>\$ 22,574,921</u>	<u>\$ 23,224,074</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 80,110	\$ 69,966
Accrued Expenses and Other Liabilities	403,100	312,589
Due to Related Party	6,123,379	4,763,166
Advance Fee Deposits	112,874	282,944
Refundable Entrance Fees	109,179	219,330
Current Portion of Long-Term Debt	-	641,431
Total Current Liabilities	<u>6,828,642</u>	<u>6,289,426</u>
LONG-TERM DEBT, LESS CURRENT PORTION	-	1,986,352
REFUNDABLE ENTRANCE FEES, LESS CURRENT PORTION	4,797,077	4,196,817
DEFERRED REVENUE FROM ENTRANCE FEES	<u>9,805,484</u>	<u>9,151,556</u>
Total Liabilities	21,431,203	21,624,151
NET ASSETS		
Without Donor Restrictions	1,100,705	1,544,518
With Donor Restrictions	43,013	55,405
Total Net Assets	<u>1,143,718</u>	<u>1,599,923</u>
Total Liabilities and Net Assets	<u>\$ 22,574,921</u>	<u>\$ 23,224,074</u>

See accompanying Notes to Financial Statements.

GRACE LIFECARE, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
Net Resident Service Revenue, Including Amortization Deferred of Approximately \$2,285,000 in 2018 and \$2,273,000 in 2017	\$ 9,098,148	\$ 8,718,645
Other Revenue	306,456	304,599
Inter-Facility Revenue	3,281	23,865
Total Revenues	<u>9,407,885</u>	<u>9,047,109</u>
EXPENSES		
Employee Compensation	4,948,545	4,931,580
Medical and General Supplies	747,026	802,758
Purchased Services	1,339,024	1,023,313
Professional Fees	317,496	344,913
Depreciation and Amortization	1,016,886	978,070
Inter-Facility Expense	426,073	420,573
Other Expenses	772,042	773,614
Total Expenses	<u>9,567,092</u>	<u>9,274,821</u>
OPERATING LOSS	(159,207)	(227,712)
OTHER INCOME		
Investment Income, Net	372,701	164,030
Other, Net	2,888	4,622
Total Other Income, Net	<u>375,589</u>	<u>168,652</u>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENSES	216,382	(59,060)
NET UNREALIZED GAINS (LOSSES) ON INVESTMENTS	<u>(660,195)</u>	<u>428,752</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ (443,813)</u>	<u>\$ 369,692</u>

See accompanying Notes to Financial Statements.

GRACE LIFECARE, INC.
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess (Deficit) of Revenues Over (Under) Expenses	\$ 216,382	\$ (59,060)
Unrealized Gains (Losses) on Investments, Net	(660,195)	428,752
Increase (Decrease) in Net Assets Without Donor Restrictions	(443,813)	369,692
NET ASSETS WITH DONOR RESTRICTIONS		
Donor Restricted Gifts, Grants and Bequests	8,349	27,734
Satisfaction of Donor-Imposed Restrictions	(20,741)	(28,296)
Decrease in Net Assets With Donor Restrictions	(12,392)	(562)
CHANGE IN NET ASSETS	(456,205)	369,130
Net Assets - Beginning of Year	1,599,923	1,230,793
NET ASSETS - END OF YEAR	\$ 1,143,718	\$ 1,599,923

See accompanying Notes to Financial Statements.

GRACE LIFECARE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (456,205)	\$ 369,130
Adjustments to Reconcile Change in Net Assets to Net Cash		
Used by Operating Activities:		
Amortization of Deferred Revenue from Entrance Fees	(2,285,380)	(2,272,821)
Depreciation and Amortization	1,016,886	978,070
Net Unrealized (Gains) Losses on Investments	660,195	(428,752)
(Gains) Losses on Sale of Property and Equipment	1,581	(4,647)
Change in Operating Assets and Liabilities:		
Resident and Other Accounts Receivable, Net	42,941	69,255
Inventories	(2,891)	3,822
Prepaid Expenses and Other	127,640	(133,418)
Accounts Payable	10,144	(27,908)
Accrued Expenses and Other Liabilities	90,511	(5,490)
Due to Related Parties	1,005,570	(29,150)
Other Assets and Liabilities	11,816	1,580
Net Cash Provided (Used) by Operating Activities	<u>222,808</u>	<u>(1,480,329)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Change in Assets Limited as to Use and Marketable Securities	377,304	(164,030)
Purchases of Property and Equipment	<u>(971,992)</u>	<u>(292,478)</u>
Net Cash Used by Investing Activities	<u>(594,688)</u>	<u>(456,508)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Refunds of Entrance Fees	(706,023)	(248,026)
Proceeds from Entrance Fees	3,965,370	3,065,437
Repayment of Long-Term Debt	<u>(2,627,783)</u>	<u>(641,431)</u>
Net Cash Provided by Financing Activities	<u>631,564</u>	<u>2,175,980</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	259,684	239,143
Cash and Cash Equivalents - Beginning of Year	<u>355,564</u>	<u>116,421</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 615,248</u>	<u>\$ 355,564</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisitions of Property and Equipment Included in Current Liabilities	<u>\$ 354,643</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 ORGANIZATION

Grace LifeCare, Inc. (Grace LifeCare) is a nonprofit North Carolina corporation qualified as a tax-exempt organization under IRS Code Section 501(c)(3), operating a continuing care retirement community in Morganton, North Carolina. Grace LifeCare currently offers 118 residential apartment units, 27 duplex cottages, a 72-bed health care center, and other amenities designed to make retirement living more enjoyable.

Grace LifeCare is wholly-owned by Blue Ridge Healthcare Hospital, Inc. (BRH), a nonprofit North Carolina corporation qualified as a tax-exempt organization under IRS code Section 501(c)(3). Blue Ridge Healthcare Hospital, Inc. is a part of Blue Ridge HealthCare System, Inc. d/b/a Blue Ridge HealthCare (BRHC).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Adoption of New Accounting Principle

Grace LifeCare adopted the provisions of ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended December 31, 2018. The implementation of this standard resulted in certain changes to the financial statement presentation including the presentation of only two classes of net assets, rather than three classes historically presented. The new accounting standard changes the presentation of various classifications and disclosures within the financial statements. The adoption of this accounting standard did not have an impact on Grace LifeCare's financial position or changes in its net assets and has been applied retrospectively to all periods presented.

Cash and Cash Equivalents

Grace LifeCare considers all highly liquid investments when purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Residents are not required to provide collateral for services rendered. Payment for services is required upon receipt of invoice or claim submitted. Accounts past due are individually analyzed for collectability. There was no allowance for uncollectible accounts recorded at December 31, 2018 and 2017.

Inventories

Inventories are stated at the lower of average cost or market.

GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited as to Use

Assets limited as to use include assets maintained under a statutory operating reserve (see Note 9). The statutory operating reserve is maintained in connection with the operations of a continuing care retirement community.

Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment are stated at the estimated fair value at the date of donation. Ordinary repairs and maintenance costs are expensed as incurred while significant improvements, renovation, and replacements are capitalized. Interest cost incurred on borrowed funds during the period of construction is capitalized as a component of the cost of acquiring those assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Land Improvements	5 - 40 Years
Buildings and Building Improvements	5 - 40 Years
Equipment	3 - 25 Years

Other Assets

The excess of purchase price over the fair values of identifiable net assets acquired has been recorded as goodwill. Management periodically evaluates the carrying value of goodwill based on an analysis of estimated undiscounted operating earnings from the operations of each specific business. Any events or circumstances occurring during the year or future years that might have an impact on such carrying value are considered. No adjustment has been made to the carrying value of goodwill at December 31, 2018 and 2017.

Entrance Fees

Entrance fees represent initial payments made by residents upon occupancy at Grace LifeCare. The refundable portion of entrance fees is recorded as Refundable Entrance Fees. The nonrefundable portion of entrance fees is amortized into income using the straight-line method over the remaining life expectancy of the resident. The life expectancies are actuarially adjusted. The unamortized nonrefundable portion of entrance fees received is recorded as Deferred Revenue from Entrance Fees.

Obligation to Provide Future Services

Grace LifeCare calculates the present value of the estimated cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees and the present value of estimated periodic service fees in accordance with the provisions of the ASC Topic 954-430. If the present value of the cost of future services and use of facilities exceeds the deferred revenue from entrance fees and the present value of periodic fees, a liability is recorded (obligation to provide future services). No liability has been recorded for the years ended December 31, 2018 and 2017, because the estimated present value of the cost of future services and use of facilities is less than deferred revenue from entrance fees and the present value of estimated periodic service fees.

GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets and revenues, gains and losses, are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets consisting of all resources that have no donor-imposed restrictions.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

Net Resident Services Revenue

Residents pay a monthly services fee, which varies with the type of residence and with the level of health care the resident receives. This monthly services fee is subject to change by Grace LifeCare. Gross resident service charges are recorded when services are provided. Grace LifeCare bills residents at the gross standard charge for the specific service provided less any discounts that apply based on the resident's particular contract. Discounts are reflected as reductions in net resident service revenue in the accompanying statements of operations.

Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents, Resident and Other Receivables and Accounts Payable – The carrying amount approximates fair value because of the short-term nature of these instruments.

Assets Limited as to Use and Marketable Securities – Fair values, which are the amounts reported on the accompanying balance sheets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Grace LifeCare routinely invests surplus operating funds in interest-bearing accounts at financial institutions which management believes are of high credit quality. At times, these funds may exceed the \$250,000 insured by the Federal Depository Insurance Corporation. Management believes that these financial institutions' strong credit ratings result in only minimal credit risk related to those deposits.

Professional Liability Insurance

Grace LifeCare's professional liability insurance coverage is on a claims-made basis.

Income Taxes

Grace LifeCare is a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code and as such is exempt from federal income taxes. In addition, Grace LifeCare is also exempt from state income taxes.

Grace LifeCare follows the income tax standard regarding the recognition and measurement of uncertain tax positions, which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be finalized. Grace LifeCare has determined that there are no uncertain tax positions for the years ended December 31, 2018 and 2017.

Subsequent Events

In preparing these financial statements, Grace LifeCare has evaluated events and transactions for potential recognition or disclosure through April 2, 2019 the date the financial statements were available to be issued.

NOTE 3 ASSETS LIMITED AS TO USE AND MARKETABLE SECURITIES

The composition of assets limited as to use, at fair value, at December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Statutory Operating Reserve:		
Cash and Cash Equivalents	\$ 4,640	\$ 6,195
Fixed Income	1,522,181	1,989,734
Equities	<u>2,562,460</u>	<u>2,504,378</u>
Total	<u>\$ 4,089,281</u>	<u>\$ 4,500,307</u>

Marketable securities are stated at fair value and consisted of domestic equity securities at December 31, 2018 and 2017.

GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 ASSETS LIMITED AS TO USE AND MARKETABLE SECURITIES (CONTINUED)

Investment income, net consists of interest and dividend income, and realized gains on investments for the years ended December 31, 2018 and 2017.

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. Grace LifeCare emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – valuation based on quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – valuation based on observable inputs other than those included in Level 1.

Level 3 – valuation based on unobservable inputs based on data not available to third parties outside the organization.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Additionally, from time to time, Grace LifeCare may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

Grace LifeCare also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. Grace LifeCare has not elected to measure any existing financial instruments at fair value; however, may elect to measure newly acquired financial instruments at fair value in the future.

GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 ASSETS LIMITED AS TO USE AND MARKETABLE SECURITIES (CONTINUED)

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

The following tables present the assets carried at fair value on a recurring basis as of December 31, 2018 and 2017 by fair value hierarchy level, as described above:

	2018			Total
	Level 1	Level 2	Level 3	
Assets:				
Assets Limited as to Use:				
Equities	\$ 2,562,460	\$ -	\$ -	\$ 2,562,460
Corporate Obligations and Fixed Income Securities	1,522,181	-	-	1,522,181
Marketable Securities:				
Equities	206,841	-	-	206,841
Total Assets Measured at Fair Value	<u>\$ 4,291,482</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,291,482</u>

	2017			Total
	Level 1	Level 2	Level 3	
Assets:				
Assets Limited as to Use:				
Equities	\$ 2,504,378	\$ -	\$ -	\$ 2,504,378
Corporate Obligations and Fixed Income Securities	1,989,734	-	-	1,989,734
Marketable Securities:				
Equities	833,314	-	-	833,314
Total Assets Measured at Fair Value	<u>\$ 5,327,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,327,426</u>

GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 LIQUIDITY AND AVAILABILITY

Grace LifeCare's general philosophy is to maintain daily liquidity on all investments. The investment committee is limited to selecting fund groups with no more than 90-day liquidity. Grace LifeCare's historical turnover of net accounts receivables is no more than 60 days.

Grace LifeCare's financial assets available within one year of the statements of financial position for general expenditures are as follows:

	2018	2017
Cash and Cash Equivalents	\$ 615,248	\$ 355,564
Resident and Other Accounts Receivable	273,925	316,866
Marketable Securities	206,841	833,314
	<u>206,841</u>	<u>833,314</u>
Total Assets Available to Meet Liquidity Needs	<u>\$ 1,096,014</u>	<u>\$ 1,505,744</u>

NOTE 5 PROPERTY AND EQUIPMENT

The components of property and equipment are as follows at December 31, 2018 and 2017:

	2018	2017
Land and Improvements	\$ 716,298	\$ 716,298
Buildings and Improvements	26,158,833	26,071,583
Furniture and Equipment	2,171,712	2,388,095
	<u>29,046,843</u>	<u>29,175,976</u>
Less: Accumulated Depreciation	(13,959,925)	(13,220,908)
	15,086,918	15,955,068
Construction in Process	1,176,318	-
Property and Equipment, Net	<u>\$ 16,263,236</u>	<u>\$ 15,955,068</u>

For the years ended December 31, 2018 and 2017, depreciation expense was approximately \$1,017,000 and \$978,000, respectively. Construction in progress at December 31, 2018 related primarily to renovations of resident apartments and cottages, which are internally financed and anticipated to be completed in 2019.

NOTE 6 LONG-TERM DEBT

Grace LifeCare is a member of the obligated group on BRHC's tax-exempt bonds. All members of the obligated group collectively guarantee that all outstanding debt obligations will be paid in accordance with the terms set forth in the agreements. The members of the obligated group are all subject to compliance with all provisions of the bond agreements, including the performance and observance of all covenants and obligations under the agreements. At December 31, 2018, management of BRHC and Grace LifeCare believe they are in compliance with all covenants and obligations. Total outstanding bonds for which Grace LifeCare is a member of the obligated group was approximately \$68,755,000 at December 31, 2018.

**GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

A portion of the 1996 bond funds were used for construction and renovations at Grace LifeCare. A liability was recorded by Grace LifeCare to reimburse BRH for the construction and renovation costs. Grace LifeCare makes payments to BRH for service of this debt.

Long-term debt consisted of the following at December 31, 2018 and 2017:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Due to BRH, fixed interest rate of 0%, payments through February 2022.	\$ -	\$ 2,627,783
Less: Current Portion	-	(641,431)
Total	<u>\$ -</u>	<u>\$ 1,986,352</u>

Grace LifeCare paid the remaining balance of this debt in November 2018.

NOTE 7 REFUNDABLE ENTRANCE FEES

As a part of the acquisition of Grace LifeCare, BRH, formerly Grace Hospital, agreed with the existing residents (residents living in the facility on or prior to February 19, 1991), and the estates or successors to the interest of former residents, that Grace LifeCare would assume the obligations of the former owner and repay entrance fee refunds under their respective residency agreements. Prior to Grace LifeCare assuming the obligations of the former owner, the residency agreements were modified to provide for the refund of entrance fees under the residency agreements in 10 equal annual installments on a noninterest-bearing basis or a single lump-sum payment of 65% of the contracted amount, conditioned upon the resale and occupancy by a subsequent resident.

At December 31, 2018 and 2017, refundable entrance fees for which annual installments are payable within the next 12 months totaled approximately \$24,600 each year.

In addition, Grace LifeCare currently offers four other entrance fee plans. Descriptions of these plans are as follows:

Lifecare, Standard and Fee for Service Plans

These plans prorate the reimbursement for any resident leaving the retirement community for any reason within 25 months of occupancy. Under these plans, the entrance fee is amortized at 4% per month during the initial 25 months of occupancy. No refund is available after this initial period.

GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 7 REFUNDABLE ENTRANCE FEES (CONTINUED)

Adult Care Plan

This plan allows residents to enter the assisted living area of the community. The entrance fees associated with this plan as of December 31, 2018 and 2017 were \$14,000, and are fully amortized 30 days after occupancy. No refund is available after this initial period. The entrance fee is recognized as revenue over the life expectancy of the related resident.

Plan Options

Under either of the LifeCare and Standard plans described above, Grace LifeCare offers a Ninety Percent Option. This option prorates the reimbursement for any resident leaving the retirement community for any reason during the first three months (at 4% per month for the first two months and at 2% for the third month). After two and one-half months of occupancy, the refund is never less than 90% of the entrance fee paid.

At December 31, 2018 and 2017, refundable entrance fees under the above plans for which payments are payable within the next 12 months totaled approximately \$85,000 and \$195,000, respectively.

A summary of refundable fees at December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Fees Refundable to Residents Executing Continuing Care Agreements Prior to February 19, 1991	\$ 69,000	\$ 93,600
Fees Refundable Under the 90% Option Agreements	1,030,258	1,545,801
	<u>1,099,258</u>	<u>1,639,401</u>
Fees Refundable Under the LifeCare Plan Agreements	2,705,682	2,111,986
Fees Refundable Under the Standard Plan Agreements	935,880	451,752
Fees Refundable Under the Fee for Service Plan Agreements	165,436	213,008
	<u>3,806,998</u>	<u>2,776,746</u>
	4,906,256	4,416,147
Less: Current Portion	<u>(109,179)</u>	<u>(219,330)</u>
Long-Term Portion	<u>\$ 4,797,077</u>	<u>\$ 4,196,817</u>

GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 DEFERRED REVENUE FROM ENTRANCE FEES

As of December 31, 2018 and 2017, Grace LifeCare's total cumulative nonrefundable entrance fees of approximately \$19,502,000 and \$18,000,000, respectively, are recognized over the estimated life expectancy of the related residents. Accumulated income recognized as of December 31, 2018 and 2017 was approximately \$9,697,000 and \$8,848,000, respectively, resulting in deferred revenue from entrance fees of approximately \$9,805,000 and \$9,152,000, respectively. Income of approximately \$2,285,000 and \$2,273,000 was recognized as Net Resident Service Revenue for the years ended December 31, 2018 and 2017, respectively.

NOTE 9 STATUTORY OPERATING RESERVE

Under regulations of the North Carolina Insurance Commission effective in March 1997, continuing care retirement communities are required to maintain an operating reserve equal to 25% of certain occupancy costs projected for the 12-month period following the period covered by the most recent annual statement filed with the Department of Insurance. If occupancy levels are less than 90%, the operating reserve requirement is 50% of certain occupancy costs. Grace LifeCare's occupancy level was less than 90% at December 31, 2018 and 2017. The statutory operating reserve required at December 31, 2018 and 2017 was approximately \$4,089,000 and \$4,500,000, respectively.

NOTE 10 FUNCTIONAL EXPENSES

Grace LifeCare provides residential services to its residents which include independent living, assisted living, and certain nursing services. Expenses related to providing these services as of December 31, 2018 are as follows:

	Program Services	Support Services	
	Health Care Services	General and Administrative	Total Expenses
Employee Compensation	\$ 3,789,875	\$ 1,158,670	\$ 4,948,545
Medical and General Supplies	627,014	120,012	747,026
Purchased Services	298,434	1,040,590	1,339,024
Professional Fees	64,979	252,517	317,496
Depreciation and Amortization	366,838	650,048	1,016,886
Inter-Facility Expense	426,073	-	426,073
Other Expenses	314,511	457,531	772,042
Total Expenses	<u>\$ 5,887,724</u>	<u>\$ 3,679,368</u>	<u>\$ 9,567,092</u>

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization, which are allocated on a square footage basis, as well as, employee compensation, which is allocated on the basis of time and effort.

GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 11 BENEVOLENCE ASSISTANCE

Grace LifeCare provides benevolence assistance for certain residents who are unable to pay for the cost of their care. Grace LifeCare uses certain operating funds and funds designated for benevolence assistance to subsidize the charges for services provided to those residents. Such residents are identified on a case by case basis. Since Grace LifeCare does not charge the residents for services provided, estimated charges for benevolent assistance are not included in revenue. The discounts provided to residents approximate the costs for providing benevolent assistance. Grace LifeCare provided approximately \$165,000 and \$175,000 in discounts and received approximately \$2,000 and \$9,000 to subsidize the costs of providing benevolent assistance during the years ended December 31, 2018 and 2017, respectively.

NOTE 12 SELF-INSURANCE BENEFITS

Grace LifeCare participates in the BRHC self-insurance plan. BRHC is self-insured for employee medical benefits. The plan covers all full-time employees and any part-time employees who work at least 24 hours each week beginning on the first day of the month or following their 30th day of employment. BRHC contributes approximately 70% of the benefits for full-time and part-time employees. BRHC also withholds from employees any additional amounts for elected covered dependents. As claims are processed by the plan's administrator, the administrator invoices BRHC for claims to be paid.

BRHC has specific stop-loss coverage of \$300,000 per covered employee/dependent. Grace LifeCare's liability consisted of approximately \$30,000 in estimated claims incurred but not reported as of December 31, 2018 and 2017. This liability is reflected within other accrued expenses in the accompanying balance sheets. Grace LifeCare's expense relating to the plan for the years ended December 31, 2018 and 2017 was approximately \$266,000 and \$400,000, respectively.

NOTE 13 EMPLOYEE BENEFIT PLANS

Grace LifeCare participates in the BRHC defined contribution savings plan. BRHC provides a defined contribution employee savings plan that covers substantially all full-time employees. BRHC has the option to match employee contributions in varying percentages of each covered employee's salary. During the years ended December 31, 2018 and 2017, Grace LifeCare contributed approximately \$52,000 and \$46,000, to the plan, respectively.

GRACE LIFECARE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 14 COMMITMENTS AND CONTINGENCIES

Professional Liability

Grace LifeCare participates in the BRHC professional liability plan. BRHC is subject to legal proceedings and claims which arise in the ordinary course of business. BRHC maintains liability insurance coverage for claims made during the policy year. Under a claims-made policy, determination of coverage is triggered by the date the insured first becomes aware and notifies the insurer of a claim or potential claim. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liability. Additionally, BRHC carries excess coverage through an umbrella policy.

ATTACHMENT TWO



Carolinan HealthCare System
Blue Ridge

GRACE LIFECARE, INC.

FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
MARCH 31, 2019
(UNAUDITED)

GRACE LIFECARE, INC.
BALANCE SHEET
MARCH 31, 2019
UNAUDITED

<u>ASSETS</u>	
CURRENT ASSETS:	
CASH AND CASH EQUIVALENTS	\$ 314,869
ACCOUNTS RECEIVABLE, NET	186,974
INVENTORIES	23,028
PREPAID EXPENSES	62,798
TOTAL CURRENT ASSETS	587,669
ASSETS LIMITED AS TO USE	
STATUTORY OPERATING RESERVE	4,089,281
MARKETABLE SECURITIES	559,912
PROPERTY, PLANT AND EQUIPMENT, NET	16,677,620
OTHER ASSETS:	
EXCESS OF COST OVER VALUE ASSIGNED TO NET ASSETS ACQUIRED, NET RESIDENT AND RESTRICTED FUNDS	1,013,373 56,035
TOTAL OTHER ASSETS	1,069,408
TOTAL ASSETS	\$ 22,983,892
<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES:	
CURRENT PORTION OF LONG-TERM DEBT	\$ -
REFUNDABLE ENTRANCE FEES, CURRENT	463,869
ADVANCE FEE DEPOSITS	138,551
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	302,717
PAYABLE TO RELATED PARTIES	6,321,750
ACCRUED EMPLOYEE COMPENSATION AND BENEFITS	343,641
TOTAL CURRENT LIABILITIES	7,570,528
LONG-TERM LIABILITIES:	
LONG-TERM DEBT, NET OF CURRENT PORTION	0
REFUNDABLE ENTRANCE FEES, NET OF CURRENT PORTION	4,211,590
DEFERRED REVENUES FROM ENTRANCE FEES, REFUNDABLE	0
DEFERRED REVENUES FROM ENTRANCE FEES, NON-REFUNDABLE	9,767,712
TOTAL LONG-TERM LIABILITIES	13,979,302
TOTAL LIABILITIES	21,549,830
NET ASSETS:	
WITHOUT DONOR RESTRICTIONS	1,380,225
WITH DONOR RESTRICTIONS	53,837
TOTAL NET ASSETS	1,434,062
TOTAL LIABILITIES AND NET ASSETS	\$ 22,983,892

GRACE LIFECARE, INC.
STATEMENT OF OPERATIONS
PERIOD ENDED MARCH 31, 2019
UNAUDITED

	Actual 1st Qtr & YTD 3/31/2019
<u>OPERATING REVENUES:</u>	
HEALTH CENTER REVENUES	\$ 701,789
INDEPENDENT LIVING UNIT REVENUES	1,128,077
AMORTIZATION OF DEFERRED REVENUE FROM ENTRANCE FEES	821,043
OTHER	16,564
TOTAL OPERATING REVENUES	2,667,473
<u>OPERATING EXPENSES:</u>	
GENERAL AND ADMINISTRATIVE	855,150
MAINTENANCE AND SECURITY	431,951
HOUSEKEEPING AND LAUNDRY	140,947
DINING SERVICES	454,967
HEALTHCARE	521,292
LIFE ENRICHMENT	83,591
DEPRECIATION	253,193
INTEREST EXPENSE	0
TOTAL OPERATING EXPENSES	2,741,091
GAIN FROM OPERATIONS	(73,618)
<u>NONOPERATING GAINS</u>	
INTEREST AND DIVIDEND INCOME	29,619
NET INCREASE IN FAIR MARKET VALUE OF INVESTMENTS	323,452
CONTRIBUTIONS/GIFTS	0
OTHER	48
TOTAL NONOPERATING GAINS	353,119
INCREASE IN UNRESTRICTED NET ASSETS	\$ 279,501

**GRACE LIFECARE, INC.
STATEMENT OF CASH FLOWS
PERIOD ENDED MARCH 31, 2019
UNAUDITED**

	Actual 1st Qtr & YTD 3/31/2019
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 290,344
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	253,193
Amortization of deferred revenue from entrance fees	(821,043)
Unrealized gain on investments	(307,336)
Change in operating assets and liabilities:	
Accounts receivable, net	86,951
Inventories	0
Prepaid expenses	(18,020)
Other assets and liabilities	(10,824)
Accounts payable and accrued expenses	102,657
Payable to related parties	198,368
Accrued employee compensation and benefits	60,491
Net cash used in operating activities	(165,219)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures	(667,577)
Net change in assets limited to use and marketable securities	(45,735)
Net cash used in investing activities	(713,312)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of long-term debt	0
Proceeds from entrance fees / deposits	767,339
Refunds of refundable entrance fees / deposits	(59,576)
Net cash provided by financing activities	707,763
NET INCREASE IN CASH AND CASH EQUIVALENTS	(170,768)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	615,248
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 444,480

ATTACHMENT THREE

GRACE LIFECARE, INC.
FORECASTED BALANCE SHEETS
DECEMBER 31, 2019 - 2023

	2019	2020	2021	2022	2023
ASSETS					
CURRENT ASSETS:					
CASH AND CASH EQUIVALENTS	\$ 329,203	\$ 342,377	\$ 353,522	\$ 401,179	\$ 410,348
ACCOUNTS RECEIVABLE, NET	318,041	343,679	334,281	323,705	325,101
INVENTORIES	25,825	25,014	24,065	24,086	24,892
PREPAID EXPENSES	39,918	42,833	45,351	46,646	44,783
TOTAL CURRENT ASSETS	712,988	753,904	757,218	795,617	805,123
ASSETS LIMITED AS TO USE					
STATUTORY OPERATING RESERVE	4,171,066	2,148,099	2,212,542	2,278,919	2,347,286
MARKETABLE SECURITIES	355,056	992,399	1,046,069	1,101,636	3,155,213
PROPERTY, PLANT AND EQUIPMENT, NET	16,666,612	17,337,312	17,507,734	16,911,474	16,296,050
OTHER ASSETS:					
EXCESS OF COST OVER VALUE ASSIGNED TO NET ASSETS ACQUIRED, NET	1,013,373	1,013,373	1,013,373	1,013,373	1,013,373
RESIDENT AND RESTRICTED FUNDS	45,417	48,971	51,557	50,133	48,741
TOTAL OTHER ASSETS	1,058,790	1,062,344	1,064,930	1,063,506	1,062,114
TOTAL ASSETS	\$ 22,964,512	\$ 22,294,058	\$ 22,588,493	\$ 22,151,152	\$ 23,665,786
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
CURRENT PORTION OF LONG-TERM DEBT	\$ -	\$ -	\$ -	\$ -	\$ -
REFUNDABLE ENTRANCE FEES, CURRENT	147,719	112,378	118,208	139,508	125,427
ADVANCE DEPOSITS	205,102	202,925	212,508	196,694	189,087
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	161,187	169,587	170,495	169,432	179,377
DUE TO RELATED PARTIES	5,082,419	3,153,849	2,048,739	69,789	79,244
ACCRUED EMPLOYEE COMPENSATION AND BENEFITS	243,788	248,708	258,023	261,603	261,645
TOTAL CURRENT LIABILITIES	5,840,214	3,887,447	2,807,973	837,026	834,779
LONG-TERM LIABILITIES:					
LONG-TERM DEBT, NET OF CURRENT PORTION	0	0	0	0	0
REFUNDABLE ENTRANCE FEES, NET OF CURRENT PORTION	5,365,136	5,777,062	6,191,017	6,572,548	6,873,086
DEFERRED REVENUES FROM ENTRANCE FEES, REFUNDABLE	0	0	0	0	0
DEFERRED REVENUES FROM ENTRANCE FEES, NON-REFUNDABLE	10,072,806	10,197,208	10,250,557	10,326,706	10,366,122
TOTAL LONG-TERM LIABILITIES	15,437,942	15,974,269	16,441,574	16,899,254	17,239,208
TOTAL LIABILITIES	21,278,156	19,861,717	19,249,548	17,736,280	18,073,987
NET ASSETS					
WITHOUT DONOR RESTRICTIONS	1,643,488	2,385,790	3,289,790	4,367,092	5,545,560
WITH DONOR RESTRICTIONS	42,867	46,552	49,156	47,780	46,239
TOTAL NET ASSETS	1,686,355	2,432,342	3,338,946	4,414,872	5,591,799
TOTAL LIABILITIES AND NET ASSETS	\$ 22,964,512	\$ 22,294,058	\$ 22,588,493	\$ 22,151,152	\$ 23,665,786

See accompanying independent accountant's compilation report and summary of significant assumptions and accounting policies.

GRACE LIFECARE, INC.
FORECASTED STATEMENTS OF OPERATIONS
YEARS ENDING DECEMBER 31, 2019 - 2023

	2019	2020	2021	2022	2023
<u>OPERATING REVENUES:</u>					
HEALTH CENTER REVENUES	\$ 2,988,851	\$ 3,078,517	\$ 3,170,873	\$ 3,298,659	\$ 3,431,595
INDEPENDENT LIVING UNIT REVENUES	4,366,271	4,497,259	4,632,177	4,818,853	5,013,053
AMORTIZATION OF DEFERRED REVENUE FROM ENTRANCE FEES	2,153,001	2,402,165	2,507,696	2,510,150	2,561,412
OTHER	77,644	96,418	98,116	99,124	91,561
TOTAL OPERATING REVENUES	9,585,767	10,074,359	10,408,862	10,726,786	11,097,622
<u>OPERATING EXPENSES:</u>					
GENERAL AND ADMINISTRATIVE	2,130,046	2,172,647	2,237,826	2,304,961	2,374,110
MAINTENANCE AND SECURITY	1,403,876	1,431,954	1,474,913	1,519,160	1,564,735
HOUSEKEEPING AND LAUNDRY	506,852	516,989	532,499	548,474	564,928
DINING SERVICES	1,626,259	1,658,784	1,708,548	1,759,804	1,812,598
HEALTHCARE	2,159,115	2,202,297	2,268,366	2,336,417	2,406,510
LIFE ENRICHMENT	352,413	359,461	370,245	381,352	392,793
DEPRECIATION	1,101,624	1,109,300	1,035,578	926,260	930,424
INTEREST EXPENSE	0	0	0	0	0
TOTAL OPERATING EXPENSES	9,280,185	9,451,432	9,627,975	9,776,428	10,046,098
INCOME GAIN/(LOSS) FROM OPERATIONS	305,582	622,927	780,887	950,358	1,051,524
<u>NONOPERATING GAINS, NET:</u>					
INVESTMENT INCOME, NET	80,000	64,376	68,113	71,944	71,944
NET UNREALIZED GAIN/LOSS ON INVESTMENTS	150,000	50,000	50,000	50,000	50,000
CONTRIBUTIONS/GIFTS	7,200	5,000	5,000	5,000	5,000
OTHER	0	0	0	0	0
TOTAL NONOPERATING GAIN/LOSS, NET	237,200	119,376	123,113	126,944	126,944
DECREASE/INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	(146)	3,684	2,604	(1,376)	(1,541)
CHANGE IN NET ASSETS	\$ 542,636	\$ 745,988	\$ 906,604	\$ 1,075,926	\$ 1,176,927

See accompanying independent accountant's compilation report and summary of significant assumptions and accounting policies.

GRACE LIFECARE, INC.
FORECASTED STATEMENTS OF CASH FLOWS
YEARS ENDING DECEMBER 31, 2019 - 2023

	2019	2020	2021	2022	2023
CASH FLOWS FROM OPERATING ACTIVITIES:					
Change in net assets	\$ 542,636	\$ 745,988	\$ 906,604	\$ 1,075,926	\$ 1,176,927
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Depreciation	1,101,624	1,109,300	1,035,578	926,260	930,424
Amortization of deferred revenue from entrance fees	(2,153,001)	(2,402,165)	(2,507,696)	(2,510,150)	(2,561,412)
Unrealized gain/loss on investments	(150,000)	(50,000)	(50,000)	(50,000)	(50,000)
Gain on sale of property and equipment	0	0	0	0	0
Change in operating assets and liabilities:					
Accounts receivable, net	(44,116)	(25,638)	9,398	10,575	(1,395)
Inventories	(2,797)	811	950	(21)	(806)
Prepaid expenses	4,860	(2,915)	(2,517)	(1,295)	1,863
Other assets and liabilities	(206)	(3,554)	(2,587)	1,424	1,393
Accounts payable and accrued expenses	(38,873)	8,401	908	(1,063)	9,945
Payable to related parties	(1,040,960)	(1,928,570)	(1,105,110)	(1,978,950)	9,455
Accrued employee compensation and benefits	(39,362)	4,921	9,314	3,580	41
Net cash used in operating activities	(1,820,196)	(2,543,423)	(1,705,159)	(2,523,714)	(483,566)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	(1,505,000)	(1,780,000)	(1,206,000)	(330,000)	(315,000)
Net change in assets limited to use and marketable securities	(80,000)	1,435,624	(68,113)	(71,944)	(2,071,944)
Net cash provided by (used in) investing activities	(1,585,000)	(344,376)	(1,274,113)	(401,944)	(2,386,944)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayment of long-term debt to parent	0	0	0	0	0
Proceeds from entrance fees	3,445,618	3,251,832	3,344,595	3,322,212	3,351,906
Refunds of refundable entrance fees	(326,466)	(350,859)	(354,180)	(348,897)	(472,227)
Net cash provided by financing activities	3,119,152	2,900,973	2,990,416	2,973,315	2,879,679
NET CHANGE IN CASH AND CASH EQUIVALENTS	(286,044)	13,175	11,144	47,657	9,169
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	615,248	329,203	342,378	353,522	401,179
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 329,203	\$ 342,378	\$ 353,522	\$ 401,179	\$ 410,348

See accompanying independent accountant's compilation report and summary of significant assumptions and accounting policies.

ATTACHMENT FOUR

**GRACE LIFECARE, INC. FORECASTED
FINANCIAL STATEMENTS FOR THE YEARS ENDING
DECEMBER 31, 2019 - 2023**

**GRACE LIFECARE, INC.
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FOR THE YEARS ENDING
DECEMBER 31, 2019 – 2023**

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Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

121 N. Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

Independent Accountant's Compilation Report

To the Board of Directors
Grace LifeCare, Inc., d/b/a Grace Ridge Retirement Community
Morganton, North Carolina

Management is responsible for the accompanying forecast of Grace LifeCare, Inc., d/b/a Grace Ridge Retirement Community (a nonprofit organization), which comprises the forecasted balance sheets as of December 31, 2019, 2020, 2021, 2022 and 2023, and the related forecasted statements of operations and cash flows for the years then ending and the related summaries of significant assumptions and accounting policies in accordance with guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants (AICPA). We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the forecast nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on this forecast.

The forecasted results may not be achieved, as there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Lowdermilk Church & Co., L.L.P.

Morganton, North Carolina
May 21, 2019

GRACE LIFECARE, INC.

Summary of Significant Assumptions and Accounting Policies for the Five Years Ending December 31, 2023

I. Nature of the Forecast

This financial forecast for the five years ending December 31, 2023 presents to the best of management's knowledge and belief, the expected financial position, results of operations and cash flows for the forecasted period. Accordingly, the forecast represents management's judgment as of May 21, 2019, the date of this forecast, of the expected condition and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast at the time the statements were prepared. However, there will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

II. Summary of Significant Accounting Policies

The following are the significant accounting policies that management has assumed as the basis for the financial statement forecast:

Basis of Accounting

The accompanying forecasted financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

Grace LifeCare considers all highly liquid investments when purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Residents are not required to provide collateral for services rendered. Payment for services is required upon receipt of invoice or claim submitted. Accounts past due are individually analyzed for collectability. There was no allowance for uncollectible accounts for the forecast period.

Inventories

Inventories are stated at the lower of average cost or market.

Assets Limited as to Use

Assets limited as to use include assets maintained under a statutory operating reserve. The statutory operating reserve is maintained in connection with the operations of a continuing care retirement community.

Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment are stated at the estimated fair value at the date of donation. Ordinary repairs and maintenance costs are expensed as incurred while significant improvements, renovation, and replacements are capitalized. Interest cost incurred on borrowed funds during the period of construction is

capitalized as a component of the cost of acquiring those assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Land Improvements	5-40 Years
Buildings and Building Improvements	5-40 Years
Equipment	3-25 Years

Other Assets

The excess of purchase price over the fair values of identifiable net assets acquired has been recorded as goodwill. Management periodically evaluates the carrying value of goodwill based on an analysis of estimated undiscounted operating earnings from the operations of each specific business. Any events or circumstances occurring during the year or future years that might have an impact on such carrying value are considered. No adjustment has been made to the carrying value of goodwill for the forecast period.

Entrance Fees

Entrance fees represent initial payments made by residents upon occupancy at Grace LifeCare. The refundable portion of entrance fees is recorded as Refundable Entrance Fees. The nonrefundable portion of entrance fees is amortized into income using the straight-line method over the remaining life expectancy of the resident. The life expectancies are actuarially adjusted. The unamortized nonrefundable portion of entrance fees received is recorded as Deferred Revenue from Entrance Fees.

Obligation to Provide Future Services

Grace LifeCare calculates the present value of the estimated cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees and the present value of estimated periodic service fees in accordance with the provisions of the ASC Topic 954-430. If the present value of the cost of future services and use of facilities exceeds the deferred revenue from entrance fees and the present value of periodic fees, a liability is recorded (obligations to provide future services). No liability has been recorded for the forecast period because the estimated present value of the cost of future services and use of facilities is less than deferred revenue from entrance fees and the present value of estimated periodic service fees.

Net Assets

Net assets and revenues, gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets consisting of all resources that have no donor-imposed restrictions.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

Net Resident Services Revenue

Residents pay a monthly services fee, which varies with the type of residence and with level of health care the resident receives. This monthly services fee is subject to change by Grace LifeCare. Gross resident service charges are recorded when services are provided less any discounts that apply based on the resident's particular contract. Discounts are reflected as reductions in net resident service revenue in the accompanying forecasted statements of operations.

Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents, Resident and Other Receivables and Accounts Payable – The carrying amount approximates fair value because of the short-term nature of these instruments.

Assets Limited as to Use and Marketable Securities – Fair values, which are the amounts reported on the accompanying forecasted balance sheets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Income Taxes

Grace LifeCare is a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code and as such is exempt from Federal income taxes. In addition, Grace LifeCare is also exempt from state income taxes.

III. Description of Grace LifeCare, Inc.

Grace Hospital, Inc. (the Hospital) incorporated Grace LifeCare, Inc. (LifeCare) as a North Carolina not-for-profit corporation and a wholly-owned subsidiary on November 26, 1990 for the purpose of maintaining and operating a retirement facility for the elderly. Additionally, the Hospital incorporated Grace Properties, Inc. (Properties) as a North Carolina not-for-profit corporation and wholly-owned subsidiary on December 26, 1990 for the purpose of acquiring and holding title to real property operated as a facility for the elderly. As described below, in February 1991 the Hospital purchased Mountain House Retirement Residence (Mountain House) located in Morganton, North Carolina and renamed it Grace Ridge (the Facility). Grace Ridge is a retirement community comprised of one hundred eighteen (118) apartments of various configurations, twenty-seven (27) cottages, associated common facilities and a Health Care Center licensed by the North Carolina Department of Health and Human Services comprised of thirty-five (35) Adult Care beds, twelve (12) Special Care beds licensed as Adult Care beds, and twenty-five (25) Skilled Nursing Care beds. A board of directors designated by the Hospital administers LifeCare. Grace Ridge is operated as a continuing care facility under current North Carolina statutes and is regulated by North Carolina Department of Insurance and the North Carolina Department of Health and Human Services.

On December 28, 1990, the Hospital acquired all prior debt from The First National Bank of Boston relating to Residential Retirement Center, Inc. (RRCI), the owner of Mountain House. On February 8, 1991, the Hospital offered Mountain House's real and personal property for public sale due to RRCI's default on its payment obligation. Foreclosure on the property was completed on February 19, 1991 at which time the Hospital acquired the facility and renamed it Grace Ridge. On February 19, 1991 the Hospital conveyed the real property to Grace Properties, Inc. and the personal property to Grace LifeCare, Inc. Effective August 31, 2004 Grace Properties, Inc. distributed the real property and related liabilities to Grace Lifecare, Inc.

On December 1, 2012, Grace Hospital Inc. and Valdese Hospital, Inc. both previously under the common control of Blue Ridge Healthcare System, Inc., merged. The surviving organization, Grace Hospital, Inc. simultaneously changed its name to Blue Ridge Healthcare Hospitals, Inc., which is a nonprofit North Carolina corporation qualified as a tax-exempt organization under IRS Code Section 501(c)(3). The new entity retains all wholly-owned subsidiaries including Grace Lifecare, Inc.

Grace Ridge currently consists of a multi-floor building which houses independent living units, adult care beds, and nursing beds as well as dining rooms, other common activity rooms, and administrative offices. In addition, there are twenty-seven (27) completed cottage units on the site.

Grace Ridge provides various levels of care as follows:

Independent Living - residents occupying these units must be of sufficient health to care for themselves.

Adult Care - residents whose health needs cannot be adequately met in their independent living units, requiring assistance with activities of daily living (ADL), but who do not require twenty-four (24) hour nursing care as provided in the skilled nursing care.

Special Care - residents who require specially trained nursing staff to assist with behaviors and needs associated with Alzheimer's disease or other dementia-related conditions.

Skilled Nursing Care - residents requiring a greater level of nursing services, administering of medication and other medical related requirements that cannot be provided in the above levels.

The Adult Care, Special Care and Skilled Nursing Care beds comprise the Health Care Center.

The following table summarizes the number, type and approximate square footage of the existing independent living units as of May 21, 2019:

<u>Type of Unit</u>	<u>Number of Units</u>	<u>Approximate Square Footage</u>
Studio (Beech)	2	456
One-bedroom (Elm)	32	560
One-bedroom special (Birch)	2	640
Two-bedroom (Walnut)	28	864
Two-bedroom deluxe (Sycamore)	10	1,152
Two-bedroom Grande (Willow)	8	1,152
Two-bedroom Grande (Walnut)	1	1,424
Two-bedroom (Magnolia)	2	1,680
Two-bedroom (Mimosa)	2	1,712
One-bedroom (Oak)	6	830
One-bedroom (Holly)	6	918
One-bedroom Grande (Holly)	3	1,095
Two-bedroom Redbud	1	2,256
Two-bedroom (Maple)	6	1,134
Two-bedroom Grande (Maple)	3	1,134
Two-bedroom (Dogwood)	3	1,384
Two-bedroom Grande (Dogwood)	3	1,577
Two-bedroom cottage	<u>27</u>	1,336
Total Units	<u>145</u>	

There are also five (5) units used as guest apartments and one (1) unit used as a sales model. These units are not currently available to sale.

At present there are thirteen (13) duplexes, and one (1) single-family building, for a total of twenty-seven (27) Cottage units located to the north of the main building. Management has plans for the construction of two additional duplex units beginning in 2020 with final completion anticipated in 2022. Management expects these units to be pre-sold prior to the beginning of construction of each set of cottage buildings.

Grace Ridge accepts as residents persons who are at least 60 years of age and are able to care for themselves at the time of their admission to the Facility and can demonstrate financial resources to meet the Facility's fee requirements. For each resident, the services provided and the related fees of the Facility are defined in a residency agreement. These agreements indicate that the Facility will provide each resident with an individual unit and various services depending on the type of residency agreement executed. These services can include housekeeping, laundry, daily meals, utilities, maintenance, scheduled transportation, and social, cultural, and recreational activities. Monthly service fees are subject to increase, upon proper notice, solely at the discretion of Grace Ridge.

Under the terms of the residency agreement, the resident agrees to pay a one-time entrance fee and a monthly service fee which entitles the resident to a unit as long as the Facility can provide the range of services needed by the resident.

If a resident can no longer care for himself or herself within the range of services provided in the independent living units, the resident can be transferred to the Health Care Center. Such a determination of the resident's inability to care for himself or herself is made at the discretion of the resident's physician, Grace Ridge Medical Director and the resident's family. When a resident has permanently transferred to the Health Care Center, his/her unit becomes available for reservation by other prospective residents desiring residency. However, should the resident recover sufficiently to resume occupancy in an independent living unit, a similar or alternate unit, as available, will be provided for the resident's use.

Under the residency agreement Grace Ridge requires a deposit of at least 10% of the entrance fee and payment of a \$1,250 per application processing fee before a unit is considered reserved. A prospective resident may cancel the residency agreement before assuming occupancy of a unit and receive a refund of all amounts paid to the Facility less \$1,000 or 2% of the entrance fee whichever is greater if canceled within 30 days of the execution of the agreement. If canceled after the 30-day period, Grace Ridge will retain 6% of the total Entrance Fee.

Residency agreements entered into before February 19, 1991 were offered under continuing care plans. The entrance fees were 90% or 100% refundable 60 days after re-occupancy of the vacated unit and receipt of a new entrance fee in full. Current residency agreements offer Lifecare plans with the entrance fees being refundable on a declining balance (4% per month for twenty-five (25) months and no refund thereafter) or 90% refundable upon the same re-occupancy conditions as the prior residency agreements.

IV. Significant Assumptions

Occupancy

Management has forecasted an occupancy rate in the apartment independent living units (including those reserved with a deposit) of 91% for 2019, 92% for 2020, and 93% for 2021 through 2023. The Cottage units occupancy rates are forecast to be 93% in 2019, 96% in 2020, 93% in 2021 and 2022, and 90% in 2023. The Assisted Living and Special Care Beds of the Health Care Center are expected to maintain an average occupancy of 81% in 2019 and 87% for 2020 through 2023. The Skilled Nursing Care Beds of the Health Care Center are projected to maintain an average occupancy of 76% for 2019 through 2023.

Revenues

Entrance fees generated from the reservation of the units are based on the forecasted number of units reserved annually and the estimated entrance fees of the units reserved. Entrance fees are assumed to be earned over the life expectancy of the resident as determined each year.

The following table summarizes the current entrance fees charged by unit type and location for the existing independent living units effective January 1, 2019:

		Current Entrance Fees Lifecare	Current Entrance Fees Standard	Current Entrance Fees Fee for Service
Studio	Beech	\$95,343	\$68,338	\$53,504
Standard 1 Bedroom	Elm	\$127,749 to \$140,896	\$89,425 to \$100,226	\$72,380 to \$77,708
Special 1 Bedroom	Birch	\$145,362	\$103,352	\$86,544
Standard 2 Bedroom	Walnut	\$170,550 to \$181,048	\$119,385 to \$128,333	\$100,603 to \$105,931
Deluxe 2 Bedroom	Sycamore	\$229,677 to \$241,967	\$160,775 to \$170,975	\$135,124 to \$140,453
2 Bedroom Grande	Willow	\$227,405 to \$239,623	\$159,183 to \$169,334	\$135,124 to \$140,453
2 Bedroom Grande	Walnut	\$271,318	\$189,922	\$162,295
2 Bedroom w/Den	Magnolia	\$320,106	\$229,403	\$198,850
2 Bedroom w/Den	Mimosa	\$325,434	\$224,074	\$197,398
1 Bedroom	Oak	\$163,469	\$114,428	\$98,700
1 Bedroom w/Den	Holly	\$180,801	\$126,561	\$108,943
1 Bedroom w/Den	Holly Grande	\$215,661	\$150,962	\$129,955
2 Bedroom	Maple	\$223,342	\$156,339	\$129,249
2 Bedroom w/Den	Dogwood	\$272,581	\$190,808	\$164,499
2 Bedroom w/Den	Dogwood Grande	\$310,593	\$217,414	\$187,175
2 Bedroom	Redbud	\$374,950	n/a	n/a
Cottage	Basic Design	\$250,082	\$175,057	\$156,802

The independent living units have a \$53,938 second person entrance fee for double occupancy of a unit for the Lifecare Plan, and \$38,272 for the Standard Plan. There is no second person entrance fee for the Fee for Service Plan. Cottage options and prices vary by individual cottage and must be added to the basic entrance fee shown above.

Under the Lifecare Plan, a resident would continue to pay the first person monthly service fee upon permanent or temporary transfer to the Health Care Center. Under the Standard Plan, a resident would pay a per diem rate equal to 70% of the full current per diem rate in the Health Care Center upon permanent or temporary transfer to the Health Care Center. Under the Fee for Service Plan, a resident would pay the full current per diem rate in the Health Care Center upon permanent or temporary transfer to the Health Care Center.

In conjunction with the foreclosure and purchase of the Facility in 1991, each resident (or the resident's estate representative) contracted with Grace LifeCare, Inc. that once the re-occupancy requirement has been fulfilled refunds will be paid in ten equal installments over a ten-year period, without interest. In fiscal 1994, the Facility began offering an early payout plan whereby the residents' heirs would accept a discounted portion of the entrance fee refund in exchange for an immediate payout. Approximately \$69,000 of this contract liability remained as of December 31, 2018. These refunds during the forecast period are estimated as follows:

<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
\$13,800	\$13,800	\$13,800	\$13,800	\$13,800

Refunds are estimated under the current 90% refundable contracts as follows:

<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
\$139,666	\$129,547	\$133,100	\$104,249	\$218,065

The Lifecare, Standard and Fee for Service residency agreements are refundable on a declining balance as they are amortized at 4% per month for 25 months. One refund of between \$173,000 and \$240,363 is projected each year between 2019 and 2023.

Forecasted revenues from monthly service fees were based on the forecasted utilization of the independent living units and the average monthly service fees assumed to be in effect during the forecast period. The following table summarizes the current monthly service fees of the existing independent living units as of January 01, 2019:

		Lifecare and Standard Monthly Service Fee	Fee for Service Monthly Service Fee
Studio	Beech	\$1,745	\$1,195
Standard 1 Bedroom	Elm	\$2,384	\$1,328
Special 1 Bedroom	Birch	\$2,402	\$1,354
Standard 2 Bedroom	Walnut	\$3,016	\$1,659
Deluxe 2 Bedroom	Sycamore	\$3,334	\$1,858
2 Bedroom Grande	Willow	\$3,334	\$1,858
2 Bedroom Grande	Walnut Grande	\$3,300	\$2,000
2 Bedroom w/Den	Magnolia	\$3,616	\$2,027
2 Bedroom w/Den	Mimosa	\$3,616	\$2,027
1 Bedroom	Oak	\$2,836	\$1,592
1 Bedroom w/Den	Holly	\$2,960	\$1,725
1 Bedroom w/Den	Holly Grande	\$3,041	\$1,792
2 Bedroom	Maple	\$3,185	\$1,858
2 Bedroom w/Den	Dogwood	\$3,300	\$1,925
2 Bedroom w/Den	Dogwood Grande	\$3,420	\$1,960
Second person fee for Apartments		\$819	\$819
Cottage		\$3,129	\$1,991
Second person fee for cottages		\$984	\$819

Double occupancy was assumed to be 29% of all occupied apartment and cottage units. Management has implemented an annual increase of 3% in the first and second person independent living unit monthly service fee for 2019. An increase of 3% annually is projected in the monthly service fees for the years 2020 - 2023. Management also implemented a 1.5% increase in all entrance fee options in 2019 and forecasts a 2% increase for the years 2020 - 2023.

Revenues for nursing care in the Health Care Center are generated from services provided to residents transferring from the independent living units of the Facility. Residents entering into Lifecare Plan contracts are required to live independently for 90 days before qualifying for Health Care Center rates which are equal to the first person monthly service fee for the independent living unit that was occupied. Residents entering into Standard Plan contracts are required to live independently for 90 days before qualifying for discounted Health Care Center rates at 30% off the current per diem rate. Fee for Service and residents admitted under the discontinued Lease agreement plan pay at full Health Care Center per diem rates which are currently \$222.69 for an adult care bed, \$300.55 for a special care bed, and \$300.55 for a nursing care bed. Health Care Center rates increased 3.0% beginning January 1 in year 2019. An increase of 3% annually is projected in the monthly service fees for the years 2020 - 2023.

Forecasted other income consisting of the sale of additional meals, barber and beauty shop services purchased, and other miscellaneous sources were based on management's assumptions and were forecasted based on occupancy projections and inflation for years ending 2019 - 2023.

Operating Expenses

Staffing requirements were estimated by management based on the current experience of the Facility. Average salary and wage rates were based on current rates at the Facility and were forecasted to increase approximately 1% annually with periodic adjustments for increased occupancy throughout the forecast period.

The costs of employee fringe benefits, payroll taxes and other employee related expenses were based on management's assumptions and were projected to increase commensurate with the assumed increases in salary and wage rates through the forecast period. Employee fringe benefits and payroll taxes were assumed to approximate 20% of salaries and wages.

Supplies, utilities and other non-wage operating expenses were based on assumed annual inflation of 2% to 3% with adjustments as needed for increased occupancy during the forecast period.

Depreciation and Property, Plant and Equipment

The forecast statements reflect the cost of constructing a Bistro in 2019, additional interior renovations and upgrades of the remaining Independent Living floors and the Health Care Center in 2019 through 2021, and the cost of constructing and equipping the two remaining duplex cottages in 2020 through 2022.

Obligation to Provide Future Services

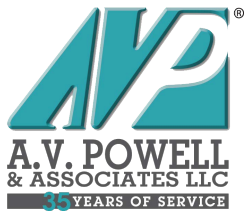
Each year Grace Ridge calculates the present value of the net cost of future services and use of facilities to be provided to forecasted residents and compares that amount with the forecasted balance of deferred revenue from forecasted advance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from advance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. No liability is forecasted for the five years ending December 31, 2023.

Operating Reserve Requirement

Beginning in fiscal year 1997 Grace Ridge provided for designation of an operating reserve requirement equal to 25% of certain operating and debt service expenses if occupancy excluding the Skilled Nursing Unit is equal to or greater than 90% as determined by the North Carolina Department of Insurance and required under G.S. 58-64-33 and 58-64-20(a)(9). If occupancy excluding the Skilled Nursing Unit is less than 90%, then Grace Ridge will provide designation of an operating reserve equal to 50% of certain operating and debt service expenses. The following table summarizes operating reserve requirements during the forecast period:

Period Ending	Adjusted Operating Expenses	Forecast Occupancy %	Occupancy Factor	Operating Reserve Requirement
Dec-2019	\$8,342,132	88%	50%	\$4,171,066
Dec-2020	\$8,592,397	91%	25%	\$2,148,099
Dec-2021	\$8,850,168	91%	25%	\$2,212,542
Dec-2022	\$9,115,674	91%	25%	\$2,278,919
Dec-2023	\$9,389,144	91%	25%	\$2,347,286

ATTACHMENT FIVE



GRACE LIFECARE, INC. Actuarial Report

Grace Ridge engaged the consulting firm, A.V. Powell & Associates, LLC, (“AVP LLC”), to conduct an actuarial study of Grace Ridge Retirement Community as of December 31, 2016. The final report was submitted to the Grace Ridge management on April 12, 2017.

The projections in the actuarial study showed that Grace Ridge is in satisfactory actuarial balance with qualifications about surplus and contingency margins provided that future experience substantially follows the underlying assumptions.

Some of the key assumptions were that:

- a. Future monthly fees would be increased 1% higher than internal expense inflation from 2018-2020, and then will match expense inflation thereafter.
- b. Annual earnings and yields on invested assets will consistently equal or exceed internal expense inflation by 2%.
- c. Average annual occupancy would equal or exceed 90% in independent living, 85% in assisted living, and 100% in nursing care.
- d. Residents will be able to pay the fees charged, or if not, then other sources will be found to subsidize those residents.

It should be noted that the concept of “is in satisfactory actuarial balance” is defined in the Actuarial Standards of Practice No. 3 (“ASOP#3”) Practices Relating to CCRCs that was adopted by the American Academy of Actuaries in September 2007 and last updated effective May 1, 2011, and represents that a CCRC’s fees and reserves appear to be adequate to discharge the future liabilities associated with their residents. Grace Ridge has met the three criteria for ASOP#3 compliance, but have not yet accumulated reserves that equal or exceed AVP LLC internally developed standards for recommended surplus and contingency margins which exceed the minimum ASOP#3 funded status requirement.

The reader of this summary should be aware that this study was prepared for users of the report that are familiar with the operations of Grace Ridge and the environment in which continuing care retirement communities operate. The consulting staff of AVP LLC is available, at the reader’s expense and with written permission from Grace Ridge, to further elaborate on the assumptions, implications and appropriate interpretations of this summary. In particular, the reader is alerted to the context that the actuarial opinion is only valid for the unique and comprehensive set of actuarial, financial, demographic, operational, and occupancy assumptions that were used to prepare the full actuarial report and are contained therein.

Molly J. Shaw, MAAA, ASA
For: A.V. POWELL & ASSOCIATES, LLC

Providing actuarial and financial projections to organizations serving senior populations

300 West 4th Street, Suite A • Eureka, MO 63025-1839 • 404.845.0360 phone • molly.shaw@avpowell.com

OTHER OFFICES: Atlanta, GA • Kansas City, MO • Virginia Beach, VA

ATTACHMENT SIX



**GRACE RIDGE
RESIDENCE AND CARE AGREEMENT
Lifecare and Standard**

The Residence and Care Agreement (the "Agreement") is made this ____ day of _____, 20__ by and between Grace LifeCare, Inc., a North Carolina non-profit corporation, (herein "Grace LifeCare") and _____ herein referred to as "Resident", (or when two (2) people are named in this Agreement, each of them shall be parties of this Agreement and collectively referred to as "Resident").

Home and entry fee selection

Resident has selected the home with a location of _____ on the campus of Grace Ridge. The initial entry fee for the home is \$_____ representing a (Lifecare)(Standard)Entrance Fee Option of which the Resident has already paid a ten percent (10%) deposit in the amount of \$ _____.

If applicable there will be an additional amount of _____ % of the above entrance fee for each year one resident is under the age of 60. The total additional amount is \$_____. This brings the total entrance fee to \$_____.

If the 90% Refund Entrance Fee option is chosen, there will be an additional amount of \$_____ representing the Return of Capital Premium and the Total entrance fee will be \$_____. The Refundable amount will be \$_____.

Monthly Service Fee

The monthly service fee for this home is \$_____ for a first person fee and \$_____ for a second person fee creating a total of \$_____ per month due and payable by the fifteen day of each month. The monthly fee will be paid in advance of each month. Grace Ridge retains the right to adjust monthly fees on an annual basis and no more than a bi-annual basis for increased cost of living in the operations of Grace Ridge Community.

Charge For Health Care Center

The charge to Resident for care in the Health Care Center is based on the type of Residency Contract chosen. Residents with a Lifecare Agreement pay the First Person Monthly Service Fee in both Assisted Living and Health Care. Residents with a Standard Agreement pay the Discounted Per Diem Rate in both Assisted Living and Health Care. Should a Resident become unable to pay their monthly bill in skilled nursing care, Grace Ridge reserves the right to transfer the Resident to its sister facility Grace Heights.

RECITALS:

Grace LifeCare is the lessee of property located at 500 Lenoir Road in Morganton, North Carolina on which it operates Grace Ridge, a retirement community licensed by the North Carolina Department of Insurance.

Grace Ridge is a facility consisting of one hundred and thirty-five (135) apartment residences of various configurations, twenty-seven (27) cottage residences, associated common facilities, a Health Care Center licensed by the North Carolina Department of Human Resources comprised of thirty five (35) Adult Care beds, twelve (12) Special Care beds licensed as Adult Care beds, and twenty five (25) Nursing Care beds. Grace LifeCare is wholly-owned by Blue Ridge Healthcare Hospitals, Inc.(herein "BRH"). Grace Ridge was acquired by BRH on February 19, 1991. Grace Ridge is the operating entity of Grace LifeCare.

Resident is desirous of becoming a resident of Grace Ridge in an Apartment or Cottage Residence (herein "Residence") and using the facilities, programs, and receiving the services provided by Grace LifeCare subject to the terms and conditions of this Agreement.

Resident acknowledges receipt of the most current Disclosure Statement of Grace LifeCare as required by Section 58-64-20 of the North Carolina General Statutes.

Grace LifeCare agrees to make available to Resident accommodations and services in Grace Ridge subject to the terms and conditions set forth in this Agreement.

Now, Therefore, Resident and Grace LifeCare agree as follows:

I. REPRESENTATIONS AND COVENANTS

A. Representations And Covenants Of The Resident. The representations made by Resident during the application process are true at the time of execution of this Agreement and Resident is required to be in compliance with all of the following obligations at all times during the term of this Agreement.

1. At the time of occupancy and for at least ninety (90) days after occupancy, Resident will be able to live independently, able to care for himself or herself without assistance in normal activities of daily living, free of communicable disease, and has assets and income which are sufficient under foreseeable circumstances, and after provisions for payment of Resident's obligations under this Agreement, to meet ordinary and customary living expenses after Resident moves into Grace Ridge.

2. All facts stated by Resident in Resident's application and other documentation

delivered to Grace LifeCare as a pre-condition to this Agreement are true and complete.

3. Resident has not made any gift, transfer, or assignment of his or her property in contemplation of the signing of this Agreement that would impair Resident's ability to meet his or her obligations under this Agreement; and will not, subsequent to signing this Agreement, make such a gift, transfer or assignment.
4. Residents must be sixty (60) years of age or older at the time of initial occupancy, except that in the case of a married couple, a parent/child combination, or sibling combination, one occupant may be younger than sixty (60) years of age. The first person entrance fee would be increased by 1.5% for every year the occupant would be below 60 years of age. The additional fee will be prorated by month.
5. Resident promises to comply with all of the terms of this Agreement and the published policies and procedures, as amended from time to time, by the Board of Directors of Grace LifeCare.
6. Resident will pay the Entrance Fee, the Monthly Service Fee, charges for care in the Health Care Center and fees for any additional services incurred by Resident.
7. Within sixty (60) days after Resident moves into Grace Ridge, Resident will provide, by a Will or otherwise, for the disposition of all furniture, possessions and property of Resident located in Grace Ridge.
8. Before occupancy, if applicable, Resident must secure the Hospital Insurance Benefits Program under Part A of Medicare, and secure the Medicare medical insurance benefits program under Part B of Medicare and/or any other public hospital and/or medical insurance benefits program which may be enacted by the State of North Carolina or the Federal Government as a successor or supplement to Medicare. If, at any time, Resident is not eligible for Medicare coverage, Resident will apply for and maintain private health insurance coverage acceptable to Grace LifeCare.

If any of the aforesaid representations are untrue, become untrue, or Resident takes an action inconsistent with such representations, Grace LifeCare may treat such untrue representation or action as a breach of this Agreement entitling Grace LifeCare to terminate this Agreement.

B. Representations And Covenants Of Grace LifeCare. Grace LifeCare represents and covenants that:

1. Admission to Grace Ridge shall not be based on gender, race, religion, or place of origin of a Resident; and shall be consistent with applicable law.
2. If Resident is unable to pay Monthly Service Fees and other charges and has provided explanation, documentation, or justifiable reasons for non-payment satisfactory to Grace LifeCare, in its sole discretion, Resident may continue to

live at Grace Ridge, so long as Resident pays to the maximum extent of Resident's ability to pay, Resident's obligations to Grace LifeCare; and subject to Grace

LifeCare's ability to continue to operate Grace Ridge on a sound financial basis while receiving less than full payment by Resident of his or her obligations. The determination of whether Resident is paying to the maximum extent of Resident's ability to pay and whether Grace LifeCare may continue to operate on a sound financial basis while receiving less than full payment by Resident are determinations made in the sole discretion of Grace LifeCare.

II. ACCOMMODATIONS AND SERVICES

Grace LifeCare agrees to provide Resident the living accommodations, programs and services at Grace Ridge described in this section, so long as Resident carries out his or her obligations under this Agreement, including the payment of the Monthly Service Fee described in Section III, Paragraph F and Page Number One of this Agreement.

Resident and Grace LifeCare expressly understand and agree that this Agreement grants Resident a revocable license to occupy and use space in Grace Ridge and that Resident is not given exclusive possession of the Residence as against Grace LifeCare. Resident and Grace LifeCare expressly understand and agree that this Agreement is not a lease or easement and does not transfer or grant Resident any interest in real property leased by Grace LifeCare.

A. Living Accommodation. Resident has the exclusive right to occupy and use the Residence subject to the terms and conditions set forth in this Agreement. Resident may not assign the Residence.

B. Utilities. Grace LifeCare will furnish utilities including air conditioning, heating, electricity, water, sewer and municipal services. Resident shall pay for installation, use and maintenance charges related to telephone and cable television in the Residence.

C. Meals. Grace LifeCare will serve three (3) nutritionally well-balanced meals each day in the central dining room. The cost of one (1) meal each day during each calendar month is included in the Monthly Service Fee as described in Section III, Paragraph F of this Agreement. Resident may use his or her total number of meals included in the Monthly Service Fee anytime during the calendar month, up to three (3) meals per day. Meals not used in a given month will not carry over into the next month and "make up meals" are not offered. However, any resident with meals leftover at the end of the month may be issued "missed meal" tickets. These tickets are offered at a limit of five per resident, must be used within the following month, and are transferable (i.e. family members, guests, etc.) A "raw food" meal credit is provided to residents after 14 consecutive days of absence from Grace Ridge. Meal charges for additional meals can be found in the ancillary fee schedule.

D. Furnishings. Grace LifeCare will provide carpeting, certain appliances applicable to the Residence and an emergency call system, as described in the current Grace Ridge literature. All other furniture, furnishings, decorations, accessories, bed and bath linens and other personal property will be provided by Resident.

E. Health Care. Grace LifeCare will provide health care in accordance with Section IV

of this Agreement entitled "Health Care".

F. Housekeeping Services. Grace LifeCare will provide scheduled routine housekeeping services including vacuum cleaning, dusting and cleaning of baths and kitchens at no additional charge. Charges for additional housekeeping services may be found in the Ancillary Fee Schedule.

G. Laundry. Grace LifeCare will change and launder Resident's bed and bath linens on a regularly scheduled basis at no additional charge. Charges for additional laundry services may be found in the Ancillary Fee Schedule. Convenient laundry facilities are available at Grace Ridge for Resident's personal laundry at no additional charge.

H. Security. Grace LifeCare will provide twenty-four (24) hour security and will provide emergency call devices in each Residence.

I. Maintenance and Repairs. Grace LifeCare will maintain and keep in repair its own improvements, furnishings, and equipment. Resident will be responsible for the cost of repairing damage to property of Grace LifeCare caused by the negligence of Resident or any guest of Resident, ordinary wear and tear excepted. Repairs, maintenance, and replacement of Resident's property will be the responsibility of Resident. Charges for Handyman services may be found in the Ancillary Fee Schedule.

J. Alterations. After occupancy and with approval from the Executive Director Resident may add custom features, decorations and enhancements approved by Grace LifeCare to the Residence. Any such improvements must be contracted and paid for by Resident and will become part of the Residence and the property of Grace LifeCare upon termination of this Agreement. The value of any such improvements will not be considered in computing refunds and Grace LifeCare will have a vested ownership in such improvements. Any unapproved alterations that cause damage to the Residence shall be repaired or removed at the expense of Resident and in a way that is acceptable to Grace LifeCare.

K. Groundskeeping. Grace LifeCare will furnish groundskeeping service for the grounds of Grace Ridge, including lawn, tree, and shrubbery care. Subject to approval by Grace LifeCare, Residents may plant and maintain certain areas designated for such purpose by Grace LifeCare.

L. Storage. Grace LifeCare will provide limited storage space outside the Apartment Residences for personal items.

M. Parking. Grace LifeCare will provide lighted and well maintained parking areas for Resident's personal vehicle. Any oversized, recreational or unusually unattractive vehicles must be parked in areas designated by Grace LifeCare.

N. Common Facilities. Grace LifeCare will provide common facilities for the use, benefit and enjoyment of Resident, such as: dining rooms, lobby, sitting areas, lounges, arts and crafts room, multipurpose room, library, chapel, game room, and other common facilities as may be designated by Grace LifeCare.

O. Activities. Grace LifeCare will provide planned and scheduled social, recreational, spiritual, educational and cultural activities, arts and crafts, exercise and health programs, and other special activities designed to meet the interests and needs of the Residents.

P. Transportation. Grace LifeCare will provide scheduled local transportation and transportation to local medical appointments within a ten mile radius of the Grace LifeCare campus. Appointments must be made in advance with schedules approved by Grace LifeCare. An additional charge may be made for transportation for other special, personal or group trips.

Q. Aesthetic View. Grace LifeCare maintains the right to supervise the overall aesthetic view of the property. If notified by Grace LifeCare, Resident will comply with all requests to maintain the external area around the residence in an orderly and aesthetically pleasing manner.

III. RESIDENT FEES

The Resident Fees in this Section include the Application Processing Fee, Thirty Day Period Rescission Fee, Deposit Fee, Entrance Fee, the Monthly Service Fee and charges for care in the Health Care Center, all of which are subject to adjustment from time to time and are described in greater detail in this Section of the Agreement.

A. Application Processing Fee. If Resident has selected Grace Ridge as their retirement community, then the Resident shall submit a check to Grace LifeCare in the amount of Twelve Hundred Fifty Dollars \$1250 as an Application Processing Fee with the submission of an application. Of this Application Fee, \$250 is considered a processing fee and is nonrefundable. The remaining \$1000 will be credited toward the Entrance Fee or any other sum due from Resident under this Agreement. If the applicant should decide not to move to Grace Ridge, the applicant may request in writing and receive a full refund of the \$1000.

B. Thirty Day Period Rescission Fee

Upon rescission, cancellation or termination within thirty days of the signed Agreement under Section V, except by voluntary termination of Resident after occupancy under Section V, Paragraph C; termination for cause after occupancy by Grace LifeCare under Section V, Paragraph F; or the death of Resident (or when double occupancy the death of both Residents), Grace LifeCare shall refund, or cause to be refunded, all money without interest to the prospective Resident or Residents, except (i) periodic charges specified in this Agreement and applicable only to the period the Residence was actually occupied by Resident; (ii) those non-standard costs specifically incurred at the request of Resident and described in this Agreement, or any amendment hereto signed by Resident; (iii) those nonrefundable fees that are set out in this Agreement or any amendment to either signed by Resident; and (iv) a service charge in an amount equal to the greater of One Thousand Dollars (\$1,000) or two percent (2%) of the Entrance Fee.

C. Deposit Fee. If Resident has selected a particular Residence at Grace Ridge, then the Resident shall submit a check to Grace LifeCare in the amount that equals 10% of the Entry Fee. Resident agrees to move into the home at a mutually agreed upon move-in date, at which time they will pay the balance of the Entry Fee and begin paying Monthly Service Fees. The Deposit Fee will be credited toward the Entry Fee at the time of move-in. Resident understands that with this deposit, the home will be effectively taken off the market and will not be offered to anyone on the Wait List or any person who expresses interest in that home. This agreement is signed in good faith on the part of both parties that Resident will move in at the agreed upon date. If Resident should rescind after a thirty day period, Grace Ridge will retain six percent (6%) of the total Entry Fee.

D. Entrance Fee. The Entrance Fee is paid to Grace Ridge. The Resident has the choice of several Entrance Fee options. The difference in the options is the amount of the Entrance Fee, the Health Care Center charge to be paid by the Resident and the amount of the Entrance Fee that is refunded to the Resident or the estate of Resident after residence is terminated.

Under each of the Entrance Fee Options the Entrance Fee is amortized at the rate of four percent (4%) per month, for an initial period of varying length depending upon the option selected. Amortization begins at the date of Resident's occupancy of a Residence or ninety-one (91) days after Resident signs this Agreement, whichever is the first to occur. The time during which the Entrance Fee is being amortized under any of the options is the amortization period.

If Resident has occupied the Residence and this Agreement is terminated during the amortization period by the death of Resident (or when double occupancy, the death of both Residents), by voluntary termination by Resident under Section V, Paragraph C, or by Grace LifeCare for cause under Section V, Paragraph F, the unamortized portion of the Entrance Fee, determined as hereinafter provided, shall be refunded to Resident. If this Agreement is not terminated by the death of Resident or Residents, or under Section V, Paragraphs C or F after occupancy by the Resident, the refund to Resident shall be determined under Section VI, Paragraph A.

The Lifecare and Standard non-refundable Entrance Fee option is amortized at four percent (4%) per month for twenty five (25) months and is fully amortized twenty five (25) months after the beginning date of the amortization period.

The Lifecare and Standard 90% refundable Entrance Fee option is amortized at four percent (4%) per month and is fully amortized to the extent of ten percent (10%) after two and one-half (2½) months from the beginning date of the amortization period. The remaining ninety percent (90%) is returned to the Resident or the Resident's Estate after residence at Grace Ridge is terminated.

Any refund will be reduced to the extent of any obligation owed by Resident to Grace LifeCare. Refund of the Entrance Fees under any of the foregoing Options, if applicable, is made sixty (60) days following occupancy by a new Resident of the Residence but then

only if the Entrance Fee from the new Resident has been received by Grace LifeCare. Provided, however, the refund shall be paid within two (2) years following termination.

E. Terms of Payment of Entrance Fees. The terms of payment of the total Entrance Fee shall be as follows:

1. The Application Processing Fee, which is Twelve Hundred Fifty Dollars (\$1250), is submitted at the time of Application. One Thousand (\$1,000) of this amount will be credited toward the Entrance Fee. The remaining \$250 is considered a processing fee and is not refundable.
2. The Deposit Fee, which is an amount equal to ten percent (10%) of the Entrance Fee shall be delivered to Grace LifeCare with the understanding that Grace Ridge will remove the home from marketing inventory.
3. The balance of the total Entrance Fee is due at the earlier of either the date of occupancy or the mutually-determined move-in date established at the time of the 10% deposit and reflected in the Deposit Agreement.

Payments of the Entrance Fee shall be made payable to Grace LifeCare, Inc.

F. Monthly Service Fee. In addition to the Entrance Fee, Resident agrees to pay a First Person Monthly Service Fee, plus a Second Person Monthly Service Fee, if there is double occupancy of the Residence, (collectively referred to as Monthly Service Fee) during the term of this Agreement which shall be payable in advance by the 15th day of each month. The first payment of the Monthly Service Fee will be due on the earlier of the date of occupancy or the mutually agreed upon move-in date. Monthly Service Fees will be prorated for the given month, if applicable. Upon termination of the Residence and Care Agreement, Resident or his or her estate shall continue to be responsible for the Monthly Service Fee through the date that the Residence is vacated and accepted by Grace Ridge. If the Residence is not vacated within a thirty (30) day period, in addition to the Monthly Service Fee, an additional storage fee of thirty dollars (\$30.00) per day will be charged. Contents remaining in the Residence after the thirty (30) day period will be moved to a storage area to be determined by Grace LifeCare, Inc. Grace LifeCare, Inc. accepts no liability for damages that may occur during the move or during the storage period. After termination of residence, Monthly Service Fees paid for any period beyond the date on which Grace LifeCare takes back the Residence are refunded to the Resident or his or her estate within sixty (60) days.

G. Adjustments In The Monthly Service Fee. The Monthly Service Fee is assessed to provide the facilities, programs and costs associated with the operation of Grace Ridge. The Board of Directors of Grace LifeCare may adjust the Monthly Service Fee from time to time during the term of this Agreement, as Grace LifeCare, in its sole discretion, deems necessary in order to reflect changes in the costs of providing such facilities, programs and services described herein consistent with operating on a sound financial basis and maintaining the quality of services called for herein. Any such increases in the Monthly Service Fee may be made by Grace LifeCare upon thirty (30) days written notice to Resident. Grace LifeCare also reserves the right to revise and amend the basis of all charges.

H. Payment Of Monthly Service Fees. Grace LifeCare will furnish Resident with a monthly statement showing the total amount due for the Monthly Service Fee and any other services which are chargeable to the Resident pursuant to this Agreement.

I. Failure To Make Monthly Service Fee Payment. If Resident fails to pay any of the Monthly Service Fees or charges for other or additional services by the 15th of the month, Grace LifeCare will provide a second monthly statement. If Resident fails to pay that invoice by the 25th of the month and does not provide satisfactory explanation, documentation or justifiable reason for non-payment to Grace LifeCare, then Grace LifeCare has the right to terminate this Agreement under Section V, Paragraph F, Subparagraph 4, subject to Grace LifeCare's covenant in Section I, Paragraph B, Subparagraph 2. Grace LifeCare will charge a late penalty on any fees paid after the 15th of the month at the rate of one and one-half percent (1½%) per month.

J. Charges In The Grace Ridge Health Care Center. When Resident transfers, or is transferred, to the Health Care Center, Resident shall pay either the First Person Monthly Service Fee, or a discounted per diem rate. The charge Resident pays for care in the Health Care Center is based on the Entrance Fee option selected and is set forth on Page 1 this Agreement. There are conditions below (in this section) under which Grace LifeCare may require Resident to pay an amount for care in the Health Care Center, different than the amount set forth on Page 1:.

If Resident selected: (1) one of the Life Care Entrance Fee options, Resident shall pay the First Person Monthly Service Fee, unless Grace LifeCare requires Resident to pay the discounted per diem rate; or, (2) If Resident selected one of the Standard Entrance Fee options, Resident shall pay the discounted per diem rate. Grace LifeCare may require payment of the increased Health Care Center charges for any of the following reasons:

After review of the medical information submitted by an applicant, Grace LifeCare may, in its sole discretion, decline to admit the applicant under an Agreement for a Residence without an adjustment of the cost to applicant of the Health Care Center charges.

If within ninety (90) days following occupancy, there is a change in the mental or physical condition of Resident which requires Resident to transfer or to be transferred to the Health Care Center, or an independent health care center, and if this Agreement is not terminated by Resident or Grace LifeCare, Grace LifeCare, in its sole discretion, may require Resident to pay the discounted per diem rate.

When there is to be double occupancy of a Residence and there is a change in the mental or physical condition of one (1) of the Residents prior to occupancy or within 90 (days) following occupancy, and Grace LifeCare allows the second occupant to move directly into the Health Care Center within ninety (90) days, Grace LifeCare, in its sole discretion, reserves the right to require the Resident admitted to the Health Care Center to pay the discounted per diem rate or the full per diem rate, for care in the Health Care Center. It is understood, however, that if the change in mental or physical condition precludes one of the Residents from taking occupancy of the Residence, either Resident

or Grace LifeCare may terminate this Agreement.

When there are two (2) Residents in the Residence and one (1) Resident is transferred to the Health Care Center, the Resident remaining in the Residence will pay the First Person Monthly Service Fee identified on Page Number One of this Agreement and the Resident in the Health Care Center will pay the First Person Monthly Service Fee plus an additional charge attributed to the cost of two (2) meals per day or the discounted per diem rate as identified on Page Number One of this Agreement. Should a Resident stay in the Health Care Center less or more than a monthly billing period the charge will be prorated accordingly.

K. Additional Charges For Ancillary Services In The Grace Ridge Health Care Center. Additional charges may be made by Grace LifeCare for ancillary services in the Health Care Center. Examples of such additional charges include, but are not limited to, the cost of prescription and non-prescription medications; surgical, diagnostics, dental and optical services; speech, occupational and physical therapy; podiatry; oxygen; medical and nursing supplies; physical examinations and any other medical services beyond that available in the Health Care Center. Also, any professional services (medical or otherwise) contracted by Resident or on behalf of Resident may be billed directly to Resident.

L. Care In Other Facilities. Should Resident be temporarily transferred to an Adult Care bed or Nursing Care bed in an independent health care center, approved by Grace LifeCare due to a lack of bed availability, as provided in Section IV, Paragraph D, during the period Resident is in an approved independent health care center, Resident will pay Grace LifeCare the lesser of the Health Care Center charge required under Resident's Agreement with Grace LifeCare or the per diem charge at the approved independent health care center.

M. Care In Facilities Other Than the Grace Ridge Health Care Center or an Approved Independent Health Care Center. Should Resident need a level of care beyond that licensed by the North Carolina Department of Health and Human Services at the Grace Ridge Health Care Center or at an approved independent health care center and require transfer to another facility, all expenses which will result from such transfer and care shall be borne entirely by Resident.

IV. HEALTH CARE.

A. Adult Care. Adult Care beds will be provided for Apartment and Cottage Residents whose health needs cannot be adequately met in their Residence.

B. Nursing Care. Nursing Care beds are available for Residents who have entered into a Residence and Care Agreement for an Apartment, Cottage or Adult Care Residence. The availability of Nursing Care beds is restricted, however, to Residents who have entered into a Residence and Care Agreement and have resided in an Apartment or Cottage for a period of ninety (90) days or an Adult Care Residence for a period of thirty

(30) days. Nursing Care beds are not available to persons for direct admissions from outside the Grace Ridge Community.

When there is to be double occupancy of an Apartment or Cottage Residence by a Resident and his or her spouse, or by two (2) siblings, Grace LifeCare may, in its sole discretion, allow a spouse or a sibling to be admitted directly to an Adult Care bed or a Nursing Care bed in the Health Care Center at the time the other spouse or sibling takes occupancy of the Residence. When a Resident and his or her spouse, or two (2) siblings, have taken occupancy of an Apartment or Cottage Residence, Grace LifeCare may, in its sole discretion, allow a spouse or sibling to be transferred to a Nursing Care bed in the Health Care Center within thirty (30) days after occupancy. Admission of a spouse or sibling to the Health Care Center at the time of occupancy or within thirty (30) days following occupancy is subject to the cancellation or termination of the Residence and Care Agreement by Resident or Grace LifeCare.

C. Staffing For Health Care Center. Staffing for the Adult Care beds and Nursing Care beds in the Health Care Center will be consistent with licensing rules adopted by the North Carolina Department of Health and Human Services.

D. Transfer To An Independent Health Care Center. Should a Resident be temporarily transferred to an Adult Care bed or Nursing Care bed in an independent health care center due to lack of available beds, Resident will be returned to Grace Ridge's Health Care Center as soon as one (1) of the beds in the Grace Ridge Health Care Center at the corresponding level of care, or the level of care required by the Resident upon readmission is available. When there is more than one (1) Resident who has been transferred to an independent health care center for Adult Care or Nursing Care, the Resident who has lived in an independent health care center for the longest period of time will be given the first available bed at the corresponding level of care, or the level of care required by the Resident upon readmission. Upon notification of the availability of a bed at Grace Ridge, Resident will return to the Grace Ridge Health Care Center. Should Resident choose not to return to the Grace Ridge Health Care Center, Grace LifeCare may take action to terminate this Agreement under the provisions of Section V, Paragraph F, Subparagraph 8.

Unless Resident declines to return to an available bed in the Grace Ridge Health Care Center, Grace LifeCare will pay Resident's per diem charges in an independent health care center approved by Grace LifeCare, except for those charges covered by Medicare Part A. During the period Resident is in an approved independent health care center, Resident will pay Grace LifeCare the lesser of the Health Care Center charge required under this Agreement with Grace LifeCare or the per diem charge in the approved health care center.

E. Transfer To The Health Care Center. If it is determined by the Medical Director and Grace LifeCare, in consultation with Resident's personal physician, that Resident needs to be permanently transferred to the Health Care Center then the Resident shall be transferred to the appropriate level of care in the Health Care Center. Unless there are two (2) Residents, one (1) of whom is still occupying the Residence, Grace LifeCare may assign the Residence to someone else during the period the Resident receives care in the Health Care Center; but if the Medical Director and Grace LifeCare, (in consultation with the Resident's personal physician) later determine that Resident is able to return to a

Residence, Grace LifeCare will provide Resident with a Residence of the same type as soon as one is available. If there are two (2) Residents, one (1) of whom is still occupying the Residence, the monthly fees paid by the Residents shall be as provided in Section III, Paragraph H.

F. Emergency Medical Care. When emergency medical care is needed, the physician of Resident, the physician's alternate, or the Medical Director of Grace Ridge is notified and Resident is transferred to a local hospital emergency room, if necessary.

V. TERMINATION OF AGREEMENT

This Agreement may be rescinded, canceled, or terminated by Resident, or terminated by Grace LifeCare as provided in this Section. The refund, if any, to which a Resident may be entitled upon termination of this Agreement shall be determined under Section VI, Paragraph A, unless this Agreement is terminated after occupancy by the Resident, by voluntary termination under Section V, Paragraph C; by Grace LifeCare, after occupancy by Resident, for cause under Section V, Paragraph F or, after occupancy, by the death of Resident (or when double occupancy, the death of both Residents).

A. Resident's Right Of Rescission. Resident has a right to rescind this Agreement for a period of thirty (30) days following the later of the execution of the Agreement or receipt of a Disclosure Statement and Resident is not required to move in before the expiration of this thirty (30) day period.

B. Death, Illness, Injury or Incapacity Prior to Occupancy. This Agreement for continuing care is automatically cancelled in the event of death, illness, or incapacity of the resident or either resident if double occupancy, after execution of the contract, but prior to occupancy.

C. Voluntary Termination By Resident. This Agreement gives Resident the right to rescind the Agreement and to terminate the Agreement for specific reasons. If Resident terminates this Agreement other than by rescission or pursuant to a specific reason under the Agreement, it shall be deemed to be a voluntary termination. If Resident voluntarily terminates the Agreement prior to occupancy, any refund to which Resident may be entitled is determined under Section VI, Paragraph A. If Resident voluntarily terminates the Agreement after occupancy, the refund, if any, to which Resident is entitled shall be the unamortized portion of the Entrance Fee determined under Section III, Paragraph DB.

D. Termination of Agreement By Grace LifeCare. Grace LifeCare may terminate this Agreement for any of the following:

1. Breach of Resident's representations and covenants to Grace LifeCare.
2. Change in the financial condition of Resident during the period between Resident's entering into this Agreement and prior to the occupancy of the Residence. The determination on whether there has been a change in the financial condition of a Resident entitling Grace LifeCare to terminate this Agreement because Resident is no longer financially qualified for admission, is made in the

sole discretion of Grace LifeCare.

3. When there is to be double occupancy of a Residence by a Resident and his or her spouse, or by two (2) siblings and if, because of a change of mental or physical condition, a spouse or sibling is allowed by Grace LifeCare to move directly into the Health Care Center within ninety (90) days after occupancy, Grace LifeCare, in its sole discretion, reserves the right to terminate this Agreement if Grace LifeCare determines that the financial condition of Resident is inadequate to pay the increased Health Care Center costs and to meet the financial obligations of the Resident under this Agreement.

E. Termination by Resident or Grace LifeCare. After taking occupancy of a Residence, Resident, or either Resident, if there is double occupancy, must be able to live independently, and be able to care for himself or herself without assistance in normal activities of daily living for a period of ninety (90) days. If, within such period, Resident is or becomes unable to live independently, or unable to care for himself or herself without assistance in normal activities of daily living, this Agreement may be terminated at the option of either Resident or Grace LifeCare. The determination of the Medical Director shall be conclusive on whether Resident is able to live independently, and able to care for himself or herself without assistance in normal activities of daily living.

F. Grace LifeCare's Termination Rights For Cause. This Agreement may be terminated by Grace LifeCare after occupancy by Resident for just cause following notice as hereafter provided. Just cause shall exist if:

1. Resident does not submit accurate and complete medical and financial information when applying for admission to Grace Ridge. The representations by applicant that complete and accurate medical and financial information have been submitted is a continuing representation and will constitute grounds for termination at any time Grace LifeCare determines that such representation has been breached.
2. Resident does not comply with the terms of this Agreement or the published operating procedures and covenants of Residents of Grace LifeCare;
3. Resident does not pay the balance of the Entrance Fee;
4. Resident does not pay the Monthly Service Fee.
5. Resident creates a condition within Grace Ridge which is detrimental to the comfort, health, safety or peaceful lodging of other Residents;
6. Resident becomes infected with a dangerous and contagious disease or becomes mentally or emotionally disturbed, and the Medical Director determines that the Resident's condition is detrimental to the health, safety or welfare of other Residents or the staff of Grace Ridge;
7. The Resident's condition cannot appropriately be cared for at a level of care available in the Health Care Center at Grace Ridge licensed by the North Carolina Department of Health and Human Services; or

8. Resident has been temporarily transferred to an independent health care center and has declined to return to the Grace Ridge Health Care Center upon being notified of an available bed at a corresponding level of care at Grace Ridge and also refuses to execute an agreement to hold harmless Grace LifeCare for charges at the independent health care center.

Before any termination of this Agreement by Grace LifeCare as described above, Grace LifeCare will give Resident notice in writing of the reason for termination. Resident will have thirty (30) days after that notice to correct the problem to the satisfaction of Grace LifeCare, in its sole discretion. If the problem is corrected within the thirty (30) days to the satisfaction of Grace LifeCare, this Agreement will not be terminated. If the problem is not corrected within that period of time, the Agreement shall terminate at the end of the thirty (30) day notice period.

If Grace LifeCare has given notice to terminate for any reason under Subparagraphs (6) or (7) above, Grace LifeCare is expressly authorized during the thirty (30) day notice period to immediately transfer Resident from Grace Ridge and to assist a physician with admitting responsibilities to transfer Resident to an appropriate hospital or other facility, and Grace Ridge will promptly notify Resident's representative or Resident's personal physician.

VI. REFUND OF ENTRANCE FEE

Grace LifeCare will pay no interest to Resident on any deposit, Entrance Fee, or any portion thereof. The refund, if any, to which Resident is entitled under this Section shall be the return of only a 10% deposit, Entrance Fee, or any portion thereof, and shall include no interest. Neither shall interest accrue on any deposit, Entrance Fee or any portion thereof and be credited on any obligation of Resident to Grace LifeCare.

- A. Refunds Of The Entrance Fee Upon Rescission, Cancellation Or Termination Of Agreement Under Section V.** Upon rescission, cancellation or termination within thirty days of signing the Agreement under Section V, except by voluntary termination of Resident after occupancy under Section V, Paragraph C; termination for cause by Grace LifeCare under Section V, Paragraph F; or the death of Resident (or when double occupancy the death of both Residents), Grace LifeCare shall refund, or cause to be refunded, all money without interest to the prospective Resident or Residents, except (i) periodic charges specified in this Agreement and applicable only to the period the Residence was actually occupied by Resident; (ii) those non-standard costs specifically incurred at the request of Resident and described in this Agreement, or any amendment hereto signed by Resident; (iii) those nonrefundable fees that are set out in this Agreement or any amendment to either signed by Resident; and (iv) a service charge in an amount equal to the greater of One Thousand Dollars (\$1,000) or two percent (2%) of the Entrance Fee.

Resident agrees to move into the home at a mutually agreed upon move-in date, at which time they will pay the balance of the Entry Fee and begin paying Monthly Service Fees. This agreement is signed in good faith on the part of both parties that Resident will move in at the agreed upon date. If Resident should rescind after the

thirty day period but prior to occupancy, Grace Ridge will retain 6% of the total Entry Fee.

B. Refunds Of Unamortized Entrance Fees If this Agreement is terminated after occupancy by Resident by voluntary termination by Resident under Section V, Paragraph C, by Grace LifeCare for cause under Section V, Paragraph F, or the death of Resident (or when double occupancy, the death of both Residents) the refund, if any, of the unamortized portion of the Entrance Fee to which Resident may be entitled, shall be determined under Section III, Paragraph D.

VII. OCCUPANCY BY PERSON OTHER THAN RESIDENT, SPOUSE, OR NEW SECOND OCCUPANT.

A. Policy On Occupancy By Person Other Than Resident. No person other than Resident (or both Residents, if applicable) may occupy a Residence without express written approval of Grace LifeCare.

B. Marriage And New Second Occupancy. If Resident marries while at Grace Ridge and the spouse is not already a party to the Residence and Care Agreement, or if Resident wishes to invite a non-Resident other than a spouse to share a living accommodation, the acceptance of the spouse or the proposed new second occupant as a Resident will be in accordance with the then current admission policies and Grace LifeCare will require that upon acceptance, the Spouse or the proposed new second occupant execute a Residence and Care Agreement and be bound by all of its terms and conditions. Grace LifeCare may, in its sole discretion, determine that the Spouse or the proposed new second occupant is not eligible to become a Resident. In such event, the Spouse or the proposed new second occupant will not be eligible for residence at Grace Ridge. If accepted, the spouse or the new second occupant shall pay an Entrance Fee in an amount which is no less than one-half (½) of the Entrance Fee and no greater than the full Entrance Fee then in effect for the Residence. The additional Entrance Fee will be subject to the same refund policies in effect for Entrance Fees. Upon admission, the current Second Person Monthly Service Fee will be paid by the Spouse or the new second occupant during the period of double occupancy of the Residence. In addition, Grace LifeCare, in its sole discretion, may require the Resident and the Spouse, or the Resident and the new second occupant, to execute any documents deemed necessary by Grace LifeCare to resolve any issues concerning ownership of property in the event of the death of either of them.

VIII. MISCELLANEOUS PROVISIONS REGARDING THE RESIDENCE.

A. Residence Restricted To Residential Use Only. The Residence is for living only and shall not be used for carrying on any profession, nor be in violation of any applicable zoning restrictions or rules and regulations of the State of North Carolina applicable from time to time to such Residences.

B. Transfers Between Independent Living Units: Apartments and Cottages. If Resident desires to move from an Apartment Residence to another Apartment Residence, from a Cottage Residence to an Apartment Residence, from an Apartment Residence to a Cottage Residence, or from a Cottage Residence to another Cottage Residence, a request must be submitted, in writing, to the management of Grace Ridge for review and

consideration by the Board of Directors of Grace LifeCare. Transfers shall be made in the sole discretion of Grace LifeCare and subject to conditions and policies as determined in the sole discretion of the Board of Directors of Grace LifeCare. Transfers will be subject to the execution of any additional documents and payment of such additional fees as Grace LifeCare deems appropriate, in its sole discretion. The provisions of the paragraph are applicable to transfers by a Resident, who marries another Resident.

C. Permanent Transfer By One Resident Where There Is Double Occupancy. If there is double occupancy of the Residence, upon the death or permanent transfer of one (1) of the Residents to the Health Care Center, or upon other inability of one (1) of the Residents to occupy the Residence, the other Resident may continue to occupy the Residence under the terms of this Agreement.

D. Compliance With Laws And Regulations. Grace LifeCare may make changes in any Residence in Grace Ridge at any time to meet the requirements of applicable laws, rules and regulations or to improve safety within Grace Ridge.

E. Storage Of Personal Property After Death Of Resident. After Resident's death or if there is double occupancy, the death of the survivor; or after a Resident's permanent transfer to the Health Care Center, or if there is double occupancy, permanent transfer of both Residents, or the surviving Resident's permanent transfer to the Health Care Center; or termination of this Agreement as provided in Section V; Grace LifeCare may remove and store Resident's furniture and other property at the expense and risk of Resident or Resident's estate. As an alternative and in Grace LifeCare's discretion, Grace LifeCare may retain furniture and other property in the Residence at the expense and risk of Resident or Resident's estate.

IX. MISCELLANEOUS PROVISIONS REGARDING THE AGREEMENT.

A. Assignment Or Transfer Of Agreement. Resident may not assign or transfer this Agreement or Resident's rights under it, and no rights or benefits under this Agreement shall inure to the benefit of Resident's heirs, legatees, assignees or personal representatives, except as to receipt of the refunds described in Section VI of this Agreement. Resident's contractual right to occupy the Residence shall exist and continue to exist during Resident's lifetime unless terminated by Resident or Grace LifeCare pursuant to Section V of this Agreement or Resident's permanent residence in the Health Care Center.

B. Resident's Indemnity to Grace LifeCare. Grace LifeCare shall not be liable for, and Resident agrees to indemnify, defend and hold Grace LifeCare harmless from claims, damages or expenses, including attorney's fees and court costs, resulting from any injury or death to persons and any damages to property caused by, resulting from, attributable to or in any way connected with Resident's negligent or intentional act or omission.

C. Subordination. Resident will not be liable for any indebtedness incurred by Grace LifeCare to mortgagees. However, Resident agrees that all of Resident's rights under this Agreement will always be subordinate and junior to the lien of all mortgages or other documents creating liens encumbering Grace Ridge, which have been or will be executed by Grace LifeCare, Grace Properties, Inc. or either of their successors. Upon request, Resident agrees to sign, acknowledge and deliver to such lender or lenders such further

written evidence of such subordination as such lenders may require.

D. Amendments to Agreement. No amendment of this Agreement will be valid unless in writing and signed by Resident and an authorized representative of Grace LifeCare.

E. Governing Law. This Agreement will be governed, interpreted and construed according to the laws of the State of North Carolina.

F. Severability. The invalidity or unenforceability of any part of this Agreement will not impair or affect in any way the validity or enforceability of the rest of this Agreement.

G. Joint and Several Liability. When there are two (2) Residents, the rights and obligations of each of Residents is joint and several, except as the context of this Agreement otherwise requires.

H. Execution and Effectiveness of Agreement. The execution of this Agreement on behalf of Grace LifeCare will be by the duly authorized agent of Grace LifeCare and no officer, director, agent or employee of Grace LifeCare will have any personal liability to Resident under this Agreement under any circumstances. This agreement will become effective upon acceptance and execution by Grace LifeCare.

I. Entire Agreement. This Agreement, together with any Addenda constitute the entire agreement between the parties, superseding all previous oral or written understandings, commitments or representations; and there are no other terms or conditions of the parties' agreement except those which are specifically set forth herein or in the Addenda.

In Witness Whereof, Grace LifeCare and Resident have executed this Agreement on the dates indicated.

Grace LifeCare, Inc.

Witness

By: _____
Executive Director

Dated: _____

Witness

Resident

Dated: _____

Street Address

City, State and Zip

Witness

Resident

Dated: _____

Street Address

City, State and Zip

ATTACHMENT SEVEN



**GRACE RIDGE
RESIDENCE AND CARE AGREEMENT
Fee for Service**

The Residence and Care Agreement (the "Agreement") is made this ____ day of _____, 20__ by and between Grace LifeCare, Inc., a North Carolina non-profit corporation, (herein "Grace LifeCare") and _____ herein referred to as "Resident", (or when two (2) people are named in this Agreement, each of them shall be parties of this Agreement and collectively referred to as "Resident").

Home and entry fee selection

Resident has selected the home with a location of _____ on the campus of Grace Ridge. The initial entry fee for the home is \$ _____ representing a Fee-for-Service Entrance Fee Option of which the Resident has already paid a ten percent (10%) deposit in the amount of \$ _____.

If applicable there will be an additional amount of _____ % of the above entrance fee for each year one resident is under the age of 60. The total additional amount is \$ _____. This brings the total entrance fee to \$ _____.

Monthly Service Fee

The monthly service fee for this home is \$ _____ for a first person fee and \$ _____ for a second person fee creating a total of \$ _____ per month due and payable by the fifteen day of each month. The monthly fee will be paid in advance of each month. Grace Ridge retains the right to adjust monthly fees on an annual basis and no more than a bi-annual basis for increased cost of living in the operations of Grace Ridge Community.

Charge For Health Care Center

The charge to Resident for care in the Health Care Center is based on the type of Residency Contract chosen. Residents with a Fee for Service Agreement pay the full daily rate in both Assisted Living and Health Care. Should a Resident become unable to pay their monthly bill in skilled nursing care, Grace Ridge reserves the right to transfer the Resident to its sister facility Grace Heights.

RECITALS:

Grace LifeCare is the lessee of property located at 500 Lenoir Road in Morganton, North Carolina on which it operates Grace Ridge, a retirement community licensed by the North Carolina Department of Insurance.

Grace Ridge is a facility consisting of one hundred and thirty-five (135) apartment residences of various configurations, twenty-seven (27) cottage residences, associated common facilities, a Health Care Center licensed by the North Carolina Department of Human Resources comprised of thirty five (35) Adult Care beds, twelve (12) Special Care beds licensed as Adult Care beds, and twenty five (25) Nursing Care beds. Grace LifeCare is wholly-owned by Blue Ridge Healthcare Hospitals, Inc.(herein "BRH"). Grace Ridge was acquired by BRH on February 19, 1991. Grace Ridge is the operating entity of Grace LifeCare.

Resident is desirous of becoming a resident of Grace Ridge in an Apartment or Cottage Residence (herein "Residence") and using the facilities, programs, and receiving the services provided by Grace LifeCare subject to the terms and conditions of this Agreement.

Resident acknowledges receipt of the most current Disclosure Statement of Grace LifeCare as required by Section 58-64-20 of the North Carolina General Statutes.

Grace LifeCare agrees to make available to Resident accommodations and services in Grace Ridge subject to the terms and conditions set forth in this Agreement.

Now, Therefore, Resident and Grace LifeCare agree as follows:

I. REPRESENTATIONS AND COVENANTS

A. Representations And Covenants Of The Resident. The representations made by Resident during the application process are true at the time of execution of this Agreement and Resident is required to be in compliance with all of the following obligations at all times during the term of this Agreement.

1. At the time of occupancy and for at least ninety (90) days after occupancy, Resident will be able to live independently, able to care for himself or herself without assistance in normal activities of daily living, free of communicable disease, and has assets and income which are sufficient under foreseeable circumstances, and after provisions for payment of Resident's obligations under this Agreement, to meet ordinary and customary living expenses after Resident moves into Grace Ridge.
2. All facts stated by Resident in Resident's application and other documentation delivered to Grace LifeCare as a pre-condition to this Agreement are true and complete.
3. Resident has not made any gift, transfer, or assignment of his or her property in contemplation of the signing of this Agreement that would impair Resident's ability to meet his or her obligations under this Agreement; and will not,

subsequent to signing this Agreement, make such a gift, transfer or assignment.

4. Residents must be sixty (60) years of age or older at the time of initial occupancy, except that in the case of a married couple, a parent/child combination, or sibling combination, one occupant may be younger than sixty (60) years of age. The first person entrance fee would be increased by 1.5% for every year the occupant would be below 60 years of age. The additional fee will be prorated by month.

5. Resident promises to comply with all of the terms of this Agreement and the published policies and procedures, as amended from time to time, by the Board of Directors of Grace LifeCare.

6. Resident will pay the Entrance Fee, the Monthly Service Fee, charges for care in the Health Care Center and fees for any additional services incurred by Resident.

7. Within sixty (60) days after Resident moves into Grace Ridge, Resident will provide, by a Will or otherwise, for the disposition of all furniture, possessions and property of Resident located in Grace Ridge.

8. Before occupancy, if applicable, Resident must secure the Hospital Insurance Benefits Program under Part A of Medicare, and secure the Medicare medical insurance benefits program under Part B of Medicare and/or any other public hospital and/or medical insurance benefits program which may be enacted by the State of North Carolina or the Federal Government as a successor or supplement to Medicare. If, at any time, Resident is not eligible for Medicare coverage, Resident will apply for and maintain private health insurance coverage acceptable to Grace LifeCare.

If any of the aforesaid representations are untrue, become untrue, or Resident takes an action inconsistent with such representations, Grace LifeCare may treat such untrue representation or action as a breach of this Agreement entitling Grace LifeCare to terminate this Agreement.

B. Representations And Covenants Of Grace LifeCare. Grace LifeCare represents and covenants that:

1. Admission to Grace Ridge shall not be based on gender, race, religion, or place of origin of a Resident; and shall be consistent with applicable law.

2. If Resident is unable to pay Monthly Service Fees and other charges and has provided explanation, documentation, or justifiable reasons for non-payment satisfactory to Grace LifeCare, in its sole discretion, Resident may continue to live at Grace Ridge, so long as Resident pays to the maximum extent of Resident's ability to pay, Resident's obligations to Grace LifeCare; and subject to Grace LifeCare's ability to continue to operate Grace Ridge on a sound financial basis while receiving less than full payment by Resident of his or her obligations. The determination of whether Resident is paying to the maximum extent of Resident's ability to pay and whether Grace LifeCare may continue to operate on a sound

financial basis while receiving less than full payment by Resident are determinations made in the sole discretion of Grace LifeCare.

II. ACCOMMODATIONS AND SERVICES

Grace LifeCare agrees to provide Resident the living accommodations, programs and services at Grace Ridge described in this section, so long as Resident carries out his or her obligations under this Agreement, including the payment of the Monthly Service Fee described in Section III, Paragraph F and Page Number One of this Agreement.

Resident and Grace LifeCare expressly understand and agree that this Agreement grants Resident a revocable license to occupy and use space in Grace Ridge and that Resident is not given exclusive possession of the Residence as against Grace LifeCare. Resident and Grace LifeCare expressly understand and agree that this Agreement is not a lease or easement and does not transfer or grant Resident any interest in real property leased by Grace LifeCare.

A. Living Accommodation. Resident has the exclusive right to occupy and use the Residence subject to the terms and conditions set forth in this Agreement. Resident may not assign the Residence.

B. Utilities. Grace LifeCare will furnish utilities including air conditioning, heating, electricity, water, sewer and municipal services. Resident shall pay for installation, use and maintenance charges related to telephone and cable television in the Residence.

C. Meals. Grace LifeCare will serve three (3) nutritionally well-balanced meals each day in the central dining room. Residents with a Fee for Service Agreement pay for all meals a la carte. Meal charges can be found in the ancillary fee schedule.

D. Furnishings. Grace LifeCare will provide carpeting, certain appliances applicable to the Residence and an emergency call system, as described in the current Grace Ridge literature. All other furniture, furnishings, decorations, accessories, bed and bath linens and other personal property will be provided by Resident.

E. Health Care. Grace LifeCare will provide health care in accordance with Section IV of this Agreement entitled "Health Care".

F. Housekeeping Services. Grace LifeCare will provide scheduled housekeeping services including vacuum cleaning, dusting and cleaning of baths and kitchens at the expense of the Resident. Charges for housekeeping services may be found in the Ancillary Fee Schedule.

G. Laundry. Grace LifeCare will change and launder Resident's bed and bath linens on a regularly scheduled basis at the expense of the Resident. Charges for laundry services may be found in the Ancillary Fee Schedule. Convenient laundry facilities are available at Grace Ridge for Resident's personal laundry at no additional charge.

H. Security. Grace LifeCare will provide twenty-four (24) hour security and will provide emergency call devices in each Residence.

I. Maintenance and Repairs. Grace LifeCare will maintain and keep in repair its own improvements, furnishings, and equipment. Resident will be responsible for the cost of repairing damage to property of Grace LifeCare caused by the negligence of Resident or any guest of Resident, ordinary wear and tear excepted. Repairs, maintenance and replacement of Resident's property will be the responsibility of Resident. Charges for Handyman services may be found in the Ancillary Fee Schedule.

J. Alterations. After occupancy and with approval from the Executive Director Resident may add custom features, decorations and enhancements approved by Grace LifeCare to the Residence. Any such improvements must be contracted and paid for by Resident and will become part of the Residence and the property of Grace LifeCare upon termination of this Agreement. The value of any such improvements will not be considered in computing refunds and Grace LifeCare will have a vested ownership in such improvements. Any unapproved alterations that cause damage to the Residence shall be repaired or removed at the expense of Resident and in a way that is acceptable to Grace LifeCare.

K. Groundskeeping. Grace LifeCare will furnish groundskeeping service for the grounds of Grace Ridge, including lawn, tree, and shrubbery care. Subject to approval by Grace LifeCare, Residents may plant and maintain certain areas designated for such purpose by Grace LifeCare.

L. Storage. Grace LifeCare will provide limited storage space outside the Apartment Residences for personal items.

M. Parking. Grace LifeCare will provide lighted and well maintained parking areas for Resident's personal vehicle. Any oversized, recreational or unusually unattractive vehicles must be parked in areas designated by Grace LifeCare.

N. Common Facilities. Grace LifeCare will provide common facilities for the use, benefit and enjoyment of Resident, such as: dining rooms, lobby, sitting areas, lounges, arts and crafts room, multipurpose room, library, chapel, game room, and other common facilities as may be designated by Grace LifeCare.

O. Activities. Grace LifeCare will provide planned and scheduled social, recreational, spiritual, educational and cultural activities, arts and crafts, exercise and health programs, and other special activities designed to meet the interests and needs of the Residents.

P. Transportation. Grace LifeCare will provide regularly scheduled transportation to medical appointments within a five mile radius to Residents with Fee for Service Agreements. Appointments must be made in advance with schedules approved by Grace LifeCare. An additional charge may be made for transportation for other special, personal or group trips.

Q. Aesthetic View. Grace LifeCare maintains the right to supervise the overall aesthetic view of the property. If notified by Grace LifeCare, Resident will comply with all requests to maintain the external area around the residence in an orderly and aesthetically pleasing manner.

III. RESIDENT FEES

The Resident Fees in this Section include the Application Processing Fee, Thirty Day Period Rescission Fee, Deposit Fee, Entrance Fee, the Monthly Service Fee and charges for care in the Health Care Center, all of which are subject to adjustment from time to time and are described in greater detail in this Section of the Agreement.

A. Application Processing Fee. If Resident has selected Grace Ridge as their retirement community, then the Resident shall submit a check to Grace LifeCare in the amount of Twelve Hundred Fifty Dollars \$1250 as an Application Processing Fee with the submission of an application. Of this Application Fee, \$250 is considered a processing fee and is nonrefundable. The remaining \$1000 will be credited toward the Entrance Fee or any other sum due from Resident under this Agreement. If the applicant should decide not to move to Grace Ridge, the applicant may request in writing and receive a full refund of the \$1000.

B. Thirty Day Period Rescission Fee

Upon rescission, cancellation or termination within thirty days of the signed Agreement under Section V, except by voluntary termination of Resident after occupancy under Section V, Paragraph C; termination for cause after occupancy by Grace LifeCare under Section V, Paragraph F; or the death of Resident (or when double occupancy the death of both Residents), Grace LifeCare shall refund, or cause to be refunded, all money without interest to the prospective Resident or Residents, except (i) periodic charges specified in this Agreement and applicable only to the period the Residence was actually occupied by Resident; (ii) those non-standard costs specifically incurred at the request of Resident and described in this Agreement, or any amendment hereto signed by Resident; (iii) those nonrefundable fees that are set out in this Agreement or any amendment to either signed by Resident; and (iv) a service charge in an amount equal to the greater of One Thousand Dollars (\$1,000) or two percent (2%) of the Entrance Fee.

C. Deposit Fee. If Resident has selected a particular Residence at Grace Ridge, then the Resident shall submit a check to Grace LifeCare in the amount that equals 10% of the Entry Fee. Resident agrees to move into the home at a mutually agreed upon move-in date, at which time they will pay the balance of the Entry Fee and begin paying Monthly Service Fees. The Deposit Fee will be credited toward the Entry Fee at the time of move-in. Resident understands that with this deposit, the home will be effectively taken off the market and will not be offered to anyone on the Wait List or any person who expresses interest in that home. This agreement is signed in good faith on the part of both parties that Resident will move in at the agreed upon date. If Resident should rescind after a thirty day period, Grace Ridge will retain six percent (6%) of the total Entry Fee.

D. Entrance Fee. The Entrance Fee is paid to Grace Ridge. The Resident has the choice of several Entrance Fee options. The difference in the options is the amount of the Entrance Fee, the Health Care Center charge to be paid by the Resident and the amount of the Entrance Fee that is refunded to the Resident or the estate of Resident after residence is terminated.

Under each of the Entrance Fee Options the Entrance Fee is amortized at the rate of four percent (4%) per month, for an initial period of varying length depending upon the option selected. Amortization begins at the date of Resident's occupancy of a Residence or ninety-one (91) days after Resident signs this Agreement, whichever is the first to occur. The time during which the Entrance Fee is being amortized under any of the options is the amortization period.

If Resident has occupied the Residence and this Agreement is terminated during the amortization period by the death of Resident (or when double occupancy, the death of both Residents), by voluntary termination by Resident under Section V, Paragraph C, or by Grace LifeCare for cause under Section V, Paragraph F, the unamortized portion of the Entrance Fee, determined as hereinafter provided, shall be refunded to Resident. If this Agreement is not terminated by the death of Resident or Residents, or under Section V, Paragraphs C or F after occupancy by the Resident, the refund to Resident shall be determined under Section VI, Paragraph A.

The Fee-for-Service Entrance Fee is amortized at four percent (4%) per month for twenty five (25) months and is fully amortized twenty five (25) months after the beginning date of the amortization period.

Any refund will be reduced to the extent of any obligation owed by Resident to Grace LifeCare. Refund of the Entrance Fees under any of the foregoing Options, if applicable, is made sixty (60) days following occupancy by a new Resident of the Residence but then only if the Entrance Fee from the new Resident has been received by Grace LifeCare. Provided, however, the refund shall be paid within two (2) years following termination.

E. Terms of Payment of Entrance Fees. The terms of payment of the total Entrance Fee shall be as follows:

1. The Application Processing Fee, which is Twelve Hundred Fifty Dollars (\$1250), is submitted at the time of Application. One Thousand (\$1,000) of this amount will be credited toward the Entrance Fee. The remaining \$250 is considered a processing fee and is not refundable.
2. The Deposit Fee, which is an amount equal to ten percent (10%) of the Entrance Fee shall be delivered to Grace LifeCare with the understanding that Grace Ridge will remove the home from marketing inventory.
3. The balance of the total Entrance Fee is due at the earlier of either the date of occupancy or the mutually-determined move-in date established at the time of the 10% deposit and reflected in the Deposit Agreement.

Payments of the Entrance Fee shall be made payable to Grace LifeCare, Inc.

F. Monthly Service Fee. In addition to the Entrance Fee, Resident agrees to pay a First Person Monthly Service Fee, plus a Second Person Monthly Service Fee, if there is double occupancy of the Residence, (collectively referred to as Monthly Service Fee) during the term of this Agreement which shall be payable in advance by the 15th day of each month. The first payment of the Monthly Service Fee will be due on the earlier of the date of occupancy or the mutually agreed upon move-in date. Monthly Service Fees will be prorated for the given month, if applicable. Upon termination of the Residence and Care Agreement, Resident or his or her estate shall continue to be responsible for the Monthly Service Fee through the date that the Residence is vacated and accepted by Grace Ridge. If the Residence is not vacated within a thirty (30) day period, in addition to the Monthly Service Fee, an additional storage fee of thirty dollars (\$30.00) per day will be charged. Contents remaining in the Residence after the thirty (30) day period will be moved to a storage area to be determined by Grace LifeCare, Inc. Grace LifeCare, Inc. accepts no liability for damages that may occur during the move or during the storage period. After termination of residence, Monthly Service Fees paid for any period beyond the date on which Grace LifeCare takes back the Residence are refunded to the Resident or his or her estate within sixty (60) days.

G. Adjustments In The Monthly Service Fee. The Monthly Service Fee is assessed to provide the facilities, programs and costs associated with the operation of Grace Ridge. The Board of Directors of Grace LifeCare may adjust the Monthly Service Fee from time to time during the term of this Agreement, as Grace LifeCare, in its sole discretion, deems necessary in order to reflect changes in the costs of providing such facilities, programs and services described herein consistent with operating on a sound financial basis and maintaining the quality of services called for herein. Any such increases in the Monthly Service Fee may be made by Grace LifeCare upon thirty (30) days written notice to Resident. Grace LifeCare also reserves the right to revise and amend the basis of all charges.

H. Payment Of Monthly Service Fees. Grace LifeCare will furnish Resident with a monthly statement showing the total amount due for the Monthly Service Fee and any other services which are chargeable to the Resident pursuant to this Agreement.

I. Failure To Make Monthly Service Fee Payment. If Resident fails to pay any of the Monthly Service Fees or charges for other or additional services by the 15th of the month, Grace LifeCare will provide a second monthly statement. If Resident fails to pay that invoice by the 25th of the month and does not provide satisfactory explanation, documentation or justifiable reason for non-payment to Grace LifeCare, then Grace LifeCare has the right to terminate this Agreement under Section V, Paragraph F, Subparagraph 4, subject to Grace LifeCare's covenant in Section I, Paragraph B, Subparagraph 2. Grace LifeCare will charge a late penalty on any fees paid after the 15th of the month at the rate of one and one-half percent (1½%) per month.

J. Charges In The Grace Ridge Health Care Center.

Residents with a Fee for Service Agreement shall pay the full per diem rate. *When there are two (2) Residents in the Residence and one (1) Resident is transferred to the Health Care Center, the Resident remaining in the Residence will pay the First Person Monthly Service Fee identified on Page Number One of this Agreement and the Resident in the Health Care Center will pay the full per diem rate as stated on Page Number One of this Agreement.*

K. Additional Charges For Ancillary Services In The Grace Ridge Health Care Center. Additional charges may be made by Grace LifeCare for ancillary services in the Health Care Center. Examples of such additional charges include, but are not limited to, the cost of prescription and non-prescription medications; surgical, diagnostics, dental and optical services; speech, occupational and physical therapy; podiatry; oxygen; medical and nursing supplies; physical examinations and any other medical services beyond that available in the Health Care Center. Also, any professional services (medical or otherwise) contracted by Resident or on behalf of Resident may be billed directly to Resident.

L. Care In Other Facilities. Should Resident be temporarily transferred to an Adult Care bed or Nursing Care bed in an independent health care center, approved by Grace LifeCare due to a lack of bed availability, as provided in Section IV, Paragraph D, during the period Resident is in an approved independent health care center, Resident will pay Grace LifeCare the lesser of the Health Care Center charge required under Resident's Agreement with Grace LifeCare or the per diem charge at the approved independent health care center.

M. Care In Facilities Other Than the Grace Ridge Health Care Center or an Approved Independent Health Care Center. Should Resident need a level of care beyond that licensed by the North Carolina Department of Health and Human Services at the Grace Ridge Health Care Center or at an approved independent health care center and require transfer to another facility, all expenses which will result from such transfer and care shall be borne entirely by Resident.

IV. HEALTH CARE.

A. Adult Care. Adult Care beds will be provided for Apartment and Cottage Residents whose health needs cannot be adequately met in their Residence.

B. Nursing Care. Nursing Care beds are available for Residents who have entered into a Residence and Care Agreement for an Apartment, Cottage or Adult Care Residence. The availability of Nursing Care beds is restricted, however, to Residents who have entered into a Residence and Care Agreement and have resided in an Apartment or Cottage for a period of ninety (90) days or an Adult Care Residence for a period of thirty (30) days. Nursing Care beds are not available to persons for direct admissions from outside the Grace Ridge Community.

When there is to be double occupancy of an Apartment or Cottage Residence by a Resident and his or her spouse, or by two (2) siblings, Grace LifeCare may, in its sole discretion, allow a spouse or a sibling to be admitted directly to an Adult Care bed or a Nursing Care bed in the Health Care Center at the time the other spouse or sibling takes occupancy of the Residence. When a Resident and his or her spouse, or two (2) siblings, have taken occupancy of an Apartment or Cottage Residence, Grace LifeCare may, in its sole discretion, allow a spouse or sibling to be transferred to a Nursing Care bed in the Health Care Center within thirty (30) days after occupancy. Admission of a spouse or

sibling to the Health Care Center at the time of occupancy or within thirty (30) days following occupancy is subject to the cancellation or termination of the Residence and Care Agreement by Resident or Grace LifeCare.

C. Staffing For Health Care Center. Staffing for the Adult Care beds and Nursing Care beds in the Health Care Center will be consistent with licensing rules adopted by the North Carolina Department of Health and Human Services.

D. Transfer To An Independent Health Care Center. Should a Resident be temporarily transferred to an Adult Care bed or Nursing Care bed in an independent health care center due to lack of available beds, Resident will be returned to Grace Ridge's Health Care Center as soon as one (1) of the beds in the Grace Ridge Health Care Center at the corresponding level of care, or the level of care required by the Resident upon readmission is available. When there is more than one (1) Resident who has been transferred to an independent health care center for Adult Care or Nursing Care, the Resident who has lived in an independent health care center for the longest period of time will be given the first available bed at the corresponding level of care, or the level of care required by the Resident upon readmission. Upon notification of the availability of a bed at Grace Ridge, Resident will return to the Grace Ridge Health Care Center. Should Resident choose not to return to the Grace Ridge Health Care Center, Grace LifeCare may take action to terminate this Agreement under the provisions of Section V, Paragraph F, Subparagraph 8.

Unless Resident declines to return to an available bed in the Grace Ridge Health Care Center, Grace LifeCare will pay Resident's per diem charges in an independent health care center approved by Grace LifeCare, except for those charges covered by Medicare Part A. During the period Resident is in an approved independent health care center, Resident will pay Grace LifeCare the lesser of the Health Care Center charge required under this Agreement with Grace LifeCare or the per diem charge in the approved health care center.

E. Transfer To The Health Care Center. If it is determined by the Medical Director and Grace LifeCare, in consultation with Resident's personal physician, that Resident needs to be permanently transferred to the Health Care Center then the Resident shall be transferred to the appropriate level of care in the Health Care Center. Unless there are two (2) Residents, one (1) of whom is still occupying the Residence, Grace LifeCare may assign the Residence to someone else during the period the Resident receives care in the Health Care Center; but if the Medical Director and Grace LifeCare, (in consultation with the Resident's personal physician) later determine that Resident is able to return to a Residence, Grace LifeCare will provide Resident with a Residence of the same type as soon as one is available. If there are two (2) Residents, one (1) of whom is still occupying the Residence, the monthly fees paid by the Residents shall be as provided in Section III, Paragraph H.

F. Emergency Medical Care. When emergency medical care is needed, the physician of Resident, the physician's alternate, or the Medical Director of Grace Ridge is notified and Resident is transferred to a local hospital emergency room, if necessary.

V. TERMINATION OF AGREEMENT

This Agreement may be rescinded, canceled, or terminated by Resident, or terminated by Grace LifeCare as provided in this Section. The refund, if any, to which a Resident may be entitled upon termination of this Agreement shall be determined under Section VI, Paragraph A, unless this Agreement is terminated after occupancy by the Resident, by voluntary termination under Section V, Paragraph C; by Grace LifeCare, after occupancy by Resident, for cause under Section V, Paragraph F or, after occupancy, by the death of Resident (or when double occupancy, the death of both Residents).

A. Resident's Right Of Rescission. Resident has a right to rescind this Agreement for a period of thirty (30) days following the later of the execution of the Agreement or receipt of a Disclosure Statement and Resident is not required to move in before the expiration of this thirty (30) day period.

B. Death, Illness, Injury or Incapacity Prior to Occupancy. This Agreement for continuing care is automatically cancelled in the event of death, illness, or incapacity of the resident or either resident if double occupancy, after execution of the contract, but prior to occupancy.

C. Voluntary Termination By Resident. This Agreement gives Resident the right to rescind the Agreement and to terminate the Agreement for specific reasons. If Resident terminates this Agreement other than by rescission or pursuant to a specific reason under the Agreement, it shall be deemed to be a voluntary termination. If Resident voluntarily terminates the Agreement prior to occupancy, any refund to which Resident may be entitled is determined under Section VI, Paragraph A. If Resident voluntarily terminates the Agreement after occupancy, the refund, if any, to which Resident is entitled shall be the unamortized portion of the Entrance Fee determined under Section III, Paragraph DB.

D. Termination of Agreement By Grace LifeCare. Grace LifeCare may terminate this Agreement for any of the following:

1. Breach of Resident's representations and covenants to Grace LifeCare.
2. Change in the financial condition of Resident during the period between Resident's entering into this Agreement and prior to the occupancy of the Residence. The determination on whether there has been a change in the financial condition of a Resident entitling Grace LifeCare to terminate this Agreement because Resident is no longer financially qualified for admission, is made in the sole discretion of Grace LifeCare.
3. When there is to be double occupancy of a Residence by a Resident and his or her spouse, or by two (2) siblings and if, because of a change of mental or physical condition, a spouse or sibling is allowed by Grace LifeCare to move directly into the Health Care Center within ninety (90) days after occupancy, Grace LifeCare, in its sole discretion, reserves the right to terminate this Agreement if Grace LifeCare determines that the financial condition of Resident is inadequate to pay the increased Health Care Center costs and to meet the financial obligations of the Resident under this Agreement.

E. Termination by Resident or Grace LifeCare. After taking occupancy of a Residence, Resident, or either Resident, if there is double occupancy, must be able to live independently, and be able to care for himself or herself without assistance in normal activities of daily living for a period of ninety (90) days. If, within such period, Resident is or becomes unable to live independently, or unable to care for himself or herself without assistance in normal activities of daily living, this Agreement may be terminated at the option of either Resident or Grace LifeCare. The determination of the Medical Director shall be conclusive on whether Resident is able to live independently, and able to care for himself or herself without assistance in normal activities of daily living.

F. Grace LifeCare's Termination Rights For Cause. This Agreement may be terminated by Grace LifeCare after occupancy by Resident for just cause following notice as hereafter provided. Just cause shall exist if:

1. Resident does not submit accurate and complete medical and financial information when applying for admission to Grace Ridge. The representations by applicant that complete and accurate medical and financial information have been submitted is a continuing representation and will constitute grounds for termination at any time Grace LifeCare determines that such representation has been breached.
2. Resident does not comply with the terms of this Agreement or the published operating procedures and covenants of Residents of Grace LifeCare;
3. Resident does not pay the balance of the Entrance Fee;
4. Resident does not pay the Monthly Service Fee.
5. Resident creates a condition within Grace Ridge which is detrimental to the comfort, health, safety or peaceful lodging of other Residents;
6. Resident becomes infected with a dangerous and contagious disease or becomes mentally or emotionally disturbed, and the Medical Director determines that the Resident's condition is detrimental to the health, safety or welfare of other Residents or the staff of Grace Ridge;
7. The Resident's condition cannot appropriately be cared for at a level of care available in the Health Care Center at Grace Ridge licensed by the North Carolina Department of Health and Human Services; or
8. Resident has been temporarily transferred to an independent health care center and has declined to return to the Grace Ridge Health Care Center upon being notified of an available bed at a corresponding level of care at Grace Ridge and also refuses to execute an agreement to hold harmless Grace LifeCare for charges at the independent health care center.

Before any termination of this Agreement by Grace LifeCare as described above, Grace LifeCare will give Resident notice in writing of the reason for termination. Resident will have thirty (30) days after that notice to correct the problem to the satisfaction of Grace LifeCare, in its sole discretion. If the problem is corrected within the thirty (30) days to

the satisfaction of Grace LifeCare, this Agreement will not be terminated. If the problem is not corrected within that period of time, the Agreement shall terminate at the end of the thirty (30) day notice period.

If Grace LifeCare has given notice to terminate for any reason under Subparagraphs (6) or (7) above, Grace LifeCare is expressly authorized during the thirty (30) day notice period to immediately transfer Resident from Grace Ridge and to assist a physician with admitting responsibilities to transfer Resident to an appropriate hospital or other facility, and Grace Ridge will promptly notify Resident's representative or Resident's personal physician.

VI. REFUND OF ENTRANCE FEE

Grace LifeCare will pay no interest to Resident on any deposit, Entrance Fee, or any portion thereof. The refund, if any, to which Resident is entitled under this Section shall be the return of only a 10% deposit, Entrance Fee, or any portion thereof, and shall include no interest. Neither shall interest accrue on any deposit, Entrance Fee or any portion thereof and be credited on any obligation of Resident to Grace LifeCare.

A. Refunds Of The Entrance Fee Upon Rescission, Cancellation Or Termination Of Agreement Under Section V. Upon rescission, cancellation or termination within thirty days of signing the Agreement under Section V, except by voluntary termination of Resident after occupancy under Section V, Paragraph C; termination for cause by Grace LifeCare under Section V, Paragraph F; or the death of Resident (or when double occupancy the death of both Residents), Grace LifeCare shall refund, or cause to be refunded, all money without interest to the prospective Resident or Residents, except (i) periodic charges specified in this Agreement and applicable only to the period the Residence was actually occupied by Resident; (ii) those non-standard costs specifically incurred at the request of Resident and described in this Agreement, or any amendment hereto signed by Resident; (iii) those nonrefundable fees that are set out in this Agreement or any amendment to either signed by Resident; and (iv) a service charge in an amount equal to the greater of One Thousand Dollars (\$1,000) or two percent (2%) of the Entrance Fee.

Resident agrees to move into the home at a mutually agreed upon move-in date, at which time they will pay the balance of the Entry Fee and begin paying Monthly Service Fees. This agreement is signed in good faith on the part of both parties that Resident will move in at the agreed upon date. If Resident should rescind after the thirty day period but prior to occupancy, Grace Ridge will retain 6% of the total Entry Fee.

B. Refunds Of Unamortized Entrance Fees If this Agreement is terminated after occupancy by Resident by voluntary termination by Resident under Section V, Paragraph C, by Grace LifeCare for cause under Section V, Paragraph F, or the death of Resident (or when double occupancy, the death of both Residents) the refund, if any, of the unamortized portion of the Entrance Fee to which Resident may be entitled, shall be determined under Section III, Paragraph D.

VII. OCCUPANCY BY PERSON OTHER THAN RESIDENT, SPOUSE, OR NEW SECOND OCCUPANT.

A. Policy On Occupancy By Person Other Than Resident. No person other than Resident (or both Residents, if applicable) may occupy a Residence without express written approval of Grace LifeCare.

B. Marriage And New Second Occupancy. If Resident marries while at Grace Ridge and the spouse is not already a party to the Residence and Care Agreement, or if Resident wishes to invite a non-Resident other than a spouse to share a living accommodation, the acceptance of the spouse or the proposed new second occupant as a Resident will be in accordance with the then current admission policies and Grace LifeCare will require that upon acceptance, the Spouse or the proposed new second occupant execute a Residence and Care Agreement and be bound by all of its terms and conditions. Grace LifeCare may, in its sole discretion, determine that the Spouse or the proposed new second occupant is not eligible to become a Resident. In such event, the Spouse or the proposed new second occupant will not be eligible for residence at Grace Ridge. If accepted, the spouse or the new second occupant shall pay an Entrance Fee in an amount which is no less than one-half (1/2) of the Entrance Fee and no greater than the full Entrance Fee then in effect for the Residence. The additional Entrance Fee will be subject to the same refund policies in effect for Entrance Fees. Upon admission, the current Second Person Monthly Service Fee will be paid by the Spouse or the new second occupant during the period of double occupancy of the Residence. In addition, Grace LifeCare, in its sole discretion, may require the Resident and the Spouse, or the Resident and the new second occupant, to execute any documents deemed necessary by Grace LifeCare to resolve any issues concerning ownership of property in the event of the death of either of them.

VIII. MISCELLANEOUS PROVISIONS REGARDING THE RESIDENCE.

A. Residence Restricted To Residential Use Only. The Residence is for living only and shall not be used for carrying on any profession, nor be in violation of any applicable zoning restrictions or rules and regulations of the State of North Carolina applicable from time to time to such Residences.

B. Transfers Between Independent Living Units: Apartments and Cottages. If Resident desires to move from an Apartment Residence to another Apartment Residence, from a Cottage Residence to an Apartment Residence, from an Apartment Residence to a Cottage Residence, or from a Cottage Residence to another Cottage Residence, a request must be submitted, in writing, to the management of Grace Ridge for review and consideration by the Board of Directors of Grace LifeCare. Transfers shall be made in the sole discretion of Grace LifeCare and subject to conditions and policies as determined in the sole discretion of the Board of Directors of Grace LifeCare. Transfers will be subject to the execution of any additional documents and payment of such additional fees as Grace LifeCare deems appropriate, in its sole discretion. The provisions of the paragraph are applicable to transfers by a Resident, who marries another Resident.

C. Permanent Transfer By One Resident Where There Is Double Occupancy. If there is double occupancy of the Residence, upon the death or permanent transfer of one

(1) of the Residents to the Health Care Center, or upon other inability of one (1) of the Residents to occupy the Residence, the other Resident may continue to occupy the Residence under the terms of this Agreement.

D. Compliance With Laws And Regulations. Grace LifeCare may make changes in any Residence in Grace Ridge at any time to meet the requirements of applicable laws, rules and regulations or to improve safety within Grace Ridge.

E. Storage Of Personal Property After Death Of Resident. After Resident's death or if there is double occupancy, the death of the survivor; or after a Resident's permanent transfer to the Health Care Center, or if there is double occupancy, permanent transfer of both Residents, or the surviving Resident's permanent transfer to the Health Care Center; or termination of this Agreement as provided in Section V; Grace LifeCare may remove and store Resident's furniture and other property at the expense and risk of Resident or Resident's estate. As an alternative and in Grace LifeCare's discretion, Grace LifeCare may retain furniture and other property in the Residence at the expense and risk of Resident or Resident's estate.

IX. MISCELLANEOUS PROVISIONS REGARDING THE AGREEMENT.

A. Assignment Or Transfer Of Agreement. Resident may not assign or transfer this Agreement or Resident's rights under it, and no rights or benefits under this Agreement shall inure to the benefit of Resident's heirs, legatees, assignees or personal representatives, except as to receipt of the refunds described in Section VI of this Agreement. Resident's contractual right to occupy the Residence shall exist and continue to exist during Resident's lifetime unless terminated by Resident or Grace LifeCare pursuant to Section V of this Agreement or Resident's permanent residence in the Health Care Center.

B. Resident's Indemnity to Grace LifeCare. Grace LifeCare shall not be liable for, and Resident agrees to indemnify, defend and hold Grace LifeCare harmless from claims, damages or expenses, including attorney's fees and court costs, resulting from any injury or death to persons and any damages to property caused by, resulting from, attributable to or in any way connected with Resident's negligent or intentional act or omission.

C. Subordination. Resident will not be liable for any indebtedness incurred by Grace LifeCare to mortgagees. However, Resident agrees that all of Resident's rights under this Agreement will always be subordinate and junior to the lien of all mortgages or other documents creating liens encumbering Grace Ridge, which have been or will be executed by Grace LifeCare, Grace Properties, Inc. or either of their successors. Upon request, Resident agrees to sign, acknowledge and deliver to such lender or lenders such further written evidence of such subordination as such lenders may require.

D. Amendments to Agreement. No amendment of this Agreement will be valid unless in writing and signed by Resident and an authorized representative of Grace LifeCare.

E. Governing Law. This Agreement will be governed, interpreted and construed according to the laws of the State of North Carolina.

F. Severability. The invalidity or unenforceability of any part of this Agreement will

not impair or affect in any way the validity or enforceability of the rest of this Agreement.

G. Joint and Several Liability. When there are two (2) Residents, the rights and obligations of each of Residents is joint and several, except as the context of this Agreement otherwise requires.

H. Execution and Effectiveness of Agreement. The execution of this Agreement on behalf of Grace LifeCare will be by the duly authorized agent of Grace LifeCare and no officer, director, agent or employee of Grace LifeCare will have any personal liability to Resident under this Agreement under any circumstances. This agreement will become effective upon acceptance and execution by Grace LifeCare.

I. Entire Agreement. This Agreement, together with any Addenda constitute the entire agreement between the parties, superseding all previous oral or written understandings, commitments or representations; and there are no other terms or conditions of the parties' agreement except those which are specifically set forth herein or in the Addenda.

In Witness Whereof, Grace LifeCare and Resident have executed this Agreement on the dates indicated.

Grace LifeCare, Inc.

Witness

By: _____
Executive Director

Dated: _____

Witness

Resident

Dated: _____

Street Address

City, State and Zip

Witness

Resident

Dated: _____

Street Address

City, State and Zip

ATTACHMENT EIGHT

**GRACE RIDGE
RESIDENCE AND CARE AGREEMENT
FOR
ADULT CARE RESIDENCE**

This Residence and Care Agreement (the "Agreement") is made this ____ day of _____, 20____, by and between Grace LifeCare, Inc., a North Carolina non-profit corporation, (herein "Grace LifeCare") and _____ (herein referred to as "Resident". The term "Resident" as used in this Agreement means a Resident in the Grace Ridge Health Care Center and does not include a Resident occupying an Apartment Residence or a Cottage Residence at Grace Ridge.

Application Processing Fee (non-refundable)

Application processing fee for entry to Adult Care Residence is \$1,250.00 and includes non-refundable portion (\$250.00). One thousand dollars of the Application processing fee is credited toward the total entrance fee.

Home and Entry Fee Selection

Resident has selected to move directly to an Adult Care Residence Room # _____ in the Grace Ridge Health Care Center. The entrance fee is \$ _____.

Monthly Service Fee

The service fee for this home is based on the per diem rate of \$ _____ and is payable by the fifteenth day of each month. The service fee will be paid in advance of each month. Grace Ridge retains the right to adjust fees on an annual basis and no more than a bi-annual basis for increased cost of living in the operations of Grace Ridge CCRC. The total initial per diem payment (for remainder of move-in month) is \$ _____.

Ancillary Charges

Ancillary charges vary and are determined by Resident use of services. Ancillary charges are subject to change or adjustment without notice. Ancillary charges are found in Addendum Number One of this agreement.

RECITALS:

Grace LifeCare is the lessee of property located at 500 Lenoir Road in Morganton, North Carolina on which it operates Grace Ridge, a retirement community licensed by the North Carolina Department of Insurance.

Grace Ridge is a facility consisting of one hundred and thirty-five (135) apartment residences of various configurations, twenty-seven (27) cottage residences, associated common facilities, a Health Care Center licensed by the North Carolina Department of Human Resources comprised of thirty five (35) Adult Care beds, twelve (12) Special Care beds licensed as Adult Care beds, and twenty five (25) Nursing Care beds.

Grace LifeCare is wholly-owned by Blue Ridge Healthcare Hospitals, Inc.(herein "BRH"). Grace Ridge was acquired by BRH on February 19, 1991. Grace Ridge is the operating entity of Grace LifeCare.

Resident is desirous of becoming a resident of Grace Ridge in the Health Care Center and using the facilities, programs, and services provided by Grace LifeCare in the Health Care Center subject to the terms and conditions of this Agreement

Resident acknowledges receipt of the most current Disclosure Statement of Grace LifeCare as required by Section 58-64-20 of the North Carolina General Statutes.

Grace LifeCare agrees to make available to Resident accommodations and services in the Health Care Center subject to the terms and conditions set forth in this Agreement.

Now, Therefore, Resident and Grace LifeCare agree as follows:

I. REPRESENTATIONS AND COVENANTS

A. Representations And Covenants Of Resident. The representations made by Resident are true at the time of execution of this Agreement and Resident is required to be in compliance with all of the following obligations at all times during the term of this Agreement.

1. Conditions Of Admission. At the time of admission, Resident needs assistance in activities of daily living, is free of communicable disease, and has assets and income which are sufficient under foreseeable circumstances, and after provisions for payment of Resident's obligations under this Agreement, to meet ordinary and customary living expenses after Resident moves into the Health Care Center.

2. Factual Representations. All facts stated by Resident in Resident's application and other documentation delivered to Grace LifeCare as a pre-condition to this Agreement are true and complete.

3. Gifts, Transfers And Assignments. Resident has not made any gift, transfer, or assignment of his or her property in contemplation of the signing of this Agreement that would impair Resident's ability to meet his or her obligations under this Agreement; and will not, subsequent to signing this Agreement, make such a gift, transfer or assignment.

4. Age. Resident will be at least sixty (60) years of age when Resident first moves into Grace Ridge.

5. Compliance With Procedures. Resident promises to comply with all of the terms of this Agreement and the published operating procedures as amended from time to time by the Board of Directors of Grace LifeCare.

6. Payment Of Fees. Resident will pay the Entrance Fee, charges for care in the Health Care Center and the fee for any additional services incurred by Resident.

7. Disposition Of Property. Within sixty (60) days after Resident moves into Grace Ridge, Resident will provide by a Will or otherwise for the disposition of all furniture, possessions and property of Resident located in Grace Ridge.

8. Insurance. Before occupancy, Resident must secure the Hospital Insurance Benefits Program under Part A of Medicare, and secure the Medicare medical benefits program under Part B of Medicare and/or any other public hospital and/or medical insurance benefits program which may be enacted by the State of North Carolina or the Federal Government as a successor or supplement to Medicare. Resident will maintain such coverage during the term of this Agreement. The resident will also enroll, apply for and secure Medicare supplemental insurance which covers, as a minimum, the Basic Benefits (plan A). Resident will maintain such coverage during the term of this Agreement. If, at any time, Resident is not eligible for Medicare coverage, Resident will apply for and maintain private health insurance coverage acceptable to Grace LifeCare.

If any of the aforesaid representations are untrue, become untrue, or Resident takes an action inconsistent with such representations, Grace LifeCare may treat such untrue representation or action as a breach of this Agreement entitling Grace LifeCare to terminate this Agreement.

B. Representations And Covenants Of Grace LifeCare. Grace LifeCare represents and covenants that:

1. Non-Discrimination. Admission to Grace Ridge shall not be based on race, religion, or place of origin of a Resident; and shall be consistent with applicable law.

2. Affiliations. Grace LifeCare has no formal affiliation with and receives no financial support from a church or religious organization.

3. Resident's Inability To Pay Fees. If Resident is unable to pay charges in the Health Care Center and other charges and has provided explanation, documentation, or justifiable

reasons for non-payment satisfactory to Grace LifeCare, in its sole discretion, Resident may continue to live in the Health Care Center so long as Resident pays, to the maximum extent of Resident's ability to pay, Resident's obligations to Grace LifeCare; and subject to Grace LifeCare's ability to continue to operate Grace Ridge on a sound financial basis while receiving less than full payment by Resident of his or her obligations. The determination of whether Resident is paying to the maximum extent of Resident's ability to pay and whether Grace LifeCare may continue to operate on a sound financial basis while receiving less than full payment by Resident are determinations made in the sole discretion of Grace LifeCare.

II. ACCOMMODATIONS AND SERVICES

Grace LifeCare agrees to provide Resident the living accommodations, programs and services at Grace Ridge described in this section, so long as Resident carries out his or her obligations under this Agreement, including the charges for care in the Health Care Center described in Section III, Paragraph D and Addenda Number Two and Three of this Agreement.

Resident and Grace LifeCare expressly understand and agree that this Agreement grants Resident a revocable license to occupy and use space in Grace Ridge and that Resident is not given exclusive possession of the Residence as against Grace LifeCare. Resident and Grace LifeCare expressly understand and agree that this Agreement is not a lease or easement and does not transfer or grant Resident any interest in real property leased by Grace LifeCare.

A. Living Accommodation. A description of the Adult Care Residence (herein referred to as "Residence") is found in Addendum Number One of this Agreement. Resident has the exclusive right to occupy and use the Residence subject to the terms and conditions set forth in this Agreement. Resident may not assign the Residence.

B. Utilities. Grace LifeCare will furnish utilities including air conditioning, heating, electricity, water, sewer and municipal services. Resident shall pay for installation, use and maintenance charges related to telephone and cable television in the Residence.

C. Meals. Grace LifeCare will serve three (3) nutritionally well-balanced meals each day in the Health Care Center.. Special diets will be provided when prescribed by Resident's attending physician.

D. Furnishings. Grace LifeCare will provide a bed, bedside table, over bed table, overbed lighting, chair, and a mirror in the Residence. A nurse call system is also provided. The facility will provide a chest of drawers unless Resident prefers to use their own. Resident will provide all other furniture, furnishings, decorations, accessories, and other personal property.

E. Health Care. Grace LifeCare will provide health care in accordance with Section IV of this Agreement entitled "Health Care".

F. Housekeeping Services. Grace LifeCare will provide daily housekeeping services.

G. Laundry. Grace LifeCare will change and launder Resident's bed and bath linens on a weekly basis, or more often if necessary. Personal laundry service is available.

H. Security. Grace LifeCare will provide twenty-four (24) hour security and will provide emergency call devices in the Residence.

I. Maintenance And Repairs. Grace LifeCare will maintain and keep in repair its own improvements, furnishings, and equipment. Resident will be responsible for the cost of repairing damage to property of Grace LifeCare caused by the negligence of Resident or any guest of Resident, ordinary wear and tear excepted. Repairs, maintenance and replacement of Resident's property will be the responsibility of Resident.

J. Groundskeeping. Grace LifeCare will furnish groundskeeping service for the grounds of Grace Ridge, including lawn, tree, and shrubbery care. Subject to approval by Grace LifeCare, Residents may plant and maintain certain areas designated for such purpose by Grace LifeCare.

K. Storage. Grace LifeCare will not provide storage space outside the Residence for personal items. A locking storage device is available for room if desired.

L. Parking. Grace LifeCare will provide lighted and well-maintained parking areas for vehicle of Residents with driving privileges. There is no supervision of parking areas.

M. Common Facilities. Grace LifeCare will provide common facilities in the Health Care Center for the use, benefit and enjoyment of Resident, such as: dining room, living room, and other common facilities as may be designated by Grace LifeCare.

N. Activities. Grace LifeCare will provide planned and scheduled social, recreational, spiritual, educational and cultural activities, arts and crafts, exercise and health programs, and other special activities designed to meet the needs of Residents.

O. Transportation. Grace LifeCare will provide scheduled local transportation to local health care appointments when appointments are made in advance with schedules approved by Grace LifeCare. An additional charge may be made for transportation for other special, personal or group trips.

III. RESIDENT FEES

Resident will pay an Application Processing Fee, an Entrance Fee, and charges for care in the Health Care Center, all of which are subject to adjustment from time to time and are described in greater detail in this Section of the Agreement. All dates relating to Resident Fee Payments are described in Addendum Number Two of this Agreement.

A. Application Processing Fee. With the execution of this Agreement by Resident, Resident has submitted to Grace LifeCare the amount of \$1250.00 as an Application Processing Fee. Two Hundred Fifty Dollars (\$250) of this fee is nonrefundable and will not be credited toward the Entrance Fee or any other sum due from Resident under this Agreement. The balance of the Application Processing Fee (\$1,000) is credited toward the Entrance Fee.

B. Entrance Fee. The Entrance Fee for a direct move to Adult Care Residence is paid to Grace LifeCare and is as shown on page one of this agreement. If Resident is entitled to a refund of the Entrance Fee, it will be only after termination of the Residence and Care Agreement as provided in Section V, except Paragraphs D and F thereof, with the amount of the refund, if any, determined under Section VI, Paragraph B of this Agreement.

C. Payment For Care And Services In The Health Care Center.

1. Per Diem Charge. Resident shall pay a per diem charge as shown on page one of this agreement until and unless adjusted as hereinafter provided. Resident shall be required to initially pay an amount equal to the per diem charge for the number of days remaining in the calendar month, on the day of admission or thirty (30) days after Resident executed this Agreement, whichever is the first to occur. Thereafter, the total Per Diem Charge for the month shall be paid in advance by the tenth (10th) day of each month. A Per Diem Charge received by Grace after the tenth (10th) day of the month is subject to a late charge of one and one-half percent (1½%) per month. The services provided for the Per Diem Charge shall include the Adult Care Residence, board, linens, bedding, personal care, meals, laundry, and general care.

2. Ancillary Charges. Ancillary charges shall be made for those additional services, materials, and/or equipment not included in the Per Diem Charge. Examples of such additional charges include, but are not limited to, the cost of prescription and non-prescription medications; surgical, diagnostics, dental and optical services; speech, occupational and physical therapy; podiatry; oxygen; medical and nursing supplies; physical examinations and any other medical services beyond that available in the Health Care Center. Also, any professional services (medical or otherwise) contracted by Resident or on behalf of Resident shall be billed directly to Resident. Examples of Ancillary Charges for non-medical services include, but are not limited to, sundries, cable television, personal telephone, beauty/barber services, etc.

All Ancillary Charges shall be paid to Grace LifeCare unless the suppliers of the services bill Resident directly in which case Resident shall make direct payment to the suppliers of the services and Grace LifeCare assumes no liability to pay for the services. The Ancillary Charges payable to Grace shall be paid by the tenth (10th) day of the month for the additional services obtained during the preceding month. Ancillary Charges received by

Grace after the tenth (10th) day of the month are subject to a late charge of one and one-half percent (1½%) per month.

E. Adjustments In Charges For Care And Services Rendered.

1. Per Diem Charge And Ancillary Charge. Grace LifeCare reserves the right to adjust the Per Diem Charge if Grace LifeCare, in its sole discretion, deems it necessary to meet the financial needs of Grace Ridge. Written notice will be given to Resident at least sixty (60) days prior to the effective date of a change in the Per Diem Charge, unless licensing requirements provide a different notice period for such changes, and in such event notices of such changes will comply with the licensing requirements. Grace LifeCare shall have no notice obligation to Resident for adjustments in Ancillary Charges.

2. Refund Of Per Diem Charge. In the event of transfer, death, voluntary or involuntary discharge, Grace LifeCare shall refund to Resident any advance payments made for those days following the date the unit is vacated. However, the refund amount shall be reduced and offset by the amount of Ancillary Charges, Per Diem Charge for temporary absences under Subparagraph 3 below and any other charges and debts owed by Resident to Grace LifeCare.

F. Care In Other Facilities. Should Resident be temporarily transferred to an adult care or nursing care bed in an independent health care center approved by Grace LifeCare, as provided in Section IV, Paragraph D, during the period Resident is in an approved independent health care center, Resident will pay Grace LifeCare the lesser of the Health Care Center Per Diem Charge required under Resident's Agreement with Grace LifeCare or the applicable per diem charge at the approved independent health care center.

IV. HEALTH CARE

A. Adult Care. An Adult Care bed will be provided for Resident under this Residence and Care Agreement for Adult Care Residence. Adult Care beds will also be provided for Apartment and Cottage Residents whose health needs cannot be adequately met in their Residence but who do not, in the judgment of the Medical Director (in consultation with Resident's personal physician, if any), require the services of the Nursing Care beds. Grace LifeCare reserves the right to limit the number of direct or outside admissions to Adult Care Residence.

B. Nursing Care. Nursing Care beds are available for Residents who have entered into a Residence and Care Agreement for an Apartment, Cottage or Adult Care Residence. The availability of Nursing Care beds is limited however to Residents who have entered into a Residence and Care Agreement and have resided in the Apartment, Cottage or Adult Care Residence for thirty (30) days. Nursing Care beds are not available to persons occupying an Adult Care bed who have not entered into a Residence and Care Agreement.

C. Staffing For Health Care Center. Staffing for the Adult Care beds and Nursing Care beds in the Health Care Center will be consistent with licensing rules adopted by the North Carolina Department of Human Resources.

D. Transfers To An Independent Health Care Center. Should Resident be transferred to an Adult Care bed or Nursing Care bed in an independent health care center, Resident will be returned to Grace Ridge's Health Care Center as soon as a bed in the Grace Ridge Health Care Center at the corresponding level of care, or the level of care required by Resident upon readmission, is available. When there is more than one (1) Resident who has been transferred to an independent health care center for Adult Care or nursing care, Resident who has lived at Grace Ridge for the longest period of time will be given the first available bed at the corresponding level of care, or the level of care required by Resident upon readmission. Upon notification of the availability of a bed at Grace Ridge, Resident will return to the Grace Ridge Health Care Center. Should Resident choose not to return to the Grace Ridge Health Care Center, Grace LifeCare may take action to terminate this Agreement under the provisions of Section V, Paragraph G, Subparagraph 7.

Unless Resident declines to return to an available bed in the Grace Ridge Health Care Center, Grace LifeCare will pay Resident's Per Diem Charges in an independent health care center approved by Grace LifeCare, unless covered by Medicare Part A. During the period Resident is in an approved independent health care center, Resident will pay Grace LifeCare the lesser of the Health Care Center Per Diem Charge required under this Agreement with Grace LifeCare or the applicable Per Diem Charge in the approved health care center.

E. Conditions Under Which an Adult Care Residence May Be Made Available To A Different Or New Resident Other Than On The Death Of Adult Care Resident. No conditions exist under which an Adult Care Residence occupied by a Resident may be made available by Grace LifeCare to a different or new Resident other than on the death of the Resident, permanent transfer of the Resident to a nursing care bed, termination by Grace LifeCare for cause as provided in Section V, Paragraph G or for transfer as provided in Section IV, Paragraph H.

F. Emergency Medical Care. When emergency medical care is needed, Resident's attending physician or alternate, or the Medical Director of Grace Ridge is notified and Resident is transferred to a local hospital emergency room, if necessary.

G. Care In Facilities Other Than The Grace Ridge Health Care Center Or An Approved Independent Health Care Center. Should Resident need a level of care beyond that licensed by the North Carolina Department of Human Resources at the Grace Ridge Health Care Center or at an approved independent health care center and require transfer to another facility, all expenses which will result from such transfer and care shall be borne entirely by Resident.

H. Conditions For Transfer Or Discharge.

1. Involuntary Discharge Or Transfer. Grace LifeCare reserves the right to involuntarily discharge or transfer Resident for any of the reasons and in the manner provided in Section V, Paragraph G.

2. Involuntary Transfer To Another Room. Grace LifeCare reserves the right to involuntarily transfer Resident to another room for any of the following reasons:

- a. Disturbing other residents;
- b. For the welfare of Resident or other residents;
- c. For medical, nursing, or psychological reasons; or
- d. For administrative reasons regarding the use of the Health Care Center.

3. Voluntary Discharge Or Transfer. Resident shall have the right at all times to voluntarily discharge or transfer from the Health Care Center. The Grace LifeCare administrator shall be given thirty (30) days written notice by Resident in order that a proper transfer or discharge can be effected. However, a voluntary discharge or transfer will become effective only when Resident leaves the Health Care Center. Voluntary discharge or transfer will not relieve Resident from the obligation to pay any sums due pursuant to this Agreement. Nothing herein shall be construed to require Resident to remain in the Health Care Center against Resident's will for any length of time.

I. Rights And Responsibilities Of Resident.

1. Physical Examination. Within five (5) days before admission or within forty-eight (48) hours after admission, Resident shall undergo and Grace LifeCare shall ensure that Resident receives a physical examination.

2. Physician's Orders. Before or at the time of admission, Resident shall provide and Grace LifeCare shall ensure receiving licensed physician's orders for Resident's admission to the Health Care Center and for the immediate care of Resident.

3. Test Results And Execution And Delivery of Certain Documentation. At the time of admission, Resident shall provide and/or execute and Grace LifeCare shall ensure that the following are received:

- a. Current test results within three (3) months) from tuberculosis and other communicable disease screening;
- b. Release of Information Form, attached as Addendum Number Two, approving or disapproving inspection or release of Resident's medical records. Resident's approval will not be required to release medical records to another health care facility to which Resident is being transferred or receiving care, appropriate parties required by third party payment contract, or as otherwise required or permitted by law;
- c. A Durable Power of Attorney in a form acceptable to Grace LifeCare, granting authority to a Representative of Resident, which will remain effective notwithstanding the incompetence or disability of Resident. The person named as Resident's Representative shall not be a person employed by Grace LifeCare or any other entity engaged in the management of Grace Ridge;
- d. A Withholding of Information Form, attached as Addendum Number Seven disapproving inspection or release of Resident medical records;
- e. A Valuables and Personal Belongings Form, attached as Addendum Number Nine;
- f. A Pharmaceutical Choice Form, attached as Addendum Number Ten; and

g. A Money Authorization Form, attached as Addendum Eleven.

4. Medical Findings, Diagnosis And Rehabilitation Potential. Within seventy-two (72) hours after admission to the Health Care Center, Resident shall provide and Grace LifeCare shall ensure receiving current medical findings, diagnosis and rehabilitation potential.

5. Resident's Miscellaneous Requirements. Following admission, Resident shall:

- a. Provide personal clothing and effects as well as personal spending money as needed or desired by Resident; (an account can be established in Financial Services – see Addendum Nine).
- b. Comply with all rules and regulations established by Grace LifeCare;
- c. Be legally accountable and personally responsible for the payment of all financial obligations including Per Diem Charges and Ancillary Charges for the rendering of care and services under this Agreement;
- d. Be responsible for any charge related to checks returned for insufficient funds in accordance with applicable law;
- e. Pay all costs and reasonable attorneys fees associated with any collection action if Resident's account is sent to an attorney for collection; and
- f. Adhere to the smoke-free policy unless Resident has written orders by physician to allow smoking and then only in designated outdoor area.

J. Rights And Responsibilities Of Grace LifeCare.

1. At The Time Of Admission. At the time of admission, Grace LifeCare shall provide Resident with the following:

- a. A complete schedule, attached as Addendum Number One, of the Ancillary Charges for those additional services, materials, and/or equipment not included in the Per Diem Charge.
- b. Written advisement by Grace LifeCare that Resident has the right to object in writing to the release of information or review of records, attached as Addendum Number Two.
- c. A copy of G.S. 131E-115 through G.S. 131E-127, attached as Addendum Number Three.
- d. A copy of the Federal Patients' Bill of Rights, attached as Addendum Number Four.
- e. A copy of the implementation of the requirements of G.S. 131E-115 through G.S. 131E-127, attached as Addendum Number Five.
- f. The addresses and telephone numbers of the regulatory agencies responsible for enforcement of the Health Care Facility Licensure Act, attached as Addendum Number Six.
- g. A copy of the Withholding Information Form, attached as Addendum Number Seven.
- h. Durable Power of Attorney Form, attached as Addendum Number Eight.

- i. A copy of the Valuables and Personal Belongings Form, attached as Addendum Number Nine.
- j. A copy of the Pharmaceutical Choice Form, attached as Addendum Number Ten.
- k. A copy of the Money Authorization Form, attached as Addendum Number Eleven.
- l. A Health Care Power of Attorney Form, attached as Addendum Number Twelve.
- m. Privacy Act Notification Brochure Addendum Thirteen

2. After Admission. Following admission, Grace LifeCare shall:

- a. Assure that initial and annual tuberculosis screening of Resident is done;
- b. Perform a limited oral examination to assess the general condition of Resident's gums, teeth or jaws and the type of diet which is appropriate;
- c. Obtain the services of an alternate physician or provider at the expense of Resident, if Resident's attending physician is not available, is failing to serve Resident, or is failing to comply with North Carolina law;
- d. Arrange for Resident's transfer to a hospital or other health care facility at the expense of Resident when ordered by the attending physician, alternate physician or Medical Director of the Community;
- e. Except as specifically indicated in Addenda Number Two and Seven, release medical information to another health care facility to which Resident is being transferred or receiving care, persons or organizations who audit the level, quality and reimbursement for care provided, to those approved in writing by resident, or as otherwise required or permitted by law;
- g. Require a standard method of resident identification (e.g., an identification bracelet or a photographic print); and
- h. Handle Resident's funds if requested in writing by Resident and evidenced in Addendum Number Eleven of this Agreement.

V. TERMINATION OF AGREEMENT.

The Agreement may be rescinded, canceled or terminated by Resident, or terminated by Grace LifeCare as provided in this Section. The refund of the Entrance Fee, if any, to which a Resident may be entitled upon termination of this Agreement shall be determined under Section VI, Paragraph B, unless this Agreement is terminated after occupancy by Resident, by voluntary termination under Section V, Paragraph D; or by Grace LifeCare, after occupancy by Resident, for cause under Section V, Paragraph G. If this Agreement is voluntarily terminated under Section V, Paragraph D, for cause under Section V, Paragraph G, or by the death of Resident after occupancy, there shall be no refund.

A. Resident's Right Of Rescission. Resident has a right to rescind this Agreement for a period of thirty (30) days following the later of the execution of the Agreement or receipt of a Disclosure Statement and Resident is not required to move in before the expiration of this thirty (30) day period.

B. Death Of A Resident Prior To Occupancy. This Agreement is automatically canceled in the event Resident dies before occupying the Residence.

C. Illness, Injury Or Incapacity Of A Resident Prior To Occupancy. If, on account of illness, injury or incapacity, Resident is precluded from occupying the Residence because of a change in physical or mental condition as established by Resident's personal physician and approved by the Medical Director of Grace Ridge, this Agreement is automatically canceled.

D. Voluntary Termination By Resident. This Agreement gives Resident the right to rescind the Agreement and to terminate the Agreement for specific reasons. If Resident terminates this Agreement other than by rescission or pursuant to a specific reason under the Agreement, it shall be deemed to be a voluntary termination. If Resident voluntarily terminates the Agreement prior to occupancy, any refund to which Resident may be entitled is determined under Section VI. If Resident voluntarily terminates this Agreement after occupancy, there shall be no refund.

E. Termination Of Agreement By Grace LifeCare. Grace LifeCare may terminate this Agreement for any of the following:

1. Breach Of Resident's Representations. Breach of Resident's representations and covenants to Grace LifeCare.

2. Change In Financial Condition. Change in the financial condition of a Resident during the period between Resident's entering into this Agreement and prior to the occupancy of the Residence. The determination on whether there has been a change in the financial condition of a Resident entitling Grace LifeCare to terminate this Agreement because a Resident is no longer financially qualified for admission, is made in the sole discretion of Grace LifeCare.

F. Termination By Resident Or Grace LifeCare. After taking occupancy of a Residence, Resident must continue to be able to live with assistance in activities of daily living as allowed under licensing requirements for Adult Care beds. If, within thirty (30) days after occupancy, Resident requires a level of care which may only be provided in a Nursing Care bed, this Agreement may be terminated at the option of either Resident or Grace LifeCare. The determination of the Medical Director shall be conclusive on whether Resident requires a level of care that can only be provided in a Nursing Care bed.

G. Grace LifeCare's Termination Rights For Cause. Grace LifeCare may terminate this Agreement after occupancy by Resident for just cause following notice as hereafter provided. Just cause shall exist if:

1. Resident Does Not Submit and Complete Medical and Financial Information When Applying For Admission To Grace Ridge. The representation by applicant that complete and accurate medical and financial information has been submitted is a

continuing representation and will constitute grounds for termination at any time Grace LifeCare determines that such representation has been breached.

2. Non-Compliance With Agreement, Procedures And Covenants. Resident does not comply with the terms of this Agreement or the published operating procedures and covenants of Residents in the Health Care Center;

3. Resident's Failure To Pay Fees. Resident does not pay the balance of the Entrance Fee.

4. Resident does not pay the Monthly Service Fee as a result of Resident transferring assets for less than adequate consideration or assuming new liability which results in Resident's inability to pay obligations under the Residence and Care Agreement; or becomes unable pay monthly service fee due to disposal of assets or taking on new liability.

5. Health, Safety And Peaceful Lodging Of Other Residents. Resident creates a condition within the Health Care Center at Grace Ridge which is detrimental to the health, safety or peaceful lodging of other Residents;

6. Contagious Disease Or Mental Or Emotional Change Of Condition. (a) Resident becomes infected with a dangerous and contagious disease or becomes mentally or emotionally disturbed, and the Medical Director determines that Resident's condition is detrimental to the health, safety or welfare of other Resident's or the staff of Grace Ridge or; (b) Resident's condition cannot appropriately be cared for at a level of care available in the Health Care Center at Grace Ridge as licensed by the North Carolina Department of Human Resources; or

7. Non-Return After Transfer. Resident has been transferred to an independent health care center and has declined to return to the Grace Ridge Health Care Center upon notification of an available bed at a corresponding level of care at Grace Ridge and also refuses to execute an agreement to hold harmless Grace LifeCare for charges at the independent health care center.

Before any termination of this Agreement by Grace LifeCare as described above, Grace LifeCare will give Resident notice in writing of the reason for termination. Resident will have thirty (30) days after that notice to correct the problem to the satisfaction of Grace LifeCare, in its sole discretion. If the problem is corrected within the thirty (30) days to the satisfaction of Grace LifeCare, this Agreement will not be terminated. If the problem is not corrected within that period of time, the Agreement shall terminate at the end of the thirty (30) day notice period.

If Grace LifeCare has given notice to terminate for any reason under Subparagraphs (5) or (6) above, Grace LifeCare is expressly authorized during the thirty (30) day notice period to

immediately transfer Resident from Grace Ridge and to assist a physician with admitting responsibilities to transfer Resident to an appropriate hospital or other facility, and Grace Ridge will promptly notify Resident's representative or Resident's personal physician, if any.

VI. REFUND OF ENTRANCE FEE

A. Grace LifeCare will pay no interest to Resident on any fee, deposit, Entrance Fee, or any portion thereof. The refund, if any, to which Resident is entitled under this Section shall be the return of only the fee, deposit, Entrance Fee, or any portion thereof, and shall include no interest. Neither shall interest accrue on any fee, deposit, Entrance Fee or any portion thereof and be credited on any obligation of Resident to Grace LifeCare.

B. Refunds Of Entrance Fee Upon Rescission, Cancellation Or Termination Of Agreement Under Section V: Upon rescission, cancellation or termination under Section V, except after occupancy by voluntary termination by Resident under Section V, Paragraph D, termination for cause by Grace LifeCare under Section V, Paragraph G, or the death of the Resident, Grace LifeCare shall refund, or cause to be refunded, all money without interest except: (i) periodic charges specified in this Agreement and applicable only to the period the Residence was actually occupied by Resident or resident's belongings; (ii) those nonstandard costs specifically incurred at the request of Resident and described in this Agreement, or any amendment hereto signed by Resident; (iii) those nonrefundable fees that are set out in this Agreement or any amendment hereto signed by Resident; and (iv) a service charge, equal to the greater of One Thousand Dollars (\$1,000) or two percent (2%) of the Entrance Fee. If Resident should rescind after the thirty-day period but prior to occupancy, Grace Ridge will retain six percent 6% of the total Entry Fee.

VII. OCCUPANCY BY PERSON OTHER THAN RESIDENT, SPOUSE AND NEW SECOND OCCUPANT

A. Policy On Occupancy By Person Other Than Resident. No person other than Resident may occupy a Residence without express written approval of Grace LifeCare.

B. Marriage. If Resident marries while at Grace Ridge, Resident's spouse may not live in the room with his or her spouse, except in the double occupancy suite.

C. New Second Occupant. A Resident may not invite a non-Resident to share a living accommodation in the Residence.

VIII. MISCELLANEOUS PROVISIONS REGARDING THE RESIDENCE.

A. Residence Restricted To Residential Use Only. The Residence is for living only and shall not be used for carrying on any profession, nor be in violation of any applicable zoning restrictions or rules and regulations of the State of North Carolina applicable from time to time to such Residences.

B. Transfers Between Adult Care Residences. If a Resident desires to move from an Adult Care Residence to another Adult Care Residence, a request must be submitted to the management of Grace Ridge. Transfers shall be made in the sole discretion of Grace LifeCare and subject to the execution of any additional documents which it deems necessary. Resident has no right to transfer to an Apartment or Cottage Residence under this Agreement.

C. Compliance With Laws And Regulations. Grace LifeCare may make changes in any Residence in Grace Ridge at any time to meet the requirements of the laws of North Carolina or to improve safety within the Facility.

D. Storage Of Personal Property After Death Of Resident. After Resident's death or termination of this Agreement as provided in Section V, Grace LifeCare may remove and store Resident's furniture and other property at the expense and risk of Resident or Resident's estate. As an alternative and in Grace LifeCare's discretion, Grace LifeCare may retain furniture and other property in the Residence at the expense and risk of Resident or Resident's estate.

IX. MISCELLANEOUS PROVISIONS REGARDING THE AGREEMENT

A. Assignment Or Transfer Of Agreement. Resident may not assign or transfer this Agreement or Resident's rights under it and no rights or benefits under this Agreement shall inure to the benefit of Resident's heirs, legatees, assignees or personal representatives, except as to receipt of the refunds described in Section VI of this Agreement. Resident's contractual right to occupy the Residence shall exist and continue to exist during Resident's lifetime unless terminated by Resident or Grace LifeCare pursuant to Section V of this Agreement.

B. Resident's Indemnity To Grace LifeCare. Grace LifeCare shall not be liable for, and Resident agrees to indemnify, defend and hold Grace LifeCare harmless from claims, damages or expenses, including attorney's fees and court costs, resulting from any injury or death to persons and any damages to property caused by, resulting from, attributable to or in any way connected with, Resident's negligent or intentional act or omission.

C. Subordination. Resident will not be liable for any indebtedness incurred by Grace LifeCare to mortgagees. However, Resident agrees that all of Resident's rights under this Agreement will always be subordinate and junior to the lien of all mortgages or other documents creating liens encumbering Grace Ridge, which have been or will be executed by Grace LifeCare, Grace Properties, Inc. or either of their successors. Upon request, Resident agrees to sign, acknowledge and deliver to such lender or lenders such further written evidence of such subordination as such lenders may require.

D. Amendments To Agreement. No amendment of this Agreement will be valid unless in writing, dated and signed by Resident and an authorized representative of Grace LifeCare.

E. Governing Law. This Agreement will be governed, interpreted and construed according to the laws of the State of North Carolina.

F. Severability. The invalidity or unenforceability of any part of this Agreement will not impair or affect in any way the validity or enforceability of the rest of this Agreement.

G. Resident Release. Resident releases Grace LifeCare, its owners, directors, officers, and employees from all liability for any personal injury, illness or deterioration in Resident's condition which may occur while Resident is temporarily absent from the Grace Ridge Health Care Center.

H. Personal Effects, Valuables And Money. Grace LifeCare shall not be responsible for any personal effects, valuables, or money left in the possession of Resident.

I. Compliance. Failure by any party to this Agreement at any time to require compliance with a particular term of this Agreement, shall not be construed as a waiver of that party's right to require compliance with that or any other provision at any future time.

J. Financial Obligations. The execution of this Agreement will constitute an acceptance on the part of Resident to undertake to pay all financial obligations.

K. Execution And Effectiveness Of Agreement. The execution of this Agreement on behalf of Grace LifeCare will be by the duly authorized agent of Grace LifeCare and no officer, director, agent or employee of Grace LifeCare will have any personal liability to Resident under this Agreement under any circumstances. This agreement will become effective upon acceptance and execution by Grace LifeCare.

L. Entire Agreement. This Agreement, together with the Addenda constitute the entire agreement between the parties, superseding all previous oral or written understandings, commitments or representations; and there are no other terms or conditions of the parties' agreement except those which are specifically set forth herein or in the Addenda.

In Witness Whereof, Grace LifeCare and Resident have executed this Agreement on the dates indicated.

Grace LifeCare, Inc.

Witness

By: _____
Executive Director

Dated: _____

Witness

Resident/Responsible Party

Dated: _____

Street Address

City, State and Zip

Send bills to:

