

SOUTHMINSTER, INC.

DISCLOSURE STATEMENT

March 1, 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 July 30, 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.

Southminster, Inc.
8919 Park Road
Charlotte, North Carolina 28210

SOUTHMINSTER, INC.
DISCLOSURE STATEMENT
March 1, 2019
TABLE OF CONTENTS

I. Introduction and Information	2-8
List of Officers and Directors	4-6
II. Policies Relating to Admissions, Cancellations, and Transfers	8-15
Admissions	8-9
Rescissions/Cancellations/Termination/Refunds	9-12
Moves/Transfers	12-13
Marriages	14
Inability to Pay	14
III. Services Provided Under the Residence and Services Agreement	15-18
IV. Information Relating to Fees	18-24
Ten Percent Deposit	18
Entrance Fees	18-20
Monthly Service Fees	20-22
Health Center Fees and Charges	22-23
Historic Changes in Monthly Fees for the Previous Five Years	23-24
V. Financial Information Relating to Southminster	24-27
VI. Other Material Information	27-29
Attachments	
Audited Financial Statements	1
Five Year Forecast	2
Comparison of Financial Results	3
Residence and Services Agreement	4
Southminster's Mission Statement	5
Acknowledgement of Receipt of Disclosure Statement	6
Interim Financial Statements (unaudited)	7

DISCLOSURE STATEMENT

SOUTHMINSTER, INC.

I. INTRODUCTION AND INFORMATION

A. Narrative Description of the Organization and its Operations

Southminster, Inc. (“Southminster”) is a corporation established to construct and operate a continuing care retirement community (the “community”) located at 8919 Park Road, Charlotte, North Carolina 28210, with mailing address and additional contact information as follows:

Southminster, Inc.	Telephone Number: (704) 551-6800
8919 Park Road	Fax Number: (704) 551-6868
Charlotte, NC 28210	Marketing Office: (704) 554-0141

B. Facilities of Southminster, Inc.

Southminster is a single-site facility located on a 27-acre tract at 8919 Park Road, Charlotte, NC 28210. The facilities of Southminster consist of independent living residences comprised of 29 one-story duplex/triplex cottages (ten having been demolished for an expansion project currently underway) and a main building housing 212 independent living apartments (eight having been demolished for an expansion project currently underway and two of which are used as guest rooms). The main building also includes dining rooms, the main kitchen, common rooms for activities and social interactions, a library, wellness and aquatic center, administrative offices, underground parking, and all the necessary support service areas for the normal functioning of the community (e.g., maintenance, housekeeping, resident storage spaces). Southminster has combined some Residences in its original building to make larger Residences and continues to look for opportunities to do so.

Southminster’s Health Center is housed in its main building and includes 25 assisted living licensed beds (all private) and 60 nursing licensed beds (56 private and 4 semi-private).

Southminster is currently undergoing a capital expansion project that includes the construction of a replacement health center and two separate phases of independent living referred to as “Terraces”. See further discussion of this project in Section VI.C., Campus Expansion.

C. Affiliations

1. Sponsors of Southminster, Inc.

Southminster was founded by and continues to have an affiliation with:

Christ Episcopal Church
1412 Providence Road
Charlotte, NC 28207

Myers Park Baptist Church
1900 Queens Road
Charlotte, NC 28207

Southminster is the direct product of the interest of these two churches and their concern for providing a retirement alternative for members of their congregations and other seniors in the Charlotte area. The initial funds used for start-up related costs were raised primarily from the membership of these two churches.

One associate minister from each of the two sponsoring churches serve on Southminster's Board of Directors as ex officio members, with full voting rights. Although the Directors need not be members of one of the sponsoring churches, the Board's intention is to have not more than three non-members serving on the board, and the governing bodies of the two churches must ratify those individuals nominated to serve as Directors.

The sponsoring churches have no responsibility for the financial and contractual obligations of Southminster, Inc.

2. Trade Associations

Southminster is a member in good standing of LeadingAge and its state chapter, LeadingAge NC.

D. Accreditation and Licensure Authority

Southminster is fully authorized to operate in North Carolina. The independent living component of the community is regulated by the North Carolina Department of Insurance in accordance with Chapter 58, Article 64 of the General Statutes of the State of North Carolina.

The Assisted Living part of the community consists of 25 Adult Care Beds. The Skilled Nursing part of the community consists of 60 Skilled Nursing Beds. The Department of Health and Human Services issues an annual combined license through the Division of Health Service Regulation. Southminster operates a licensed Homecare Agency through the Division of Health and Human Services. The Division

of Health Service Regulation annually renews Homecare Services, Nursing Care and In-home Aide services.

Southminster is fully licensed and authorized to operate under the full continuum of care services as published in this Disclosure Statement (refer to Section III below).

E. Legal Description

Southminster, Inc. is a non-profit corporation organized under the laws of the state of North Carolina. Directors serve on a non-paid basis and have no ownership relationship with the Corporation. There are no stockholders. The Corporation is exempt from the payment of federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity under Section 509a(1) of the Internal Revenue Code.

F. Identification and Background of Officers and Directors of Southminster

The names, business addresses, and professional occupations of the Officers and Directors of Southminster, Inc. (as of February 18, 2019) are listed as follows:

OFFICERS OF THE CORPORATION

<i>OFFICE</i>	<i>NAME AND ADDRESS</i>	<i>PROFESSIONAL AFFILIATION</i>
<i>Chairman of the Board</i> <i>Board Member</i>	<i>Mrs. Hope Parrott</i> 1901 Sharon Lane Charlotte, NC 28211 704-366-6003	Community Volunteer
<i>Vice Chair, Treasurer, and Chair Elect</i> <i>Board Member</i>	<i>Mr. Joseph B. C. Klutz</i> 2900 Saint Andrews Lane Charlotte, NC 28205 704-332-6880	Retired Partner K&L Gates, LLP
<i>Vice Chair and Secretary</i> <i>Board Member</i>	<i>Mrs. Tere Ey</i> 2011 Pinewood Circle Charlotte, NC 28211 704-364-9584	Community Volunteer
<i>Vice Chair</i> <i>Board Member</i>	<i>Mr. Jay Rivers</i> 2620 Hampton Avenue Charlotte, NC 28207 704-334-7063	President, Capital Management of the Carolinas
<i>Vice Chair</i> <i>Board Member</i>	<i>Mr. John Clinton Wyatt</i> 606 Moravian Lane Charlotte, NC 28207 704-458-6037	Retired Executive

President and Chief Executive Officer Staff Member	Mr. Benjamin A. Gilchrist 8919 Park Road Charlotte, NC 28210 704-551-7101	President and Chief Executive Officer, Southminster, Inc.
Assistant Secretary Staff Member	Mrs. Mary Cooper 8919 Park Road Charlotte, NC 28210 704-551-7118	Director of Health & Wellness Southminster, Inc.
Assistant Treasurer Staff Member	Mrs. Kenda M. Laughey 8919 Park Road Charlotte, NC 28210 704-930-7105	Chief Financial Officer Southminster, Inc.

BOARD OF DIRECTORS ROSTER

<i>CLASS</i>	<i>NAME AND ADDRESS</i>	<i>PROFESSIONAL AFFILIATION</i>
Ex Officio	Rev. Joseph Aldrich Myers Park Baptist Church 1900 Queens Road Charlotte, NC 28207 704-334-7232	Associate Minister, Myers Park Baptist Church
Chair Emeritus (Non-voting)	Mr. H. Tate Bowers 2111 Ferncliff Road Charlotte, NC 28211 704-366-3724	Chief Executive Officer, Bowers Fibers, Inc.
Chair Emeritus (Non-voting)	Mr. Richard N. Brigden 8919 Park Road, Apt. 277 Charlotte, NC 28210 704-551-6977	Retired Chief Financial Officer, Ruddick Corporation
Founding Director (Non-voting)	Mr. R. Stuart Dickson 8919 Park Road, Apt. 7011 Charlotte, NC 28210 704-930-7241	Former Chairman of the Board, Ruddick Corporation
Ex Officio	The Rev. Lisa Saunders Christ Episcopal Church 1412 Providence Road Charlotte, NC 28207 704-714-6952	Associate Rector, Christ Episcopal Church
Chair Emeritus (Non-voting)	Mr. Robert D. Thomason 2129 Queens Road West Charlotte, NC 28207 704-904-2900	Owner/Pilot, Advantage Aviation, Inc.
2021	The Reverend Robin Coira 6928 Chatford Lane Charlotte, NC 28210 704-552-2652	Retired Minister Myers Park Baptist Church

2019	Mr. Charles H. Conner, Jr. 1546 High Street Charlotte, NC 28210 704-577-2682	Retired Investment Banker
2020	Mrs. Tere Ey 2011 Pinewood Circle Charlotte, NC 28211 704-364-9584	Community Volunteer
2020	Mr. Gene King 8919 Park Road, Apt. 184 Charlotte, NC 28210 704-551-6536	Retired Executive
2021	Mr. Joseph B. C. Kluttz 2900 Saint Andrews Lane Charlotte, NC 28205 704-332-6880	Retired Partner K&L Gates, LLP
2019	Mrs. Hope Parrott 1901 Sharon Lane Charlotte, NC 28211 704-366-6003	Community Volunteer
2020	Mr. Jay Rivers 2620 Hampton Avenue Charlotte, NC 28207 704-334-7063	President, Capital Management of the Carolinas
2021	Mrs. Susan R. Salvin 1819 Queens Road Charlotte, NC 28207 704-332-6919	Salvin Dental Specialties, Inc.
2021	Dr. Paul Tolmie 2300 Sherwood Avenue Charlotte, NC 28207 704-342-4025	Periodontist
2019	Mr. Richard C. Welch 8919 Park Road, Apt. 6017 Charlotte, NC 28210 704-930-7227	Retired Executive IBM Corporation
2019	Mr. John Clinton Wyatt 606 Moravian Lane Charlotte, NC 28207 704-458-6037	Retired Executive

NOTES RELATING TO “BOARD OF DIRECTORS ROSTER”

- The “Ex Officio” Directors are voting members serving on the Southminster, Inc. Board by virtue of their leadership positions as Clergy of Myers Park Baptist Church and Christ Episcopal Church.
- The “Founding Director” continues to serve on the Board as a non-voting member by virtue of the Board’s desire to show its respect and sincere appreciation for the leadership given

by this individual at the inception and during the critical early years of Southminster's existence.

- The "Chair Emeritus" Directors continue to serve on the Board as non-voting members in recognition of their years of service as members of the Board of Directors.

G. President and Chief Executive Officer

It is the intent of the Board of Directors of Southminster to have an experienced and professionally qualified Chief Executive Officer to be responsible for the daily operation of the facility. Prior to May 1, 2019, this position had been held by David F. Lacy since February 1999. Effective May 1, 2019, a new President and CEO, Benjamin A. Gilchrist, was appointed by Southminster's Board of Directors. This followed an extensive national search process managed by an executive recruitment firm. David F. Lacy, had previously announced his plans to retire and worked closely with the new President and CEO during the transition. Mr. Lacy has also offered his ongoing assistance on an "as-needed" basis if requested by the new CEO and the Board of Directors.

Mr. Gilchrist has extensive experience working with non-profit retirement communities, as well as for-profit skilled nursing providers. Prior to being appointed as CEO at Southminster, Mr. Gilchrist served for seven years as Vice President of Operations at Friendship Senior Options, a non-profit provider of senior services and housing in Illinois. Prior to that Mr. Gilchrist served as President of Springfield Masonic Home, a non-profit CCRC in Springfield, Ohio and Vice President of Operations for Vrable Health Care Company in Columbus, Ohio, a for-profit provider of skilled nursing. Before that, Mr. Gilchrist served as Vice President of Health Care and Community Based Services at Maple Knoll Communities in Springdale, Ohio, a non-profit provider of senior services and housing. Mr. Gilchrist is a licensed Nursing Home Administrator in Ohio and served on the board of LeadingAge Illinois.

H. Conflict of Interest Clarifications

Southminster is not aware of any conflict of interest item relating to any of its officers or directors. There are no members of the Board of Directors that have, nor which have in these persons, a ten percent (10%) or greater interest in companies with which Southminster conducts business. The business associations that do exist between the Board's officers and directors and Southminster are fully disclosed and do not adversely impact the Corporation.

I. Criminal Violation Statement

No officer or director has been involved in civil or criminal proceedings involving fraud, embezzlement, fraudulent conversion or misappropriation of property; none is subject to a currently effective injunction 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 matters arising out of the business of health care. There have been no actions affecting licenses to operate a foster care facility, nursing home, retirement home, home for aged, or facility subject to Article 64 or a similar law in another state, within the past five years.

J. Location and Description of Physical Property

(Refer to Section I.B. above for this information.)

K. Occupancy Data

As of January 31, 2019, there were 348 residents residing at Southminster.

II. POLICIES RELATING TO ADMISSIONS, CANCELLATIONS, & TRANSFERS

A. Admissions Requirements and Procedures

1. The Admissions Process

The future Resident will submit a completed Application for Admission, Personal Health History, and a Confidential Financial Statement or other evidence of sufficient financial means. At the time of receipt by Southminster of the admission documents described above, the Resident and Southminster will enter into a Residence and Services Agreement, and the Resident will be required to pay a reservation deposit equal to ten percent (10%) of the Entrance fee for the Residence selected and refund plan type selected. (Please see Section IV below for a schedule of entrance fees.) Final acceptance by Southminster and the right of the future Resident to receive services and to occupy a residence is contingent on the future Resident being finally approved by Southminster. The balance of the Entrance Fee is due when the resident is finally approved and takes financial responsibility for a residence.

As part of the admission process, all persons applying are interviewed by a representative from Southminster to ascertain the applicant's ability to live independently and to determine the level of support services that may be needed. The Director of Health & Wellness and/or her designee will always be a part of this interview process. Upon review of the information outlined above, Southminster may request additional personal interviews and/or documentation on items not satisfactorily covered in the application forms or on prior interviews.

2. Health Criteria

Southminster reserves the right to require the future Resident to have, at their expense, mental and physical examinations and tests, the purpose of which is to determine that the Resident is able to live independently within Southminster.

3. Financial and Insurance Criteria

As part of the application process, prospective residents will be asked to furnish information concerning net worth, income, and expenses. Full disclosure may not be required if other appropriate documentation of financial resources is supplied. In cases where the family may be providing support, financial disclosure by the family members may also be required.

As additional protection against future health care costs and as a condition for consideration for admission, the Resident will be expected to maintain Medicare Parts A and B and one supplemental health insurance policy or equivalent insurance coverage acceptable to Southminster.

Southminster also requires that each Resident maintain an insurance policy covering personal property and liability (including all motor vehicles kept on Southminster property) in minimum amounts recommended by Southminster policy. Each Resident is strongly encouraged to carefully consider his/her personal circumstances in deciding if limits higher than the minimum required by Southminster are appropriate.

4. Age Requirements

The requirements for admission to Southminster are non-discriminatory except as to age. Admission is restricted to persons sixty-two (62) years of age or older.

B. Rescission/Cancellation/Termination of Contract and Refund Provisions

1. Rescission

The Resident may rescind the Residence and Services Agreement within thirty (30) days of the later of the execution of this Agreement or receipt of the disclosure statement required by N.C.G.S. 58-64-20, and the Resident to whom the Agreement pertains will not be required to move to Southminster before the expiration of the 30-day period. The Resident will receive a full refund of the Entrance Fee paid by the Resident within thirty (30) days of notice of rescission less any nonstandard charges and cancellation fees as set

forth in the executed Residence and Services Agreement.

2. *Cancellation*

Prior to occupancy of a residence, the Residence and Services Agreement may be cancelled if Southminster denies admission to the Resident; if the Resident dies; if, on account of illness, injury, or incapacity the Resident is precluded from occupying a residence; or if Southminster notifies the Resident that the residence he or she reserved will not be available for occupancy. The Resident will receive a full refund of the Entrance Fee paid by the Resident within thirty (30) days of date of cancellation less any nonstandard charges as set forth in the executed Residence and Services Agreement.

3. *Termination Prior to Occupancy*

In addition to the rights for rescission and cancellation as described above, the Resident or Southminster may terminate the Residence and Services Agreement prior to occupancy of a residence. The Resident may terminate with thirty (30) days' notice for any reason other than those described for rescission or cancellation. Southminster may terminate with thirty (30) days' notice for just cause as described in the Residence and Services Agreement. Southminster may decide not to give thirty (30) days' notice if the Resident is determined to be a danger to him or herself or to others. In the case of a termination by the Resident or Southminster before occupancy that is not a rescission or cancellation, the Resident will receive a full refund of the Entrance Fee paid by the Resident within thirty (30) days of notice of termination, less a non-refundable fee (currently \$10,500), and less any nonstandard charges as set forth in the executed Residence and Services Agreement.

4. *Termination After Occupancy*

The Residence and Services Agreement will terminate upon the death of the last surviving Resident that was a party to the Residence and Services Agreement. The Resident may also terminate with thirty (30) days' notice for any reason. Southminster may terminate with thirty (30) days' notice for just cause as described in the Residence and Services Agreement. Southminster may decide not to give thirty (30) days' notice if the Resident is determined to be a danger to him or herself or to others.

The refund of the Entrance Fee will be an amount equal to (a) 50% of the full Entrance Fee if the Resident elected the Fifty Percent Refund Plan; or (b) 90% of the full Entrance Fee if the Resident elected the Ninety Percent Refund Plan; or (c) the full Entrance Fee less 5% of the Entrance Fee for each full

calendar month or portion thereof that has elapsed from the date of occupancy to the effective date of termination if the Resident elected the Standard Plan. After twenty (20) full or partial months of occupancy, no refund of the Entrance Fee will be available to the Resident who elected the Standard Plan. Under the Ninety Percent and Fifty Percent Refund Plans, the refund will amortize at the rate of 5% monthly until either the 90% or 50% level is reached, after which the 90% or 50% refund will be allowed.

Refunds are made only upon the total withdrawal or move-out by the Resident from Southminster, whether voluntarily, forced, or by death. There is no refund upon the permanent transfer of the Resident to the Health Center. Similarly, there is no partial refund upon the move or transfer to a Residence with a lesser entrance fee. The refund in the case of couples will only be triggered by the death or withdrawal of the surviving spouse.

Any refund due the Resident will be made only after the Resident's accommodation becomes reserved by a substitute Resident and the substitute Resident has made the full Entrance Fee payment to Southminster.

Any refund due the Resident shall be offset by the amount of any accrued but unpaid Monthly Service Fees or other charges, including accrued interest thereon, due from the Resident.

5. Other Conditions Relating to Termination

At the effective date of termination of the Residence and Services Agreement, the Resident, appropriate family member, or person possessing documented power of attorney status shall vacate the Residence and leave it in good condition, normal wear and tear excepted. The Monthly Service Fee will continue to be billed until the Residence is totally vacated. If the Residence is vacated for any reason other than by death or the permanent transfer of the resident to the Health Center, an advance notice of thirty (30) days is required. Without such advance notice, an additional thirty (30) days' billing will automatically be due, regardless of the date the Residence is completely vacated. On-site storage is not available. The Resident will be liable to Southminster for any costs incurred to restore the Residence and its furnishings to good condition, normal wear and tear excepted or for removal or storage of items in a vacated Residence that have not been removed as required.

6. "Occupancy" Defined

For purposes of the above sections, "occupancy" is the mutually agreed-upon date when Southminster's obligation to provide services begins, when

Southminster provides an accommodation to the Resident, and when the resident's obligation to pay for services begins.

7. Continuation of Payments

Except as described in the Residence and Services Agreement or by Southminster policy, residents are required to continue to pay Monthly Service Fees related to the residence until such residence is vacated. Monthly Service Fees are also payable even though the resident may be away from the residence for any reason, including a temporary stay in a different accommodation at or outside Southminster.

C. Policies and Procedures Relating to Moves and Transfers

1. Transfers between Independent Living Residences

Transfers between independent living Residences are generally allowed subject to Southminster approval, subject to availability of the desired accommodation, and subject to the priority of the request as determined by Southminster. Where transfers are allowed, the following restrictions and conditions apply (these restrictions and conditions may be changed with future changes in policy):

- (a) **All requests for transfer must be submitted in writing and dated.** The request must also include the specific type of Residence desired.
- (b) Transfer requests due to acute physical, mental, financial and mobility problems may be given priority over all other requests for transfer regardless of date of the request. Determination of the severity of the conditions, which give rise to the transfer request, will be made by the management of Southminster.
- (c) There may be a charge for all voluntary in-house transfers. Such charge may include the full costs to prepare the Residence being vacated and the new Residence to move-in condition. The exact amount may vary depending on the circumstances of the move and the amount of refurbishing necessary. Southminster reserves the right to waive or modify such transfer charges.
- (d) When transferring to a same or "lesser priced accommodation", entrance fees and refund provisions relating thereto will not be affected. If requesting transfer to a residence with a lower entrance fee, no refund will be given. "Lesser priced accommodation" shall be defined as a residence with a lower current Entrance Fee than the original Entrance Fee paid for the residence being vacated.
- (e) When transferring to a "higher priced accommodation", an additional entrance

fee will be required to be paid prior to move-in to the new residence. Current policy states that for residents requesting a transfer after 60 months of occupancy, a “Higher priced accommodation” shall be defined as a residence with a higher current Entrance Fee than the current Entrance fee of the residence being vacated, and the amount due of this extra entrance fee will be the difference between the current published entrance fee of the new accommodation less the current published entrance fee of the residence being vacated. For residents requesting a transfer within the first 60 months of occupancy, a “Higher priced accommodation” shall be defined as a residence with a higher current Entrance Fee than the original Entrance fee paid on the residence being vacated, and the amount due of this extra entrance fee will be the difference between the then (the time of move-in) entrance fee for the Residence being vacated and the current entrance fee of the new Residence being moved into. A change in type of entrance fee (the standard vs. the Fifty Percent (50%) or Ninety Percent (90%) plans) is generally not available because of differences in the amortization and refund provisions of the two plans. The additional entrance fee paid will be added to the original entrance fee and amortized for refund purposes from the same date as the original entrance fee.

2. Permanent Transfers to the Health Center

If a determination is made by the Director of Health & Wellness, in consultation with the Executive Director, other healthcare professionals, and the Resident’s family that a transfer to the Health Center or to a hospital likely will be permanent in nature, the Resident hereby agrees to surrender his/her rights and use of the independent living Residence or Health Center accommodations, as the case may be, previously occupied by the Resident. If, however, the Director of Health & Wellness subsequently determines that the Resident can resume occupancy in accommodations equivalent to those previously occupied by the Resident, the Resident shall have priority to such accommodations as soon as they become available, with no additional Entrance Fee.

3. Transfers in the Health Center

Transfers and assignment of rooms in the Health Center will be controlled by the level of care needed by the Resident. Requests for transfers must be addressed to the Director of Health & Wellness. If the transfer is initiated by the Resident, the transferring Resident will be responsible for the charges for refurbishment of the accommodations being vacated.

D. Marriages

If a resident marries someone other than another resident, Southminster will admit the spouse to residence so long as he/she meets the requirements for entry, enters into a Residence and Services Agreement, and pays the second person entrance fee as specified in the Agreement. The Monthly Service Fee will change to reflect the second person rate and the size of Residence occupied. Should the new spouse not meet the requirements for residency, the original resident may terminate the Residence and Services Agreement in accordance with the terms outlined in Sections IX, C or IX, D of the Agreement, or admission may be granted under special circumstances and with the negotiated fees as mutually agreed to in writing by all parties to the Agreement.

If one resident marries another resident, each of their contracts shall remain in place (including treatment of refunds). If the residents choose to live together in one Residence, the only change to the contract will be that the monthly fees for the resident vacating their Residence will be reduced to a "Second Occupant" monthly fee.

E. Inability to Pay

As long as Southminster remains classified as a non-profit, charitable organization under Federal law and regulation, Southminster will endeavor to avoid termination of the Residence and Services Agreement solely because of an inability to pay. The decision to grant financial assistance is at the sole discretion of Southminster. Southminster will provide financial assistance only if it is able to do so without impairing its ability to operate on a sound financial basis.

A Resident seeking financial assistance should do so by contacting the CEO or the CFO. In doing so, the Resident agrees to make available any and all information requested by Southminster to assess the need for financial assistance. The Resident also agrees that, when requested by Southminster, he/she will seek financial assistance from other available sources, including family members and government assistance programs. The Resident also agrees to provide timely notification of financial need to Southminster, and to work cooperatively with Southminster to make reasonable changes that might delay or minimize an eventual financial assistance need.

A Resident who is granted financial assistance by Southminster agrees to comply with reasonable conditions which may include a move to a different Residence. Upon death, Southminster may seek to recover from the Resident's estate any financial assistance previously provided.

III. SERVICES PROVIDED UNDER THE RESIDENCE AND SERVICES AGREEMENT

A. Standard Services Available

As stated in the Residence and Services Agreement, Southminster provides to its residents the following services:

1. Residence

There are numerous types and sizes of living accommodations. Copies of floor plans along with specific features of each type can be secured from the marketing staff at Southminster. The Residence ultimately selected will be listed in the Residence and Services Agreement.

2. Common Areas

Southminster will provide common areas and amenities for Resident use and benefit. Common areas include at a minimum, dining rooms, multi-purpose rooms, spaces and facilities for activities, lounges, a chapel, a library, a wellness center that includes a pool and exercise facilities, and facilities for beautician services. Southminster may also provide facilities for limited banking services, facilities for the sale of sundry items, and other amenity areas dependent on Southminster's determination of demand or the availability of providers.

3. Utilities, Communications, and Alarm Systems

The Monthly Service Fee includes water, sewer, one telephone line (including local telephone service as provided through Southminster), trash removal, basic cable television service (or equivalent), access to premium cable television service (or equivalent), an urgent call system, a fire alarm system, and a carbon monoxide detector (where required). Electricity is included in the fee except for in cottages where it is an additional cost. Gas is available in all cottages and is an additional cost. Gas may be available in some other residences but may be an additional cost. Residents are responsible for the cost of long-distance telephone calls, premium cable television service, and internet access. Additional telephone lines may be available for additional cost. Internet services are available through an internet provider for an additional cost.

4. Meals

The Independent Living Monthly Service Fee includes access to Southminster's dining facilities. The dining plan provides a monthly

allowance equivalent to one (1) dinner for each day in the month, usable anytime within the month in a Southminster dining room. The amount of allowance, as well as policies related to the plan, may be changed at any time by Southminster.

The Health Center daily fee includes three (3) meals per day. Other meals, meals for guests, and catering are available at an additional cost. Special diets as prescribed by a resident's physician are included in the daily Health Center fee. Limited special diets may be available for Independent Living residents and may be at an additional cost. Limited tray service will be provided when it is determined by Southminster health staff to be appropriate and may be at an additional cost.

5. Housekeeping Services

Monthly Service Fees include housekeeping services on at least a weekly basis. Housekeeping includes at a minimum vacuuming, dusting, cleaning of baths and kitchens, changing of bed linens, and trash removal. Other housekeeping services may be available at an additional cost. The independent living monthly fee includes weekly laundering of personal linens as defined in Southminster policy. The Health Center daily fee includes bed and bath linen provided by Southminster. Some Residences are equipped with a washer and dryer. Southminster provides washers and dryers in common areas at no additional cost. Should Southminster determine that safety, sanitation, or health issues arising in individual residences are the result of actions or inactions on the part of the Resident, Southminster will provide, at the Resident's expense, whatever additional housekeeping or laundry services Southminster determines are necessary to mitigate the issues.

6. Maintenance and Repairs

Southminster is responsible for maintenance, repair, and replacement of property, furnishings, and equipment owned or leased by Southminster. Other maintenance services may be available to Residents at an additional cost.

7. Grounds Keeping

Southminster is responsible for basic grounds keeping services including lawn, tree, and shrubbery care for those items that are provided by Southminster. Southminster, at its sole discretion, may make changes to lawns, trees, shrubs, or any other landscaping on its property. Residents may plant items approved by Southminster in areas determined by Southminster, but are responsible for maintenance of those areas and plants.

8. *Life Enrichment*

Various social, recreational, spiritual, educational and cultural programs and activities are provided by Southminster for the Resident to enjoy. However, some activities may involve additional charges.

9. *Parking*

The Monthly Service Fee includes one (1) assigned parking space for each Residence provided that at least one party to the Residence and Services Agreement owns a licensed personal vehicle and has a valid driver's license. Covered or enclosed parking spaces may be subject to additional charges. Southminster policy governs registration requirements, space assignment and use, allowed vehicles, and other terms for parking.

10. *Staffing*

Southminster will have staff present on campus twenty-four (24) hours per day, every day of the year.

11. *Transportation*

The Monthly Service Fee includes scheduled local transportation for shopping trips, medical appointments, and occasional activities and events. Transportation for special, personal, or group trips may be available and may be at an additional cost.

12. *Health Services*

Included in the Health Center daily fee are facilities, equipment, staff, and services that are required to maintain current licenses, and services permitted and typically provided for each licensed level of health care. At a minimum, the following services are included:

- (a) Medical Director. Southminster will retain a licensed physician as Medical Director to consult on the medical aspects of the licensed levels of care.
- (b) Nursing Staff. Licensed and/or Registered Nurses will be available twenty-four (24) hours per day.
- (c) Other Services. Other services include diet planning by a registered and licensed dietitian, assisted bathing facilities, goal-oriented care planning, social services, and planned activities.

Other Health Services Not Included in Basic Fees. Additional health services not included in the Health Center daily fee may include, but are not limited to: physician services; dental work; physical, occupational, and speech therapy; rehabilitative treatments and equipment; ambulance services; outpatient nursing services; pharmacy services and medicines; laboratory services; durable medical equipment; food supplements; personal care and incontinence supplies or other health related items; and nursing, care planning, case management, or personal care services for Residents in Independent Living or above what is required for each licensed level of health care in the Health Center. Some services may be available only for Residents in the Health Center or only for Residents in Independent Living. These additional services are subject to additional charges by Southminster or by third-parties that provide the services on the Resident's or on Southminster's behalf. In some cases Southminster policy may require that a third-party provider be approved by Southminster prior to providing services on Southminster property.

IV. INFORMATION RELATING TO FEES

A. Ten Percent Deposit

As part of the admission process, a deposit equal to ten percent (10%) of the entrance fee for the type of accommodation selected will be required at the time the Residence and Services Agreement is executed. (Refer to the section below for a schedule of entrance fees.)

B. Refundable/Non-Refundable Entrance Fees

Entrance fees are based on the size and type of Residence selected. Southminster offers three types of entrance fee plans. The Standard Plan, sometimes referred to as the Non-Refundable Plan, provides for no refund, except as noted in Section II B of this Disclosure Statement.

Southminster also offers two types of Refundable Plans; a 50% Refundable Plan and a 90% Refundable Plan. Residents selecting either of the Refundable Plans must pay the Standard Entrance Fee plus the applicable surcharge factor determined at least annually by Southminster. Residents selecting a refundable plan will be entitled to a refund of either 50% or 90% (based on the Plan originally selected) of the full Entrance Fee when the Residence and Services Agreement is terminated. Actual payment of the refund is dependent on re-occupancy of the Residence as explained more fully in Section II B of this Disclosure Statement.

C. Payment of Entrance Fees

Ten percent (10%) of the Entrance Fee is due and payable upon execution of a

Residence and Services Agreement. The balance will be due and payable on the date of Occupancy.

D. Entrance Fees

1. General Information on Entrance Fees

The entrance fee gives the Resident the right to have a residence or health care accommodation at Southminster for life, while Southminster maintains and insures the property. Payment of the entrance fee does not provide any deeded ownership rights. It also provides the Resident with the use of all public and common areas, as well as guaranteeing priority access to the Health Center.

The current and most recent Entrance Fee Schedule is outlined as follows:

***Entrance Fee Schedule
(Effective October 1, 2018)***

<u>Type of Residence</u>	<u>Number of Units</u>	<u>Square Footage</u>	<u>Standard Entrance Fees</u>
Apartments:			
Studio	2	292	\$46,000
One Bedroom	49	598-782	\$99,000 - \$146,000
One Bedroom with den	12	955-1,137	\$190,000 - \$262,000
One Bedroom with den – 2007 expansion	24	1,080-1,390	\$256,000 - \$325,000
Two Bedroom	44	955-1,345	\$198,000 - \$320,000
Two Bedroom – 2007 expansion	29	1,280-2,260	\$342,000 - \$584,000
Two Bedroom with den	14	1,276-1,995	\$280,000 - \$498,000
Two Bedroom with den – 2007 expansion	36	1,465-3,190	\$384,000 - \$820,000
Cottages:			
Small Sunroom	4	1,500	\$305,000
Large Sunroom	25	1,800-1,900	\$352,000 - \$394,000
Health Care Center:			
Assisted Living	25	256-308	\$25,000
Nursing Care Units	60	150-200	\$10,000 - \$12,500
Project Units:			
Two Bedroom – Terraces I	6	1,383-1,563	\$369,000 - \$400,300

Two Bedroom with den – Terraces I	24	1,602-2,140	\$439,700 - \$599,200
Two Bedroom – Terraces II	6	1,483	\$398,000 - \$403,000
Two Bedroom with den – Terraces II	30	1,602-2,140	\$439,700 - \$599,200

Health Center entrance fees apply only to direct admissions. The 50% and the 90% Refundable Fee options are not available for direct admissions to the Health Center. The Project Units are discussed further in the “Campus Expansion” in Section VI.C. below.

An additional \$25,000 is added to the entrance fee for a second occupant. A second occupant will be required to meet all admissions criteria.

Pricing Factor for Refundable Fee Contracts

Refundable Entrance Fee pricing is based on Standard Entrance Fees multiplied by a factor. The current multiple for the ninety percent (90%) refundable plan is 2.0. The multiple for the fifty percent (50%) plan is 1.4. Southminster reserves the right to modify the refundable multiple at any time and may also limit the number of refundable plans available to prospective residents. The multipliers for both plans are higher for incoming residents between the ages of 86 and 89 and is not available for residents over the age of 89.

E. Monthly Service Fees

The Monthly Service Fee is a charge by Southminster for programs, services, food, utilities, maintenance, housekeeping, debt service, insurance, administration, staffing and other services. The Monthly Service Fee is based on the size and type of the Residence selected and the number of occupants per Residence.

Monthly Service Fees
(Effective October 1, 2018)

Apartments:	
Studio Apartments	\$2,831
One Bedroom Apartments	\$3,367 - \$3,534
One Bedroom/Den Apartments	\$3,645 - \$3,823
One Bedroom/Den – 2007 Expansion	\$3,823 - \$4,078
Two Bedroom	\$3,645 - \$4,079
Two Bedroom – 2007 Expansion	\$4,078 - \$4,645
Two Bedroom/Den	\$4,079 - \$4,861
Two Bedroom/Den – 2007 Expansion	\$4,289 - \$5,150
Terraces:	
Two Bedroom - Terraces I	\$4,289 - \$4,361
Two Bedroom/Den - Terraces I	\$4,434 - \$4,934
Two Bedroom - Terraces II	\$4,331
Two Bedroom/Den - Terraces II	\$4,434 - \$4,934
Cottages:	
Small Sunroom	\$3,637
Large Sunroom	\$3,764
Second Occupants:	\$1,930

The Monthly Service Fee may change because of increases in the cost of services, food and utilities and other circumstances beyond Southminster's control.

Payment of the initial Monthly Service Fee is due and payable on the earlier of the first day of occupancy or ninety (90) days after application is made unless otherwise mutually agreed to. Thereafter, the Monthly Service Fee is due and payable by the tenth (10th) of each successive month.

Southminster furnishes the Resident monthly statements showing the total amount of the Monthly Service Fee and other charges owed by the Resident. These charges are due and payable by the tenth (10th) of such month and, if not paid by such date, may accrue interest thereafter at the rate of eighteen percent (18%) per annum.

Upon the failure of the Resident to pay the charge, plus accrued interest, by the sixtieth (60th) day following notice that such payment is past due, Southminster has the right to terminate the Residence and Services Agreement. There is no requirement in the Residence and Services Agreement for continued residency at Southminster if the Resident becomes unable to pay current charges. However, Southminster, Inc. will endeavor to avoid termination of the Residence and Services

Agreement solely because of an inability to pay. See further discussion in Section II.E.

Service Fees for Residences will continue to be charged until the Residence is fully vacated and released.

F. Health Center Fees and Charges

Southminster’s per diem rates for the Domiciliary Care facility (Assisted Living), and Nursing Care in the Health Center are as follows:

***Rates for Health Center
(Effective October 1, 2018)***

	<u>Current Residents</u>	<u>Direct Admit</u>
Assisted Living	\$231.00 Per Day	\$246.00 Per Day
Memory Support	\$305.00 Per Day	\$317.00 Per Day
Nursing Care:		
Semi-Private	\$262.00 Per Day	\$294.00 Per Day
Private	\$348.00 Per Day	\$385.00 Per Day

Rates may be decreased or increased as related costs decrease or increase.

Direct admissions to the Health Center will also be required to pay an Entrance Fee.

Health Center Credit Days

At the Date of Occupancy, each Resident in Independent Living is granted fourteen (14) Health Center Credit Days. At each subsequent anniversary of the Date of Occupancy, unused Health Center Credit Days for each Resident may be carried forward and, for each Resident whose Residence is in Independent Living, up to fourteen (14) new days granted, provided that the total accumulated for each Resident never exceeds forty-four (44) days. Health Center Credit Days are non-transferable, must be used only as defined in the Residence and Services Agreement and in Southminster policy, and have no value if not used. No new Health Center Credit Days are granted after the Resident becomes a permanent occupant of Southminster’s Health Center.

Unless otherwise specified by Southminster policy, for each day a Resident occupies or holds an accommodation in the Health Center, whether or not that accommodation is the primary residence, Health Center Credit Days will be credited until all such accumulated days are used. While Health Center Credit Days are being used, the daily Health Center rate is waived but the Resident will be charged for other items, such as medical supplies, that are not included

in the Resident's Monthly Independent Living Service Fee. While the Resident uses Health Center Credit Days, Monthly Service Fees continue based on the Independent Living Residence from which the Resident Moved or Transferred.

The "Health Center Credit Days" benefit is not available for residents who were direct admissions to the Health Center.

G. Notification of Fee Increase(s)

Southminster will use its best efforts to maintain Monthly Service Fees at the lowest possible rates consistent with the level and quality of service traditionally provided. The Monthly Service Fee is based, among other things, on the assumption that Southminster will be able to maintain its North Carolina and Federal tax-exempt status. Loss of such status, as well as other factors, could result in an increase in the Monthly Service Fee. Southminster will, when necessary, at its discretion, adjust the Monthly Service Fee or any other charges by giving thirty (30) days advance written notice to Residents.

H. Sales Incentives

From time to time, Southminster may offer sales incentives in the form of discounts to entrance and monthly fees. Such incentive programs may be offered on all or only select Residences and may be discontinued at any time.

I. Historic Changes in Monthly Fees for the Previous Five Years

The following table shows average changes in the monthly service fees and health center per diem fees over time. Note that it is the average dollar amount of the change in fees from year to year that is shown – not the fees themselves. Southminster's policy has been to review resident fees and charges annually in connection with preparation of the annual budget. All changes during this period occurred once per year on October 1.

Historic Changes in Fees for the Previous Five Years

<u>Type of Residence</u>	For Fiscal Years Beginning October 1,				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Independent Living Service Fees (per month)</u>					
Extended Studio	\$79	\$75	\$78	\$80	\$82
Standard One Bedroom	\$96	\$91	\$94	\$87	\$97
One Bedroom/Den	\$102	\$97	\$100	\$103	\$106
One Bedroom/Den – Expansion	\$109	\$104	\$107	\$110	\$114
Two Bedroom	\$111	\$98	\$147	\$88	\$115
Two Bedroom – Expansion	\$118	\$114	\$123	\$125	\$147
Two Bedroom/Den	\$114	\$109	\$118	\$116	\$119
Two Bedroom/Den – Expansion	\$130	\$125	\$128	\$132	\$136
Cottage w/standard sunroom	\$102	\$97	\$100	\$103	\$106
Cottage w/deluxe sunroom	\$105	\$100	\$103	\$106	\$110
Second Occupant Rate	\$55	\$53	\$54	\$38	\$30
<u>Health Center Service Fees (per day)</u>					
Assisted Living	\$6	\$6	\$6	\$7	\$7
Memory Support	\$9	\$8	\$8	\$9	\$9
Nursing Care:					
Semi-private	\$7	\$7	\$7	\$7	\$8
Private	\$10	\$9	\$10	\$10	\$10
Approx. Percentage Increase for Independent Living and Health Center Fees	3.25%	3%	3%	3%	3%

An assessment of the current and future financial strength of Southminster can be obtained from the Audited Financial Statements included in Attachment 1 and the Five Year Forecast included in Attachment 2.

V. FINANCIAL INFORMATION RELATING TO SOUTHMINSTER

A. Financial Overview Statement

1. Audited Financial Reports

The audited financial statements of Southminster, Inc. for the year ended September 30, 2018, are included in Attachment 1 of this Disclosure Statement. The report of our independent auditors, CliftonLarsonAllen LLP, is included on pages one and two of the audited financial statements. The

audited financial statements reflect the combined results of Southminster, Inc. and its affiliate, Southminster Foundation, Inc. For the year ended September 30, 2018, the Foundation did not have any activity, nor did it have any assets or liabilities, as a result of its activities being moved into Southminster, Inc. effective fiscal year 2014.

2. Forecasted Financial Statements

The forecasted financial statements of Southminster, Inc. (not combined with Southminster Foundation, Inc.) for the years ending September 30, 2019 through September 30, 2023 are included in Attachment 2 of this Disclosure Statement.

3. Residence and Care Agreements

A copy of the Residence and Services Agreement is included in Attachment 4 of this Disclosure Statement.

B. Financial Reserves and Escrow Funds

Southminster has made no provisions to provide reserve funding or collateral security to enable it to perform its obligations under contracts to provide continuing care other than those required by documents related to its financing through the North Carolina Medical Care Commission (the “Medical Care Commission”), the Public Finance Authority (the “Authority”), and those required by the North Carolina Department of Insurance. These include:

1. The Debt Service Reserve Fund

On November 1, 1996, the Corporation entered into a loan agreement with the Medical Care Commission and concurrently the Medical Care Commission issued \$5,055,000 in tax exempt Series 1996 Health Care Facilities First Mortgage Revenue Bonds (Series 1996 Bonds) at an interest rate of 6.125%, payable semiannually. The Series 1996 Bonds are subject to a mandatory sinking fund redemption beginning on October 1, 2015 through the maturity date of October 1, 2018. On October 1, 2014, the Corporation accelerated one year of principal payments totaling \$1,015,000. In December 2014, the Corporation entered into a bank term loan in the principal amount of \$3,940,000 to redeem \$3,940,000 of the remaining \$4,040,000 in Series 1996 Bonds. As a result of that transaction, the Debt Service Reserve Fund required for the Series 1996 Bonds was reduced to \$106,125 (equal to the maximum annual debt service on the bonds). The bank term loan was paid off during the year ended September 30, 2017 and the remaining \$100,000 of 1996 Bonds were paid off on its maturity date of October 1, 2018.

On November 15, 2007, the Corporation entered into a loan agreement with the Medical Care Commission, and concurrently, the Medical Care Commission issued \$62,180,000 and \$2,000,000 Fixed Rate Retirement Facilities First Mortgage Revenue Bonds (Series 2007A Bonds and Series 2007B Bonds, respectively), and \$25,500,000 Variable Rate Retirement Facilities First Mortgage Revenue Bonds (Series 2007C Bonds). On October 1, 2013, the remaining outstanding portion of the Series 2007B bonds was repaid in full. The Series 2007C Bonds were repaid in full in March 2011.

On November 10, 2016, the Corporation entered into a loan agreement with the Medical Care Commission, and concurrently, the Medical Care Commission issued \$58,765,000 Retirement Facilities First Mortgage Revenue Refunding Bonds (Series 2016 Bonds) in order to advance refund \$61,515,000 of the remaining \$61,855,000 in Series 2007A Bonds and pay for costs of issuance. The Series 2016 Bonds mature on October 1, 2017 through 2037 with interest rates ranging from 1.5% to 5%. The remaining \$340,000 of Series 2007A Bonds, bearing interest at 5.2%, was paid off on their maturity date of October 1, 2017. The Debt Service Reserve Fund required for the Series 2016 Bonds is \$4,640,563 (equal to maximum annual debt service of \$4,746,688 less the \$106,125 in the Series 1996 Debt Service Reserve Fund). Following paydown of the Series 1996 Bonds on October 1, 2018, the \$106,125 in the Series 1996 Debt Service Reserve Fund was transferred to the Series 2016 Debt Service Reserve Fund bringing the total to \$4,746,688.

On July 18, 2018, the Corporation entered into a loan agreement with the Public Finance Authority, and concurrently, the Public Finance Authority issued \$86,200,000 Retirement Facilities First Mortgage Revenue Bonds (Series 2018 Bonds) in order to finance the construction of a replacement health center and a portion of two independent living construction projects (being financed by a combination of bank and bond financing). The 2018 Bonds will also be used to finance additional common areas, kitchen expansion, office spaces for environmental services operations (housekeeping, maintenance, transportation), and a reconfigured loading dock. Proceeds from the 2018 Bonds also were used to pay issuance costs and fund additional debt service reserves of \$4,282,850.

The Bank of New York Mellon Trust Company, N.A. acts as Bond Trustee for each of the Corporation's Debt Service Reserve Funds. Ziegler Capital Management LLC is responsible for investment management of the funds associated with the Series 2016 Bonds and Series 2018 Bonds.

See Note 6 of the Audited Financial Statements for more information on Southminster's bond issuances.

2. Operating Reserves

Under North Carolina's General Statutes (G.S.58-64-33) regulating continuing care communities operating in the state, Southminster, is required to maintain an operating reserve equal to fifty percent (50%) of the total occupancy costs projected for the twelve-month period following the period covered by the most recent annual statement filed with the Department of Insurance. As provided by the Statutes, the Commissioner may reduce the Operating Reserve requirement to twenty-five percent (25%) if the occupancy rate of the facility exceeds ninety percent (90%), or for such other reasons as deemed appropriate by the Commissioner.

On September 30, 2018, Southminster's occupancy rate, calculated in accordance with the rules of Department of Insurance was above ninety percent (90%), which required a twenty-five percent (25%) reserve. The amount designated to meet the operating reserve requirement at September 30, 2018 is \$5,511,644 (refer to Note 9 on pages 21 and 22 of the attached Audited Financial Statements). It is further understood that these assets funded with a portion of Southminster's long-term investments (as permitted by State statute and Southminster's investment policy) are not allowed to serve any other function, and may only be released with the North Carolina Department of Insurance's approval.

In the attached "Forecasted Financial Statements" [page 4, line item "Operating Reserve Fund Required Under North Carolina Statues"] we have reflected this obligation for the five-year period 2019 through 2023 calculated based on the twenty-five percent (25%) requirement.

Investment policy related to funds held by Southminster is determined by members of the Board of Directors. In addition to exercising their own investment skills, Southminster's Board has engaged the investment firm of UBS Financial Services, Inc. to provide advice and guidance with respect to development and implementation of Southminster's investment policy and existing bond indenture document limitations.

VI. OTHER MATERIAL INFORMATION

A. Medicare/Medicaid Provider

Southminster is not a certified provider for Medicare or Medicaid programs. Hence, nursing care services in the Southminster Health Center are not covered under either of these programs.

Support services such as physical therapy, rehabilitation treatments, speech therapy,

etc. are generally arranged through Medicare certified providers who will submit eligible charges for such services to the appropriate Medicare carrier for collection.

B. The Southminster Foundation

Southminster Foundation, Inc. is a not-for-profit, tax-exempt corporation that was established by Southminster, Inc. to serve primarily as the vehicle to receive and disburse funds for the financial support of residents at Southminster. The objective of this philanthropic arm of Southminster, Inc. is to step in and provide assistance for those residents at Southminster who may run out of funds due to no fault of the resident. The Foundation's funds may also be used to assist individuals with all or a portion of their entrance fee if they are unable to do so. On October 1, 2013, the operations of the Foundation were moved into Southminster, Inc. The Southminster Foundation, Inc. will still remain as a legal entity but collection of contributions and assisting residents who have outlived their resources, will be the responsibility of Southminster, Inc. (as a tax exempt charitable organization).

C. Campus Expansion

On August 31, 2017, the Corporation entered into a term loan agreement with a financial institution to provide up to \$34,000,000 (the 2017 Bank Loan) to finance the construction, equipping and furnishing of up to two independent living projects referred to as "Terraces". On May 23, 2018, the Corporation entered into an "Amended and Restated Loan Agreement" (the Amendment) extending an additional nonrevolving term loan of up to \$5,000,000 (the 2018 Bank Loan) for the same purpose of Terraces construction. The Amendment extended the draw period on this facility to February 28, 2021, with interest only payments, based on one-month LIBOR plus 1.35% for the 2017 Bank Loan and 1.5% for the 2018 Bank Loan, due monthly. For the period March 1, 2021 through August 31, 2024 principal and interest payments are to be made on a monthly basis. Principal payments are required to be made monthly in an amount equal to 1/240 of the outstanding principal balance on February 28, 2021. The 2018 Bank Loan has an unused commitment fee of .25% per year. The Corporation intends to use entrance fee proceeds from the Terraces towards repayment of the outstanding principal.

In December 2017, the Corporation signed a construction contract, and construction began, on the building and furnishing of the first phase of Terraces, consisting of a new 30-unit independent living building that will replace eight cottages on Southminster's existing campus. The guaranteed maximum price in the construction contract is \$18,414,239 as originally designed. This 30-unit project is currently 100% reserved, with 10% deposits received for each unit. A combination of funds from the 2017 and 2018 Bank Loans as well as the Series 2018 Bonds will be used to pay for the costs of the project. The first phase of Terraces are expected to be complete in April 2019.

In September 2017, the Corporation completed the purchase of a parcel of adjacent land to be used for the second phase of Terraces; rezoning has been approved. In October 2018, the Corporation signed a construction contract to begin building and furnishing of the second phase of Terraces, consisting of a new 36-unit independent living building. The guaranteed maximum price in the construction contract is \$33,832,322 as originally designed. 35 of the 36 units have been reserved, with 10% deposits received for each unit. A combination of funds from the 2017 and 2018 Bank Loans as well as the Series 2018 Bonds will be used to pay for the costs of the project. The second phase of Terraces are expected to be complete in July 2020.

In May 2018, the Corporation signed a construction contract to build and furnish a replacement health care center that would house the 60 nursing beds and 25 assisted living beds that are currently in a different location. The health center will also include 12 hospice beds operated by the same 3rd party non-profit provider that previously operated a 10-bed inpatient hospice unit on Southminster's campus. The guaranteed maximum price in the construction contract is \$57,165,009 as originally designed. Funds from the Series 2018 Bonds will be used to pay for the costs of the project. The health center replacement project is expected to be complete in September 2020.

The impact of the two Terrace phases and the health center replacement are reflected in the attached "Forecasted Financial Statements" in Attachment 2.

D. Conflicts with the Residence and Services Agreement

If information contained in the Disclosure Statement conflicts with the Residence and Services Agreement, the Residence and Services Agreement will prevail.

ATTACHMENT 1 -

- Audited Financial Statements

SOUTHMINSTER, INC.
COMBINED FINANCIAL STATEMENTS OF
SOUTHMINSTER, INC. AND
SOUTHMINSTER FOUNDATION, INC.
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
TABLE OF CONTENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

INDEPENDENT AUDITORS' REPORT	1
COMBINED FINANCIAL STATEMENTS	
COMBINED BALANCE SHEETS	3
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)	5
COMBINED STATEMENTS OF CASH FLOWS	7
NOTES TO COMBINED FINANCIAL STATEMENTS	9



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Southminster, Inc. and Southminster Foundation, Inc.
Charlotte, North Carolina

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Southminster, Inc. and Southminster Foundation, Inc. (the Organization) which comprise the combined balance sheets as of September 30, 2018 and 2017 and the related combined statements of operations and changes in net assets (deficit), and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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
Southminster, Inc. and Southminster Foundation, Inc.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Southminster, Inc. and Southminster Foundation, Inc. as of September 30, 2018 and 2017, and the results of their operations, changes in net assets (deficit), and 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
January 18, 2019

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
COMBINED BALANCE SHEETS
SEPTEMBER 30, 2018 AND 2017**

ASSETS	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 970,606	\$ 1,271,877
Short-Term Investments	4,973,038	-
Assets Limited as to Use - Current Portion	2,836,054	1,867,259
Accounts Receivable, Net	369,660	249,502
Pledges Receivable - Current Portion	78,667	-
Other Current Assets	1,177,232	777,318
Total Current Assets	10,405,257	4,165,956
ASSETS LIMITED AS TO USE		
Held by Trustee Under Bond Indenture Agreements	82,292,498	4,762,586
Southminster Community Fund	50,000	50,000
Operating Reserve - Required by the North Carolina Department of Insurance	5,511,644	4,995,361
Total Assets Limited as to Use, Net of Current Portion	87,854,142	9,807,947
PLEDGES RECEIVABLE, NET OF CURRENT PORTION AND PRESENT VALUE DISCOUNT	451,349	-
PROPERTY AND EQUIPMENT, NET	84,887,821	68,098,383
LONG-TERM INVESTMENTS, AT MARKET	23,625,185	22,155,440
DEFERRED MARKETING AND OTHER COSTS	476,577	477,931
Total Assets	\$ 207,700,331	\$ 104,705,657

See accompanying Notes to Combined Financial Statements

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
COMBINED BALANCE SHEETS (CONTINUED)
SEPTEMBER 30, 2018 AND 2017**

LIABILITIES AND NET ASSETS (DEFICIT)	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 3,940,389	\$ 1,569,694
Retainage Payable	1,595,393	-
Accrued Payroll and Employee Benefits	1,141,857	884,644
Accrued Interest Expense	2,295,789	1,422,259
Current Portion of Long-Term Debt	555,000	445,000
Total Current Liabilities	<u>9,528,428</u>	<u>4,321,597</u>
 LONG-TERM DEBT, NET OF CURRENT PORTION	 157,091,721	 63,239,707
ADVANCE ENTRANCE FEE DEPOSITS	3,595,244	706,699
DEFERRED ENTRANCE FEE REVENUE	31,598,065	33,256,232
REFUNDABLE ENTRANCE FEES	<u>17,163,037</u>	<u>17,546,464</u>
Total Liabilities	218,976,495	119,070,699
 NET ASSETS (DEFICIT)		
Unrestricted	(11,826,506)	(14,415,903)
Temporarily Restricted	550,342	50,861
Total Net Assets (Deficit)	<u>(11,276,164)</u>	<u>(14,365,042)</u>
 Total Liabilities and Net Assets (Deficit)	 <u>\$ 207,700,331</u>	 <u>\$ 104,705,657</u>

See accompanying Notes to Combined Financial Statements.

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
COMBINED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT)
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
REVENUES, GAINS, AND OTHER SUPPORT		
Independent Living Revenue	\$ 12,462,597	\$ 12,277,724
Health Care Revenue	7,348,120	7,390,284
Home Care Revenue	2,377,326	2,546,488
Less: Resident Assistance	(475,898)	(258,630)
Net Resident Service Revenue	<u>21,712,145</u>	<u>21,955,866</u>
Earned Entrance Fees	5,721,904	5,775,668
Investment Income	1,374,962	1,468,671
Contributions	288,377	285,435
Net Assets Released from Restrictions	41,260	2,106
Other Income	875,733	411,879
Total Revenues, Gains, and Other Support	<u>30,014,381</u>	<u>29,899,625</u>
OPERATING EXPENSES		
Salaries, Wages, and Employee Benefits	13,875,147	12,907,908
Maintenance, Housekeeping, and Utilities	2,342,644	2,072,799
Food and Related Supplies	1,375,929	1,385,183
Insurance	187,052	185,504
Consulting and Professional Fees	249,143	156,249
Other Operating Expenses	1,681,546	1,799,456
Depreciation	5,973,664	7,770,471
Amortization of Deferred Marketing Costs	80,170	80,170
Interest Expense	2,411,913	2,480,444
Loss on Disposal of Assets	12,825	29,888
Total Operating Expenses	<u>28,190,033</u>	<u>28,868,072</u>
OPERATING INCOME	1,824,348	1,031,553
LOSS ON REFUNDING OF DEBT	<u>-</u>	<u>(4,063,993)</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	1,824,348	(3,032,440)
OTHER CHANGES IN UNRESTRICTED NET ASSETS (DEFICIT)		
Reclassification from Permanently Restricted Net Assets	-	43,900
Change in Unrealized Gains on Investments	765,049	1,007,399
DECREASE (INCREASE) IN UNRESTRICTED NET DEFICIT	<u>2,589,397</u>	<u>(1,981,141)</u>

See accompanying Notes to Combined Financial Statements.

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
COMBINED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018	2017
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	\$ 540,741	\$ 50,395
Released from Restrictions	(41,260)	(2,106)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	499,481	48,289
DECREASE IN PERMANENTLY RESTRICTED NET ASSETS		
Reclassification to Unrestricted Net Assets	-	(43,900)
CHANGE IN NET ASSETS (DEFICIT)	3,088,878	(1,976,752)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	(14,365,042)	(12,388,290)
NET ASSETS (DEFICIT) - END OF YEAR	\$ (11,276,164)	\$ (14,365,042)

See accompanying Notes to Combined Financial Statements.

SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets (Deficit)	\$ 3,088,878	\$ (1,976,752)
Adjustments to Reconcile Change in Net Assets (Deficit) to Net Cash (Used) Provided by Operating Activities:		
Earned Entrance Fees	(5,721,904)	(5,775,668)
Depreciation	5,973,664	7,770,471
Amortization of Bond Issuance Costs	78,653	84,590
Amortization of Deferred Marketing Costs	80,170	80,170
Amortization of Bond Premium	(491,871)	(453,876)
Loss on Disposal of Assets	12,825	29,888
Loss on Refunding of Debt	-	4,063,993
Change in Net Unrealized Gains on Investments	(765,049)	(1,007,399)
Realized Gains on Investments	(473,130)	(891,110)
(Increase) Decrease in:		
Accounts Receivable	(120,158)	8,905
Pledges Receivable	(530,016)	-
Other Current Assets	(478,730)	(17,134)
Increase (Decrease) in:		
Accounts Payable, Excluding Amounts in Property and Equipment	230,189	(168,090)
Accrued Payroll and Employee Benefits	257,213	135,134
Accrued Bond Interest Expense, Net of Amounts Capitalized	(9,672)	(342,864)
Net Cash Provided by Operating Activities	1,131,062	1,540,258
CASH FLOWS FROM INVESTING ACTIVITIES		
Change of Assets Limited as to Use, Net	(79,014,990)	1,282,864
Purchases of Short-Term Investments, Net	(4,973,038)	-
Purchases of Long-Term Investments, Net	(231,566)	(1,718,131)
Purchases of Property for Routine Additions	(2,972,833)	(2,339,650)
Purchases of Property for Expansion Projects	(14,410,011)	(3,175,783)
Net Cash Used by Investing Activities	(101,602,438)	(5,950,700)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Entrance Fees	5,458,883	7,849,305
Deposits Received, Net of Refunds and Conversions to Entrance Fees	2,888,545	131,800
Entrance Fees Refunded	(2,552,127)	(1,883,569)
Repayments of Long-Term Debt	(445,000)	(1,766,833)
Prepaid Interest Payment	-	(3,489,658)
Early Repayment of Long-Term Debt	-	(61,515,000)
Proceeds of Long-Term Debt	92,054,041	58,793,020
Proceeds from Bond Issue Premium on Long-Term Debt	4,470,373	6,036,252
Payments of Financing Costs	(1,704,610)	(1,174,226)
Net Cash Provided by Financing Activities	100,170,105	2,981,091
NET DECREASE IN CASH AND CASH EQUIVALENTS	(301,271)	(1,429,351)
Cash and Cash Equivalents - Beginning of Year	1,271,877	2,701,228
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 970,606	\$ 1,271,877

See accompanying Notes to Combined Financial Statements.

SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid for Interest	<u>\$ 2,891,363</u>	<u>\$ 3,192,594</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION		
Property and Equipment Included in Accounts Payable, Retainage Payable, and Accrued Interest Expense	<u>\$ 5,963,678</u>	<u>\$ 570,596</u>

See accompanying Notes to Combined Financial Statements.

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Southminster, Inc. (the Corporation) is a nonstock, nonprofit corporation organized under the laws of the state of North Carolina. The Corporation was established to construct and operate a multilevel residential and health care center (the Center). The Center's purpose is to operate a continuing care community providing a residential environment in which older people may live independently for as long as they are able to do so. The Center opened for operations on May 16, 1987 and has 60 licensed nursing beds, 25 assisted living beds, and 259 residential apartments (two of which are used as guest rooms). The Center is currently undergoing an expansion that involves construction of two independent living projects (referred to as Terraces) that are replacing eight cottages and a replacement health center that is replacing eight residential apartments and two cottages. The Corporation is also a licensed home care provider, providing care primarily to residents of its community. The license allows care to be provided outside of the community as well. Those revenues are recorded in Other Income.

Southminster Foundation, Inc. (the Foundation) is a nonstock, nonprofit corporation organized under the laws of the state of North Carolina on December 2, 1985. The Foundation was established to operate exclusively for the benefit of the Corporation, primarily through financial support to residents of the Center who are unable to meet their financial obligations. During fiscal year 2014, the operations of the Foundation were moved into the Corporation. There were no contributions for resident financial support to the Foundation for the years ended September 30, 2018 and 2017 as contributions are now recorded by the Corporation. Neither the Corporation nor the Foundation would be liable or responsible in any matter for the debts or liabilities of the other. The Foundation did not have any activity for the year ended September 30, 2018, nor did it have any assets or liabilities.

Principles of Combination

The combined financial statements include the accounts of the Corporation and the Foundation (collectively referred to herein as the Organization). All significant intercompany accounts and transactions have been eliminated in combination.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

All liquid investments with a maturity of three months or less at the time of purchase and not limited as to their use or designated as long-term investments are considered to be cash equivalents.

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Accounts Receivable

Resident accounts receivable consist of resident monthly service fees and other resident charges. When deemed necessary, the Organization provides an allowance for uncollectible accounts using management's estimate about the collectability of any past due accounts. Accounts past due are individually analyzed for collectability. Accounts receivable that management determines will be uncollectible are written off upon such determination.

The allowance for uncollectible accounts as of September 30, 2018 and 2017 was approximately \$8,500 and \$12,000, respectively.

Pledges Receivable

Pledges receivable consist of promises to pay from various individuals and foundations. Pledges receivable that are expected to be collected more than a year out are presented at net realizable value. Pledges receivable at September 30, 2018 are designated for a Capital Campaign.

Assets Limited as to Use

Assets Limited as to Use includes funds held by the Trustee under a bond indenture agreement, the Southminster Community Fund, and the operating reserve required by the North Carolina Department of Insurance.

Property and Equipment

Property and equipment is stated at cost. Assets contributed to the Organization are recorded at fair market value as of the date of receipt. Routine maintenance, repairs, renewals, and replacement costs are charged to expense. Expenditures which materially increase the value, change the capacities, or extend the useful lives of existing assets are capitalized. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from 3 to 30 years. Apartment refurbishment costs which, in aggregate, total \$2,500 or more per unit, are capitalized and depreciated over an average seven-year period. Interest costs incurred during the construction period of significant construction projects are capitalized as a cost of the constructed asset and amortized over the useful life of the asset.

Investments

Investments in equity and debt securities are measured at fair value in the accompanying combined financial statements. Investment income (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments, if any, are excluded from excess of revenues over expenses.

SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Bond Issuance Costs

Bond issuance costs, which are amortized over the life of the bonds, which approximates the effective interest method, include underwriters' discounts, legal and consulting fees, and printing costs incurred in issuing the Corporation's revenue bonds. Accumulated amortization at September 30, 2018 and 2017 was \$331,891 and \$253,238, respectively, following the write off of issuance costs related to the Series 2007 debt for the year ended September 30, 2017. See Note 6 for further discussion of the advance refunding of the Series 2007 debt during the prior fiscal year.

Deferred Marketing Costs

Third-party sales commissions and certain other costs (deferred marketing costs) associated with acquiring initial expansion residential contracts were deferred until construction was complete and units were available for occupancy. Deferred marketing costs are amortized over the estimated lives of expansion residents. Accumulated amortization at September 30, 2018 and 2017 was \$774,978 and \$694,808, respectively.

Entrance Fees

The Residence and Services Agreement (the Agreement), which is entered into at the time a prospective resident pays a deposit equal to 10% of the published entrance fee, specifies the services to be provided by the Corporation and the respective rights and duties of the Corporation and resident. The liability associated with these advance deposits is reported as advance entrance fee deposits in the accompanying combined balance sheets. Prospective residents applying for direct admission to the Health Center are subject to the same Agreement as those applying for independent living units.

The Corporation offers a standard contract in which entrance fees may be refunded on a pro-rata basis to residents vacating a unit in the first 20 months of occupancy. Once a unit is occupied, entrance fees are recorded as deferred entrance fee revenue. The deferred revenue on the standard contracts is recognized as income over the actuarially determined life of the resident.

The Corporation offers two refundable entrance fee plans. Under these plans, a new resident can elect to pay a higher entrance fee, a portion of which is refundable only after the unit is vacated and subsequently occupied by a new resident. The refundable fees under this option are classified in the accompanying combined balance sheets as a refundable entrance fees liability.

At September 30, 2018 and 2017, the portion of entrance fees subject to refund provisions amounted to approximately \$19,745,000 and \$21,585,600, respectively.

SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Obligation to Provide Future Services

The Corporation annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred entrance fee revenue. If the present value of the estimated cost of future services and use of facilities to be provided to current residents exceeds the deferred revenue from entrance fees and the present value of periodic fees, a liability is recorded (obligation to provide future services) with the corresponding change to income.

The present values of revenues and future service costs are calculated using a discount rate of 6%. This calculation did not require the recording of a liability at either September 30, 2018 or 2017.

Net Assets (Deficit)

The Organization classifies its funds for accounting and reporting purposes as unrestricted, temporarily restricted, or permanently restricted. Unrestricted net assets (deficit) include resources of the Organization that are not restricted by donors or grantors as to use or purpose, and amounts generated from operations. Temporarily restricted net assets are those whose use has been limited by a donor to a specific time period or purpose. Temporarily restricted net assets are transferred to unrestricted net assets when donor restrictions as to time and purpose have been met. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity. During 2017, after review of the Foundation's records with respect to the remaining permanently restricted net assets held by the Foundation, the Organization reclassified these amounts as unrestricted to be used to provide resident support. As of September 30, 2018 and 2017, the Organization does not hold any permanently restricted net assets.

Resident Service Revenue

Resident service revenue consists of resident fees and charges and is recorded when earned.

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Charity Care and Community Benefit

The Organization has a resident assistance policy to identify residents who are unable to meet their financial obligations. Such residents are identified based on financial information obtained from the resident and subsequent review, analysis, and approval by the Organization's management and reported to the Organization's board of directors. Once approved, monthly service fees are recorded by the Organization and a corresponding amount is recorded in the contra-revenue account, resident assistance. The cost of providing resident support was \$456,862 and \$248,285 for the years ended September 30, 2018 and 2017, respectively, estimated by applying a 4% operating margin to the charges foregone. Contributions to the Organization of \$288,377 and \$285,435 subsidized the costs of providing resident support for the years ended September 30, 2018 and 2017, respectively. From time-to-time, the Organization may choose to waive all or a portion of a new resident's entrance fees. During the year ended September 30, 2017, the Organization waived entrance fees totaling \$246,000. The Organization did not waive any entrance fees in 2018.

The Organization is actively involved in the community through participation in various educational, charitable, and volunteer service programs sponsored on campus or throughout the community at large. The Organization also allows various groups in the community at large to use its facility space at no charge or at a reduced charge. The costs of providing this community benefit is included in operating expense amounts on the combined statements of operations and changes in net assets (deficit).

Excess (Deficit) of Revenues over Expenses

The combined statements of operations and changes in net assets (deficit) include excess (deficit) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficit) of revenues over expenses consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value of Financial Instruments

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization 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 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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.

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 Organization does not have any assets or liabilities that are valued using Level 2 or Level 3 inputs at September 30, 2018 and 2017.

The Organization follows the accounting standard that allows reporting certain financial instruments at fair value. This standard 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. The Organization has not elected to measure any existing financial instruments at fair value. However, it may elect to measure newly acquired financial instruments at fair value in the future.

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Income Taxes

The Corporation and the Foundation have been recognized by the Internal Revenue Service as exempt from income taxes under Internal Revenue Code Section 501(c)(3). The Corporation and the Foundation are classified as public charities under Sections 509a(1) and 509a(3), respectively, of the Internal Revenue Code.

The Corporation and Foundation file as tax-exempt organizations. The Corporation and the Foundation are not aware of any activities that would jeopardize their tax-exempt status. The Corporation and the Foundation are not aware of any activities that are subject to tax on unrelated business income or excise or other taxes.

The Corporation and the Foundation follow guidance in the income tax standard regarding recognition and measurement of uncertain tax positions. The application of the standard has had no impact on the Corporation and the Foundation's combined financial statements.

Subsequent Events

Subsequent to year end, in October 2018, the Organization signed a construction contract to begin work on the building and furnishing of a second independent living Terrace project containing 36 units. See Note 6 for further discussion of the financing of the project and Note 14 for further discussion of the construction contract.

In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 18, 2019, the date the combined financial statements were available to be issued.

NOTE 2 ASSETS LIMITED AS TO USE

Assets limited as to use, reported at fair value, are comprised of the following at September 30:

	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 7,849,729	\$ 2,339,538
Fixed Income	72,092,284	2,243,835
Fixed Income Securities Funds	1,152,048	987,797
U.S. Government Securities	5,238,666	2,156,869
Equity Securities Funds	2,885,310	2,667,566
Equity Securities	1,472,159	1,279,601
Subtotal	<u>90,690,196</u>	<u>11,675,206</u>
Less: Amounts Required to Meet Current Obligations	<u>(2,836,054)</u>	<u>(1,867,259)</u>
Total	<u>\$ 87,854,142</u>	<u>\$ 9,807,947</u>

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 2 ASSETS LIMITED AS TO USE (CONTINUED)

Amounts restricted under debt agreements are comprised of the following at September 30:

	<u>2018</u>	<u>2017</u>
Series 1996 Debt Service Reserve	\$ 107,583	\$ 106,418
Series 1996 Interest Account	103,622	3,067
Series 2007A Debt Service Reserve (see Note 6)	-	13,715
Series 2007AB Interest Account (see Note 6)	-	349,362
Series 2016 Interest Account	1,409,537	1,410,313
Series 2016 Principal Account	455,000	105,000
Series 2016 Debt Service Reserve	4,660,997	4,641,970
Series 2018 Debt Service Reserve (see Note 6)	4,278,057	-
Series 2018 Interest Account (see Note 6)	868,467	-
Series 2018 Issuance Account (see Note 6)	307,995	-
Series 2018 Construction Account (see Note 6)	72,937,294	-
Subtotal	<u>85,128,552</u>	<u>6,629,845</u>
Less: Amounts Required to Meet Current Obligations	<u>(2,836,054)</u>	<u>(1,867,259)</u>
Total	<u>\$ 82,292,498</u>	<u>\$ 4,762,586</u>

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable have been recorded at net present value as of September 30 and were as follows:

	<u>2018</u>
Due in Less than One Year	\$ 78,667
Due in Two Years or More	531,333
Total Pledges Receivable	<u>610,000</u>
Less: Net Present Value Discount	(79,984)
Less: Current Portion	(78,667)
Pledges Receivable, Net	<u>\$ 451,349</u>

SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 4 PROPERTY AND EQUIPMENT

The Corporation's property and equipment consists of the following at September 30:

	<u>2018</u>	<u>2017</u>
Land and Land Improvements	\$ 3,808,100	\$ 3,537,358
Building and Improvements	118,923,694	124,082,039
Furniture and Equipment	<u>6,535,996</u>	<u>6,571,764</u>
	129,267,790	134,191,161
Less: Accumulated Depreciation	<u>(67,611,662)</u>	<u>(69,469,565)</u>
	61,656,128	64,721,596
Construction in Progress	<u>23,231,693</u>	<u>3,376,787</u>
Property and Equipment, Net	<u>\$ 84,887,821</u>	<u>\$ 68,098,383</u>

There was \$939,697 and \$64 of interest capitalized during the years ended September 30, 2018 and 2017, respectively.

Construction in progress at September 30, 2018 and 2017 related primarily to construction costs incurred for the Terrace and health center replacement projects.

NOTE 5 INVESTMENTS

Investments, reported at fair value, are comprised of the following at September 30:

	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 468,637	\$ 484,785
Fixed Income Securities Funds	9,619,587	4,337,661
Equity Securities Funds	12,256,444	11,713,949
Equity Securities	<u>6,253,555</u>	<u>5,619,045</u>
Total Investments	28,598,223	22,155,440
Less: Short-Term Investments	<u>(4,973,038)</u>	-
Long-Term Investments	<u>\$ 23,625,185</u>	<u>\$ 22,155,440</u>

Investment income is comprised of the following for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Investment Income:		
Interest and Dividend Income	\$ 901,832	\$ 577,561
Net Realized Gains on Sales of Investments	<u>473,130</u>	<u>891,110</u>
Total	<u>\$ 1,374,962</u>	<u>\$ 1,468,671</u>

SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 5 INVESTMENTS (CONTINUED)

Board-managed investments, which include long-term investments, investments designated to fund the North Carolina Department of Insurance Operating Reserve, and the Southminster Community Fund, are guided by an investment policy adopted by the board of directors. The long-term objective of the policy is to provide growth of capital and income, using diversification to manage risk.

NOTE 6 LONG-TERM DEBT

The Corporation's long-term debt consists of the following at September 30:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Series 1996 (Maturing on October 1, 2018 With an Interest Rate of 6.125%)	\$ 100,000	\$ 100,000
Series 2007A (Matured on October 1, 2017 With an Interest Rate of 5.20%)	-	340,000
Series 2016 (Maturing on October 1, 2017 Through 2037 with an Interest Rate of 1.50% - 5%)	58,660,000	58,765,000
2017 Bank Loan due August 31, 2024 With a Variable Interest Rate of 1.35% Plus One-Month LIBOR	5,009,647	28,020
2018 Bank Loan due August 31, 2024 With a Variable Interest Rate of 1.50% Plus One-Month LIBOR	872,414	-
Series 2018 (Maturing on October 1, 2038 Through 2053 With an Interest Rate of 4.25% - 5%)	86,200,000	-
Total	<u>150,842,061</u>	<u>59,233,020</u>
Add: Unamortized Bond Premium	9,560,878	5,582,376
Less: Unamortized Bond Issuance Costs	<u>(2,756,218)</u>	<u>(1,130,689)</u>
Total	157,646,721	63,684,707
Less: Current Portion	<u>(555,000)</u>	<u>(445,000)</u>
Total Long-Term Debt	<u>\$ 157,091,721</u>	<u>\$ 63,239,707</u>

The following schedule presents future principal payments due on all the Corporation's outstanding long-term debt:

<u>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 555,000
2020	1,970,000
2021	2,206,560
2022	2,409,103
2023	2,509,103
Thereafter	141,192,295
Total	<u>\$ 150,842,061</u>

SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 6 LONG-TERM DEBT (CONTINUED)

Expansion Project

On August 31, 2017, the Corporation entered into a term loan agreement (the 2017 Bank Loan) with a financial institution to provide up to \$34,000,000 to finance the construction, equipping, and furnishing of up to two independent living Terrace projects. On May 23, 2018, the Corporation entered into an Amended and Restated Loan Agreement (the Amendment) extending an additional nonrevolving term loan of up to \$5,000,000 (the 2018 Bank Loan) for the same purpose of constructing the two Terraces. Terms of the 2018 Bank Loan are similar to that of the 2017 Bank Loan with the exception that the 2018 Bank Loan bears interest at one-month LIBOR plus 1.50%, and the 2017 Bank Loan bears interest at one-month LIBOR plus 1.35%. The 2018 Bank Loan has an unused commitment fee of .25% per year, unlike the 2017 Bank Loan, which has no such fee. The Amendment extended the draw period from August 31, 2020 to February 28, 2021, with all other terms remaining unchanged. Interest-only payments are due monthly during the draw period. Principal payments are required to be made monthly in an amount equal to 1/240 of the outstanding principal balance on February 28, 2021. For the period March 1, 2021 through August 31, 2024, principal and interest payments are to be made on a monthly basis.

On July 18, 2018, the Corporation entered into a loan agreement with the Public Finance Authority (the Authority) and, concurrently, the Authority issued its \$86,200,000 Retirement Facilities First Mortgage Revenue Bonds (Southminster), Series 2018 (Series 2018 Bonds). The Series 2018 Bonds were issued to finance the construction of a replacement health center and a portion of the two independent living construction projects (being financed by a combination of the Series 2018 Bonds and the 2017 and 2018 Bank Loans discussed above). The Series 2018 Bonds will also be used for additional common areas, kitchen expansion, office spaces for environmental services operations (housekeeping, maintenance, transportation), and a reconfigured loading dock. Proceeds from the Series 2018 Bonds were also used to pay issuance costs and fund debt service reserves.

Other Long-Term Debt

2007 Expansion, Financing, and Refinancing

In 2007, the Corporation undertook a \$73 million expansion and renovation project which resulted in the addition of 89 new independent living apartments, a new wellness/aquatic center, expansion of and enhancements to administrative and common areas, and a modest renovation to the health center. The Corporation began accepting reservation deposits in 2006; construction began in January 2007 using a bank line of credit and construction loan that was later repaid as part of the November 2007 permanent financing. Construction was completed during fiscal year 2010.

SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 6 LONG-TERM DEBT (CONTINUED)

Other Long-Term Debt (Continued)

2007 Expansion, Financing, and Refinancing (Continued)

On November 15, 2007, the Corporation entered into a loan agreement with the North Carolina Medical Care Commission (the Medical Care Commission) and, concurrently, the Medical Care Commission issued \$62,180,000 and \$2,000,000 Fixed Rate Retirement Facilities First Mortgage Revenue Bonds (Southminster Project) Series 2007A and 2007B Bonds (Series 2007A Bonds and Series 2007B Bonds), respectively, and \$25,500,000 Variable Rate Retirement Facilities First Mortgage Revenue Bonds (Southminster Project) Series 2007C (Series 2007C Bonds). In addition to repaying the outstanding construction loan and line of credit, the proceeds from Series 2007 Bonds were deposited with the Trustee to cover the remaining construction, capitalized interest, and other project-related costs; to pay for costs of issuance; and to fund various debt service reserves.

On October 1, 2016, the Corporation made its first scheduled principal payment of \$325,000 on the Series 2007A Bonds repaid out of the Series 2007AB Interest Account. Subsequently, on November 10, 2016, the Corporation entered into a loan agreement with the North Carolina Medical Care Commission (the Medical Care Commission) and, concurrently, the Medical Care Commission issued \$58,765,000 Retirement Facilities First Mortgage Revenue Refunding Bonds Series 2016 in order to advance refund \$61,515,000 of the remaining \$61,855,000 in Series 2007A Bonds, pay for costs of issuance, and fund debt reserves. The Series 2016 Bonds mature on October 1, 2017 through 2037 with interest rates ranging from 1.5% to 5%. The remaining \$340,000 of Series 2007A Bonds, bearing interest at 5.2%, was paid off on its maturity date of October 1, 2017. The Series 2007B Bonds were repaid in full on October 1, 2013. The Series 2007C Bonds were repaid in full in March 2011.

Series 1996 Bonds

In December 1996, the Corporation entered into a loan agreement with the North Carolina Medical Care Commission (the Medical Care Commission) and concurrently the Medical Care Commission issued \$5,055,000 of fixed-rate, tax-exempt bonds (the Series 1996 Bonds) to finance a renovation and expansion of the Health Center facilities and 8 new independent living apartments.

On October 1, 2014, the Corporation accelerated one year of principal payments totaling \$1,015,000 repaid out of the Series 1996 Interest Account. In December 2014, the Corporation entered into a bank term loan in the principal amount of \$3,940,000 to redeem \$3,940,000 of the remaining \$4,040,000 of the Series 1996 Bonds. The bank term loan bears an interest rate of one-month LIBOR plus 1.35% and is due and payable in full on October 1, 2018 with required monthly principal payments beginning November 2015. The bank term loan was paid off during the year ended September 30, 2017. The remaining \$100,000 of Series 1996 Bonds, bearing interest at 6.125%, was paid off subsequent to year-end on its maturity date of October 1, 2018.

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Debt Compliance

Under the terms of the Second Amended and Restated Master Trust Indenture dated November 1, 2007, the Trust Agreements, and the Loan Agreements (the Agreements), the Corporation is subject to certain restrictive covenants and reporting requirements, among which are a Rate covenant requiring a Historical Debt Service Coverage Ratio of 1.20:1 and a Liquidity covenant requiring a minimum Days' Cash on Hand of 180 days. Under the Series 2018 Loan Agreement dated July 1, 2018, the Corporation must also meet a Marketing covenant beginning with the quarter ended September 30, 2018 and an Occupancy covenant beginning with the quarter ending no earlier than June 30, 2019. All outstanding issuances are secured by a deed of trust of certain facilities of the Corporation.

Management believes that the Corporation is in compliance with the covenants contained in the Master Trust Indenture, the Trust Agreements, and the Loan Agreements. To the extent that investment earnings are credited to the bond funds, future deposits to such accounts are reduced. Substantially all property and equipment is pledged as security.

NOTE 7 BENEFIT PLAN

The Corporation maintains a defined contribution savings retirement plan (the Plan) eligible to all employees. For all employees having been employed for one year, the Corporation makes a 100% match of an employee's contribution to the Plan up to 4% and a 1.5% discretionary contribution, each pay period. The Corporation's contributions to the Plan for the years ended September 30, 2018 and 2017 were \$393,133 and \$364,423, respectively.

NOTE 8 CONTINUING CARE LICENSE

In November 1992, the North Carolina Department of Insurance (the Department) issued a continuing care facility license to the Corporation, effective September 1, 1992. The license is restricted and may require the Corporation to provide quarterly interim financial and occupancy statements to the Department. Additionally, all prospective residents are required to sign an acknowledgement of receipt of the current disclosure statement.

NOTE 9 OPERATING RESERVE

The General Statutes of the state of North Carolina require that continuing care retirement communities, such as the Corporation, maintain an Operating Reserve equal to 50% of the subsequent year's projected operating expenses. As provided in the statutes, the Commissioner of the North Carolina Department of Insurance may reduce the Operating Reserve requirement to 25% if the occupancy level of the facility is in excess of 90%, or such other reasons as deemed appropriate by the department.

On September 30, 2018 and 2017, the Corporation's occupancy was above 90%, mandating the lower Operating Reserve requirement.

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 9 OPERATING RESERVE (CONTINUED)

The Operating Reserve is funded with a portion of the Corporation's long-term investments, as permitted by state statute and the Corporation's investment policy.

NOTE 10 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets were comprised of endowment funds in which the original contribution amounts were to be maintained in perpetuity.

In 2009, the state of North Carolina adopted the North Carolina Prudent Management of Institutional Funds Act (UPMIFA). The adoption of the UPMIFA has had little impact on the Organization due to the small dollar amount of the endowment funds. Management of the Foundation has implemented specific policies to comply with the provisions of UPMIFA.

In 2017, the Organization conducted an analysis of the remaining permanently restricted funds and determined that these funds should be reclassified to unrestricted net assets. As of September 30, 2018 and 2017, the Organization does not hold any permanently restricted net assets.

NOTE 11 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies. The following tables present the fair value hierarchy for the balances of the assets and liabilities of the Organization measured at fair value on a recurring basis as of September 30, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets Limited as to Use:				
Fixed Income	\$ 72,092,284	\$ -	\$ -	\$ 72,092,284
Fixed Income Securities Funds	1,152,048	-	-	1,152,048
U.S. Government Securities	5,238,666	-	-	5,238,666
Equity Securities Funds	2,885,310	-	-	2,885,310
Equity Securities	1,472,159	-	-	1,472,159
Subtotal	<u>82,840,467</u>	-	-	<u>82,840,467</u>
Investments:				
Fixed Income Securities Funds	9,619,587	-	-	9,619,587
Equity Securities Funds	12,256,444	-	-	12,256,444
Equity Securities	6,253,555	-	-	6,253,555
Subtotal	<u>28,129,586</u>	-	-	<u>28,129,586</u>
Total Assets Measured at Fair Value	<u>\$ 110,970,053</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,970,053</u>

SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets Limited as to Use:				
Fixed Income	\$ 2,243,835	\$ -	\$ -	\$ 2,243,835
Fixed Income Securities Funds	987,797	-	-	987,797
U.S. Government Securities	2,156,869	-	-	2,156,869
Equity Securities Funds	2,667,566	-	-	2,667,566
Equity Securities	<u>1,279,601</u>	<u>-</u>	<u>-</u>	<u>1,279,601</u>
Subtotal	9,335,668	-	-	9,335,668
Investments:				
Fixed Income Securities Funds	4,337,661	-	-	4,337,661
Equity Securities Funds	11,713,949	-	-	11,713,949
Equity Securities	<u>5,619,045</u>	<u>-</u>	<u>-</u>	<u>5,619,045</u>
Subtotal	<u>21,670,655</u>	<u>-</u>	<u>-</u>	<u>21,670,655</u>
Total Assets Measured at Fair Value	<u>\$ 31,006,323</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,006,323</u>

NOTE 12 FUNCTIONAL EXPENSES

Functional expenses for the Corporation, including salaries and related benefits; maintenance and utilities; food and related supplies; insurance and other operating expenses, were as follows for the years ended September 30:

	2018	2017
Program Activities:		
Health Services	\$ 4,154,223	\$ 3,973,621
Food Service	4,038,700	3,969,294
Housekeeping	1,330,087	1,295,968
Maintenance	3,235,684	2,838,140
Other Resident Services	<u>3,105,790</u>	<u>2,713,768</u>
	15,864,484	14,790,791
General and Administration:		
Administration	2,642,029	2,569,767
Human Resources	505,141	519,003
Fundraising	176,916	94,820
Marketing	<u>522,891</u>	<u>532,718</u>
Total Functional Expenses	<u>\$ 19,711,461</u>	<u>\$ 18,507,099</u>

Nonoperating expenses such as depreciation, amortization, interest expense, and loss on disposal of assets are excluded from the table above but are considered program activities by the Corporation.

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 13 RELATED PARTY TRANSACTIONS

The Organization made payments of \$99,140 for the year ended September 30, 2017, to a vendor whose President was a member of the board of directors and whose term ended in February 2017. Related party transactions are conducted at arms' length and in accordance with the board of directors' Conflict of Interest Policy.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Health Care Industry

The Organization is subject to legal proceedings and claims which arise in the ordinary course of business. The Organization maintains liability insurance coverage for claims occurring during the policy year. Occurrence-based policies need only to be in effect on the date that an accident causing damage occurs in order to trigger coverage. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for claims not covered by the policy and any other uninsured liability.

Self-Insured Health Plan

Effective April 1, 2017, the Organization changed from a fully insured health insurance plan for its employees to a self-insured employee health plan. The Organization has purchased specific stop-loss protection for all claims over \$90,000 and aggregate stop-loss protection for total claims which exceed \$1,000,000. An accrual for the self-insurance program was established to provide for estimated claims incurred through September 30, 2018 but not reported. This accrual totaled approximately \$155,000 and \$47,000 at September 30, 2018 and 2017, respectively, and is included in Accrued Payroll and Employee Benefits on the combined balance sheets.

Terrace Projects

In December 2017, the Organization signed a construction contract to build and furnish a 30-unit independent living building. The contract stipulates that the cost of the project is to be capped at \$18,414,239 as originally designed. Change orders totaling \$617,950 have been executed. As of September 30, 2018, there are \$9,142,555 in remaining costs to complete the project, including retainage. A combination of funds from the 2017 and 2018 Bank Loans, as well as the Series 2018 Bonds, will be used to pay for the costs of the project (see Note 6). The first Terrace project is expected to be completed in April 2019.

In October 2018, the Organization signed a construction contract to begin work on the building and furnishing of a 36-unit independent living building. The contract stipulates that the cost of the project is to be capped at \$33,832,322 as originally designed. A combination of funds from the 2017 and 2018 Bank Loans, as well as the Series 2018 Bonds, will be used to pay for the costs of the project (see Note 6). The second Terrace project is expected to be completed in July 2020.

**SOUTHMINSTER, INC.
(SOUTHMINSTER, INC. AND SOUTHMINSTER FOUNDATION, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Health Center Replacement Project

In May 2018, the Organization signed a construction contract to build and furnish a replacement health center. The contract stipulates that the cost of the project is to be capped at \$57,165,009 as originally designed. Change orders totaling \$160,448 have been executed. As of September 30, 2018, there are \$52,204,536 in remaining costs to complete the project, including retainage. Funds from the Series 2018 Bonds will be used to pay for the costs of the project (see Note 6). The health center replacement project is expected to be completed in September 2020.

Lease Agreement

During the year ended September 30, 2018, the Organization terminated a lease agreement and entered into a new lease agreement with a third-party hospice provider. As part of those agreements, the Organization committed to \$1,404,743 in capital improvements to future space in the replacement health center currently in the early site work phase of construction.

NOTE 15 FUTURE ACCOUNTING AND REPORTING REQUIREMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* which was further codified under Accounting Standards Codification (ASC) 606-10. The standard attempts to create a global, consistent revenue recognition model to be applied to all industries, including health care. The amendments in the ASU are currently effective for the Organization for the year ending September 30, 2019. Management continues to evaluate the impact of the adoption of this standard but based on the latest industry guidance, management believes this standard will not have a material impact on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The FASB standard attempts to improve the current net asset classification requirements and the information presented in combined financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The ASU is currently effective for the Organization for the year ending September 30, 2019. Based on the latest industry guidance, management does not believe this standard will have a material impact on the combined financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*, which adds ASC 842 and updates various other sections throughout the ASC. The standard attempts to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet while disclosing relevant information regarding leasing arrangements. The ASU is currently effective for the Organization for the year ending September 30, 2020. Management has not yet determined the impact this standard could have on the combined financial statements.



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

ATTACHMENT 2 -

- Five Year Forecast

SOUTHMINSTER, INC.

**FORECASTED FINANCIAL STATEMENTS AND
INDEPENDENT ACCOUNTANTS' COMPILATION REPORT
FOR THE FIVE YEARS ENDING
SEPTEMBER 30, 2019 THROUGH SEPTEMBER 30, 2023**

TABLE OF CONTENTS

Independent Accountants' Compilation Report	1
Forecasted Statements of Operations and Changes in Net Deficit For the Five Years Ending September 30, 2019 through 2023	2
Forecasted Statements of Cash Flows For the Five Years Ending September 30, 2019 through 2023	3
Forecasted Balance Sheets At September 30, 2019 through 2023.....	4
Summary of Significant Forecast Assumptions and Accounting Policies	
Background and Information.....	5
Summary of Significant Accounting Policies	9
Management's Basis for Forecast of Revenue	12
Management's Basis for Forecast of Expenses	18
Management's Basis for Forecast of Other Items	20



CliftonLarsonAllen

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Directors
Southminster, Inc.
Charlotte, North Carolina

Management is responsible for the accompanying forecasted financial statements of Southminster, Inc. (the Corporation), which comprise the forecasted balance sheets as of September 30, 2019, 2020, 2021, 2022 and 2023, and the related forecasted statements of operations and changes in net deficit, and cash flows for the years then ending, and the related summaries of significant forecast assumptions and accounting policies in accordance with the guidelines for presentation of a financial 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 forecasted financial statements 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 these forecasted financial statements or the assumptions. Furthermore, 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.

The accompanying forecasted information and this report are intended solely for the information and use of management, the Board of Directors, and the North Carolina Department of Insurance (pursuant to the requirements of North Carolina General Statutes, Chapter 58, Article 64 and is included in the Corporation's disclosure statement filing), and is not intended to be and should not be used, by anyone other than these specified parties.

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

CliftonLarsonAllen LLP

Charlotte, North Carolina
February 26, 2019

SOUTHMINSTER, INC.
FORECASTED STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT
FOR THE YEARS ENDING SEPTEMBER 30,

	2019	2020	2021	2022	2023
REVENUES, GAINS, AND OTHER SUPPORT					
Independent Living Revenue	\$ 13,627,525	\$ 15,097,668	\$ 17,540,678	\$ 18,230,664	\$ 18,626,255
Healthcare Revenue	9,573,885	9,770,999	10,313,038	10,605,324	10,930,784
Earned Entrance Fees	6,071,028	7,350,869	8,513,289	9,310,251	9,346,072
Investment Income	1,611,089	1,401,018	1,142,285	1,124,574	1,237,293
Contributions	360,000	360,000	370,800	381,924	393,382
Other Income	953,905	977,182	1,291,609	1,316,304	1,341,740
Total Revenues, Gains and Other Support	32,197,432	34,957,736	39,171,699	40,969,041	41,875,526
OPERATING EXPENSES:					
Healthcare Expenses	4,538,236	4,678,314	4,982,608	5,136,195	5,294,604
Administrative Expenses	4,968,980	4,884,255	4,865,475	5,030,345	5,200,921
Maintenance Expenses	3,407,689	3,620,881	4,068,936	4,190,858	4,316,396
Laundry Expenses	157,904	162,641	167,520	172,545	177,722
Housekeeping Expenses	1,199,803	1,250,828	1,310,601	1,349,904	1,390,385
Dietary Expenses	4,219,559	4,347,813	4,698,882	4,841,460	4,988,376
Other Expenses	3,554,403	3,661,036	3,770,864	3,883,991	4,000,514
Depreciation	6,311,861	6,520,733	9,609,792	9,658,835	9,897,156
Amortization	-	17,444	21,155	21,155	21,155
Interest Expense	2,322,827	2,269,232	6,494,512	6,415,097	6,321,456
Total Operating Expenses	30,681,262	31,413,177	39,990,345	40,700,385	41,608,685
OPERATING INCOME (LOSS)	1,516,170	3,544,559	(818,646)	268,656	266,841
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:					
Net assets released from restrictions	-	-	-	-	753,545
INCREASE IN UNRESTRICTED NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS	\$ 1,516,170	\$ 3,544,559	\$ (818,646)	\$ 268,656	\$ 1,020,386
NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	\$ (11,826,506)	\$ (10,310,336)	\$ (6,765,777)	\$ (7,584,423)	\$ (7,315,767)
NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS, END OF YEAR	\$ (10,310,336)	\$ (6,765,777)	\$ (7,584,423)	\$ (7,315,767)	\$ (6,295,381)
NET ASSETS WITH DONOR RESTRICTIONS					
Net assets released from restrictions	\$ -	\$ -	\$ -	\$ -	\$ (753,545)
Contributions	100,100	103,103	-	-	-
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	\$ 100,100	\$ 103,103	\$ -	\$ -	\$ (753,545)
NET ASSETS WITH DONOR RESTRICTIONS, BEGINNING OF YEAR	\$ 550,342	\$ 650,442	\$ 753,545	\$ 753,545	\$ 753,545
NET ASSETS WITH DONOR RESTRICTIONS, END OF YEAR	\$ 650,442	\$ 753,545	\$ 753,545	\$ 753,545	\$ -
CHANGE IN NET ASSETS (DEFICIT)	\$ 1,616,270	\$ 3,647,662	\$ (818,646)	\$ 268,656	\$ 266,841
NET DEFICIT, BEGINNING OF YEAR	\$ (11,276,164)	\$ (9,659,894)	\$ (6,012,232)	\$ (6,830,878)	\$ (6,562,222)
NET DEFICIT, END OF YEAR	\$ (9,659,894)	\$ (6,012,232)	\$ (6,830,878)	\$ (6,562,222)	\$ (6,295,381)

See accompanying Independent Accountants' Compilation Report and Summary of Significant Forecast Assumptions and Accounting Policies

SOUTHMINSTER, INC.
FORECASTED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDING SEPTEMBER 30,

	2019	2020	2021	2022	2023
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net deficit	\$ 1,616,270	\$ 3,647,662	\$ (818,646)	\$ 268,656	\$ 266,841
Adjustments to reconcile change in net deficit to net cash provided by operating activities:					
Depreciation and amortization	6,311,861	6,538,177	9,630,947	9,679,990	9,918,311
Amortization of debt issuance cost	116,503	116,502	116,502	116,502	116,503
Change in other assets	219,438	(122,441)	28,464	64,292	50,360
Increase in prepaids and receivables	(48,767)	(50,230)	(51,736)	(53,289)	(54,888)
Increase (decrease) in current liabilities	1,403,648	(2,967,935)	32,391	23,231	17,865
Earned entrance fees	(6,071,028)	(7,350,869)	(8,513,289)	(9,310,251)	(9,346,072)
Amortization of premium	(604,773)	(589,558)	(573,840)	(557,505)	(540,397)
Net cash provided by (used in) operating activities	2,943,152	(778,692)	(149,207)	231,626	428,523
CASH FLOWS FROM INVESTING ACTIVITIES					
Decrease (Increase) in investments	4,294,354	(8,190,548)	5,949,318	(4,038,596)	(4,122,396)
Fixed asset additions	(59,955,934)	(55,502,158)	(3,500,000)	(3,500,000)	(3,500,000)
Decrease (increase) in assets limited as to use	38,073,637	32,007,332	(228,459)	(243,030)	(261,582)
Net cash provided by (used in) investing activities	(17,587,943)	(31,685,374)	2,220,859	(7,781,626)	(7,883,978)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from entrance fees and deposits, net	20,611,246	14,309,000	22,088,414	9,665,000	10,424,000
Proceeds from bank loan	10,492,873	20,125,066	-	-	-
Repayments of long-term debt	(14,929,934)	(1,970,000)	(24,160,066)	(2,115,000)	(2,968,545)
Net cash provided by (used in) financing activities	16,174,185	32,464,066	(2,071,652)	7,550,000	7,455,455
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 1,529,394	\$ -	\$ -	\$ -	\$ -
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	\$ 970,606	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Supplementary Disclosure: Interest paid during year	\$ 5,824,961	\$ 7,059,538	\$ 6,988,494	\$ 6,903,975	\$ 6,800,725

See accompanying Independent Accountants' Compilation Report and Summary of Significant Forecast Assumptions and Accounting Policies

SOUTHMINSTER, INC.
FORECASTED BALANCE SHEETS
AT SEPTEMBER 30,

	2019	2020	2021	2022	2023
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Accounts Receivable, Net	380,750	392,173	403,938	416,056	428,538
Other Current Assets	1,293,576	1,332,383	1,372,354	1,413,525	1,455,931
Assets Limited As To Use - Current	5,516,969	5,547,569	5,590,925	5,643,050	5,697,675
Total Current Assets	9,691,295	9,772,125	9,867,217	9,972,631	10,082,144
ASSETS LIMITED AS TO USE					
Bond Fund	5,516,969	5,547,569	5,590,925	5,643,050	5,697,675
Debt Service Reserve Funds and Project Fund	41,398,148	9,045,436	9,045,436	9,045,436	9,045,436
Southminster Community Fund	50,000	50,000	50,000	50,000	50,000
Operating Reserve Fund Required Under North Carolina Statutes	5,651,442	5,966,222	6,151,325	6,342,230	6,549,187
Total Assets Limited As To Use	52,616,559	20,609,227	20,837,686	21,080,716	21,342,298
Less Current Portion	(5,516,969)	(5,547,569)	(5,590,925)	(5,643,050)	(5,697,675)
Assets Limited As To Use, Net of Current Portion	47,099,590	15,061,658	15,246,761	15,437,666	15,644,623
PROPERTY AND EQUIPMENT					
Less Accumulated Depreciation	(73,923,523)	(80,444,256)	(90,054,048)	(99,712,883)	(109,610,039)
Net Property and Equipment	141,505,492	185,917,926	179,808,134	173,649,299	167,252,143
LONG-TERM INVESTMENTS					
	24,303,869	32,494,417	26,545,099	30,583,695	34,706,091
DEFERRED MARKETING AND OTHER COSTS					
	708,488	813,485	763,866	678,419	606,904
TOTAL ASSETS	\$ 223,308,734	\$ 244,059,611	\$ 232,231,077	\$ 230,321,710	\$ 228,291,905
LIABILITIES AND NET ASSETS (DEFICIT)					
CURRENT LIABILITIES					
Accounts Payable	\$ 4,058,601	\$ 1,089,783	\$ 1,122,476	\$ 1,156,150	\$ 1,190,835
Retainage Payable	4,568,991	-	-	-	-
Accrued Expenses	1,176,113	1,211,396	1,247,738	1,285,170	1,323,725
Accrued Interest	3,546,969	3,512,569	3,475,925	3,428,050	3,372,675
Current Portion of Long-Term Debt	1,970,000	2,035,000	2,115,000	2,215,000	2,325,000
Total Current Liabilities	15,320,674	7,848,748	7,961,139	8,084,370	8,212,235
LONG-TERM DEBT, NET OF CURRENT PORTION					
Less Bond Issue Cost	153,391,105	170,891,613	146,077,707	143,305,202	139,686,260
Long-Term Debt, Net	(2,639,715)	(2,523,213)	(2,406,711)	(2,290,209)	(2,173,706)
Long-Term Debt, Net	150,751,390	168,368,400	143,670,996	141,014,993	137,512,554
ADVANCE ENTRANCE FEE DEPOSITS					
	2,110,544	2,110,544	733,958	733,958	733,958
DEFERRED REVENUE - NONREFUNDABLE ENTRANCE FEES					
	35,685,123	40,127,593	49,227,226	50,168,589	55,238,646
DEFERRED REVENUE - REFUNDABLE ENTRANCE FEES					
	6,297,375	7,081,340	8,687,158	8,853,280	5,395,363
REFUNDABLE ENTRANCE FEES					
	22,803,522	24,535,218	28,781,478	28,028,742	27,494,530
Total Liabilities	232,968,628	250,071,843	239,061,955	236,883,932	234,587,286
NET DEFICIT:					
Net Assets Without Donor Restrictions	(10,310,336)	(6,765,777)	(7,584,423)	(7,315,767)	(6,295,381)
Net Assets With Donor Restrictions	650,442	753,545	753,545	753,545	-
Total Net Assets (Deficit):	(9,659,894)	(6,012,232)	(6,830,878)	(6,562,222)	(6,295,381)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 223,308,734	\$ 244,059,611	\$ 232,231,077	\$ 230,321,710	\$ 228,291,905

See accompanying Independent Accountants' Compilation Report and Summary of Significant Forecast Assumptions and Accounting Policies

Background and Information

Basis of Presentation

The accompanying financial forecast presents, to the best of the knowledge and belief of management (“Management”) of Southminster, Inc., a North Carolina nonprofit corporation (the “Corporation”), the Corporation’s expected financial position, results of operations and cash flows as of September 30, 2019, 2020, 2021, 2022 and 2023 and for each of the years then ending (the “Forecast Period”).

Accordingly, the financial forecast reflects Management’s judgment as of February 26, 2019, the date of this forecast, of the expected conditions and its expected course of action during the forecasted period. The assumptions disclosed herein are the assumptions which Management believes are significant to the financial forecast. There usually will be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

The financial forecast does not include Southminster Foundation, Inc. (the “Foundation”), an affiliate of the Corporation. The activities of the Southminster Foundation, Inc., have ceased and are expected to remain inactive during the Forecast Period. The Foundation is not obligated for any payments under the Series 1996 Bonds, Series 2016 Bonds, Series 2018 Bonds, or any taxable bank loans entered into by the Corporation.

The accompanying forecasted information and this report are intended solely for the information and use of management, the Board of Directors, and the North Carolina Department of Insurance (pursuant to the requirements of North Carolina General Statutes, Chapter 58, Article 64 and is included in the Corporation’s disclosure statement filing), and is not intended to be and should not be used, by anyone other than these specified parties.

Background of the Corporation

The Corporation owns and operates a Life Plan Community (also known as continuing care retirement community) known as “Southminster” located in Charlotte, North Carolina. Southminster offers its residents use of independent living units and care in its health center in accordance with the terms of a Residence and Services Agreement (as defined subsequently hereinafter) entered into by the Corporation with each resident.

The Corporation is a North Carolina nonprofit corporation organized in 1984 to construct and operate Southminster. The Corporation has received a determination that it is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as an organization described in Section 501(c)(3) of the Code. Southminster opened for operations in May 1987.

Southminster is not a legal entity separate from the Corporation. Southminster is the name under which the Corporation operates its Life Plan Community. The management and staff of the Corporation, under the direction of the board of directors of the Corporation, manage Southminster.

Southminster Foundation, Inc. (the “Foundation”) is a North Carolina nonprofit corporation that was established to operate exclusively for the benefit of the Corporation, primarily through financial support to residents of Southminster who are unable to meet their financial obligations. Effective October 1, 2013, the operations of the Foundation were moved into the operations of Southminster. As such, the financial forecasts included herein contain contribution income and resident support previously recorded on the books and records of the Foundation.

Background and Information (continued)

The business and other affairs of the Corporation are governed by a 16-member board of directors, comprised of 12 voting members, 1 non-voting founding director and 3 non-voting Chairs Emeritus. The Corporation is affiliated with Christ Episcopal Church and Myers Park Baptist Church, both of which are located in Charlotte, North Carolina. Although not all of the directors are associated with the sponsoring churches, the governing bodies of the two churches ratify those persons nominated to serve as directors.

Southminster is an entrance fee community located on approximately 27 acres of land at 8919 Park Road, Charlotte, North Carolina, consisting of 29 one-story duplex/triplex cottage units (with one unit being temporarily offline during construction of the Projects, as defined hereinafter) and a main building that includes 210 independent living apartments, dining rooms, the main kitchen, common rooms for activities and social interactions, a library, administrative offices, and all the necessary support service areas for the normal functioning of the community (e.g., maintenance, housekeeping, resident storage spaces, etc.). The main building also houses the existing health care center (the “Health Center” or the “Existing Health Center”) with 25 licensed assisted living and memory support beds (all private) and 60 licensed nursing beds (56 private and 4 semi-private).

Existing Independent Living Units

The existing independent living units of Southminster (the “Existing Independent Living Units”) consist of apartments and duplex/triplex cottage units. The apartments are contained within three- and eight-story main buildings and are connected to common areas and healthcare service facilities via enclosed walkways and elevators. Floor plans vary depending on location and include studio, one, and two-bedroom units, with either one or two bathrooms. Most units include either a patio or balcony, storage facilities, monitored emergency fire and safety systems, and central heating and air conditioning with individual thermostatic controls. Some units also include washer/dryer units. The cottage floor plans also vary in design and size, but include two bedrooms and a den. Southminster has combined some units in its original building to make larger units and continues to look for further opportunities to do so.

Terraces 1 Project

The Corporation has commenced construction for the addition of 30 independent living units (the “Terraces 1 Independent Living Units,” the “Terraces 1 Project,” or “Terraces 1”). The Terraces 1 Independent Living Units will be located on the existing campus. The design of Terraces 1 are sometimes referred to as “hybrids” since each building captures the socialization and community sometimes found in larger buildings along with some of the independent experience often times associated with cottages. All residents are planned to have access to underground parking, and elevators to each building floor. Furthermore, most units are planned to have at least two sides with windows, greatly enhancing lighting and visual access to the outdoors. Construction of Terraces 1 began December 2017 and is expected to be completed in April 2019.

Terraces 2 Project

Management is in the process of constructing 36 new independent living units (the “Terraces 2 Independent Living Units,” the “Terraces 2 Project,” “Terraces 2” or “Future Project IL Units”). The Terraces 2 Independent Living Units will be located on the existing campus and will be similar in design to the Terraces 1 Project currently being constructed and most units are planned to have at least two sides with windows. Management has planned to build a two-level underground parking deck to add additional parking for the campus. Buildings will have elevators to each building floor. Construction began October 2018 and is expected to be completed in July 2020.

HC Replacement Project

The Corporation is in the process of construction that replaces the existing nursing, assisted living and memory support units with a new replacement building that will greatly enhance the resident experience by creating programming and living space more aligned with person centered care (the “HC Replacement Project”). The HC Replacement Project will not add any additional healthcare units to the campus and is a complete replacement of

Background and Information (continued)

the Existing Health Center. In addition to the replacement of the Existing Health Center, the Corporation is in the process of construction that improves a number of common areas, along with a significant addition to structured parking on the campus. Construction began with early site work in April 2018 and is expected to be completed in September 2020.

Upon completion of the HC Replacement Project, Management is planning to renovate vacated space and add additional independent living units in the space that was previously occupied. Management does not currently have concrete plans for this independent living unit addition, and has not included such addition as part of its financial forecast due to the planning uncertainty associated with this use of vacant space, including formulation of design plans and marketing efforts.

As noted above, the HC Replacement Project will replace the Existing Health Center although the complement of total units will remain the same. Management notes that the generic use of the term “Health Center” describes in aggregate the complement of assisted living units and nursing units, whether before or after completion of the HC Replacement Project.

Collectively hereinafter, the Terraces 1 Project, the Terraces 2 Project, and the HC Replacement Project will collectively be known as the Projects.

Assisted Living

The Health Center includes 25 licensed assisted living units (all private) with additional memory support care, where needed. Each unit is equipped with individually controlled heating and air-conditioning, cable hook-ups, a phone jack and an emergency call system. Assisted living residents receive nursing staff attention daily. Residents also receive assistance with medication, bathing, dressing and grooming; linen and housekeeping service; activities and social service programs; and meals three times per day. Residents may be directly admitted into this level of care from the outside community under a Residence and Services Agreement.

Nursing Care

The Health Center also includes 60 licensed nursing care beds (56 private and 4 semi-private). The Health Center provides nursing care residents 24-hour supervision and assistance in activities of daily living and health-related care. Bathing facilities, a dining room, and common rooms are also included in this area. Residents may be directly admitted into this level of care from the outside community under a Residence and Services Agreement.

Upon completion of the HC Replacement Project, all nursing units will be private rooms with their own bathrooms with showers.

Common Areas

The common areas are located throughout the main building. They serve as gathering places for residents and include a wellness aquatic center, theater, dining rooms, multi-purpose rooms, lounges, central kitchen, library, administration areas, common rooms for activities and social interactions, resident storage spaces, exercise room, and facilities for beautician services. Southminster may also provide facilities for the sale of sundry items, and other amenity areas dependent on Southminster’s determination of demand or the availability of providers.

Residents moving into Southminster are admitted under a Residence and Services Agreement, which specifies the terms and conditions, and obligations for residing at Southminster. For copies of the Residence and Services Agreement, please refer to the disclosure statement.

Background and Information (continued)

**Table 1
Unit Configuration Before and After Completion of the Projects by Type, Number and Weighted Average Square Footage**

Unit Type	Existing Facility Number of Units ⁽¹⁾	Number of Existing Units Eliminated	Terraces 1 Project Number of Units	Terraces 2 Project Number of Units	HC Replacement Project Number of Units	Total	Existing Weighted Average Square Footage by Unit Type	Terraces 1	Terraces 2	HC
								Project Weighted Average Square Footage by Unit Type	Project Weighted Average Square Footage by Unit Type	Replacement Project Weighted Average Square Footage by Unit Type
<i>Independent Living Units</i>										
<i>Apartments:</i>										
Studio	2	-	-	-	-	2	292			
One-bedroom	49	-	-	-	-	49	598 - 782			
One-bedroom/den	12	-	-	-	-	12	955 - 1,137			
One-bedroom with den-expansion	24	-	-	-	-	24	1,080 - 1,390			
Two-bedrooms	44	-	6	6	-	56	955 - 1,345	1,383 - 1,563	1,483	
Two-bedrooms-expansion	29	-	-	-	-	29	1,280 - 2,260			
Two-bedrooms/den or great room	14	-	24	30	-	68	1,276 - 1,995	1,602 - 2,140	1,602 - 2,140	
Two-bedrooms with den-expansion	36	-	-	-	-	36	1,465 - 3,190			
<i>Cottages:</i>										
Small sunroom	4	-	-	-	-	4	1,500			
Large sunroom	25	-	-	-	-	25	1,800 - 1,900			
Total Independent Living Units	239	-	30	36	-	305				
<i>Assisted Living</i>										
Assisted Living	25	(25)	-	-	25	25	300			600
<i>Skilled Nursing</i>										
Private	56	(56)	-	-	60	60	215			300
Semi-private	4	(4)	-	-	0	0	270			
Total Health Care Units and Bed	85	(85)	-	-	85	85				
Total Campus Units and Beds	324	(85)	30	36	85	390				

Source: Management

Notes: (1) 18 units are currently offline, and are excluded from the existing unit count above, and have been demolished.

**Table 2
Timeline for the Projects**

Event	HC		
	Replacement	Terraces 1	Terraces 2
Obtained 2017 Bank Loan Financing	N/A	August 2017	August 2017
Obtained 2018 Bond Financing	July 2018	July 2018	July 2018
Began construction	April 2018	December 2017	October 2018
Forecasted construction completion	September 2020	April 2019	July 2020
Resident transfer and relocation completed	October 2020	N/A	N/A
Fill-up begins	(1)	April 2019	August 2020
Stablized Occupancy Achieved	(1)	July 2019	March 2021

Source: Management

Note:

(1) Existing Health Center residents are forecasted to transfer to the replacement units upon opening of the replacement units.

Summary of Significant Forecast Assumptions and Accounting Policies

Summary of Significant Accounting Policies

Basis of Accounting

The Corporation maintains its accounting and financial records using the accrual method of accounting.

Cash and Cash Equivalents

All liquid investments with a maturity of three months or less at the time of purchase and not limited as to their use or designated as long-term investments are considered to be cash equivalents.

Assets Limited as to Use

Assets limited as to use include funds held by the trustee under bond indenture agreements, the Southminster Community Fund, and the operating reserve required by the North Carolina Department of Insurance.

Property and Equipment

Property and equipment is stated at cost. Assets contributed to the Corporation are recorded at their fair market value at the date of receipt. Routine maintenance, repairs, renewals, and replacement costs are charged to expense. Expenditures which materially increase the value, change the capacities or extend the useful lives of existing assets are capitalized. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from 3 to 30 years. Interest costs incurred during the construction period of significant construction projects are capitalized as a cost of the constructed asset and amortized over the useful life of the asset.

Long-Term Investments

Investments in equity and debt securities are measured at fair value in the accompanying forecasted financial statements. Investment income (including realized gains and losses on investments, interest and dividends) is included in operating income unless the income is restricted by donor or law. Unrealized gains and losses on investments, if any, are excluded from operating income.

Deferred Marketing and Other Costs

Deferred marketing costs include sales commissions associated with acquiring expansion residential contracts and are deferred until construction is complete and units are available for occupancy. Management amortizes such costs over the estimated average life expectancy of the residents.

Other costs primarily include pledges receivable.

Summary of Significant Accounting Policies (continued)

Bond Issuance Costs

Issuance discounts are deferred and amortized over the terms of the related bond issue. Debt issuance costs consist of costs incurred from the issuance of revenue bonds benefiting the Corporation and include underwriter's discounts, legal and consulting fees, and printing costs.

Debt issuance costs are presented in the balance sheet as a deduction from the carrying amount of the related liability, rather than as a deferred charge asset. In addition, amortization expense associated with the debt issuance costs is shown as a component of interest expense as opposed to depreciation/amortization expense.

Entrance Fees

The Residence and Services Agreement, which is entered into at the time a prospective resident pays a deposit equal to 10% of the published entrance fee, specifies the services to be provided by the Corporation and the respective rights and duties of the Corporation and resident. The liability associated with these advance deposits is reported as advance entrance fee deposits in the accompanying forecasted balance sheets. Prospective residents applying for direct admission to the Health Center are subject to the same terms and conditions as those applying for independent living units.

The Corporation offers a standard contract in which entrance fees may be refunded on a pro rata basis to residents vacating a unit in the first 20 months of occupancy. Once a unit is occupied, entrance fees are recorded as deferred entrance fee revenue. The deferred revenue on standard contracts is recognized as income over the actuarially determined life of the resident.

The Corporation offers two refundable entrance fee plans. Under these plans, a new resident can elect to pay a higher entrance fee, a portion of which is refundable when the unit is vacated and subsequently occupied by a new resident. The refundable fees under this option are classified in the accompanying forecasted balance sheets as refundable entrance fees.

Net Assets (Deficit)

Net assets with donor restrictions are those whose use by the Corporation has been limited by donors to a specific time period or purpose. The Corporation reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the forecasted statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period as received are reflected as unrestricted contributions in the accompanying forecasted financial statements. The Corporation's net assets with donor restrictions are comprised of net assets that are temporarily restricted in nature either due to a time or purpose restriction. The Corporation does not forecast any donor restricted net assets that are permanent in nature. In 2023, the Corporation has forecasted that approximately \$753,545 of donor restricted net assets will meet its purpose or time restriction (for use towards the repayment of debt related to the health care expansion or for the payment of construction and other costs of the Projects in excess of contracted amounts) as noted on the forecasted statements of operations and changes in net assets. Management has not forecasted any other receipt of or release of donor restricted net assets during the Forecast Period.

The Corporation reports contributions of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used

See accompanying Independent Accountants' Compilation Report

Summary of Significant Accounting Policies (continued)

to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Estimated Obligation to Provide Future Services to Continuing Care Residents

The Corporation annually calculates the present value (using a six percent discount factor) of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred entrance fee revenue. If the present value of the estimated cost of future services and use of facilities to be provided to current residents exceeds the deferred revenue from entrance fees and the present value of periodic fees, a liability is recorded (obligation to provide future services) with the corresponding change to income. Management does not forecast a liability for the Forecast Period.

Independent Living Revenue and Healthcare Revenue, and Other Income

Independent living revenue and healthcare revenue consists of monthly resident Independent Living Unit and Health Center per diem charges and other revenues associated with resident services and are recorded when earned.

Home care revenue associated with off-campus cases is included in other income during the Forecast Period.

Income and Property Taxes

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Corporation is also exempt from state income taxes and files for, and receives, reimbursement for paid sales taxes.

The Corporation is also currently exempt from property taxes. Management has forecasted that they will continue to be exempt from property taxes during the Forecast Period.

The Corporation adopted guidance in the income tax standard regarding recognition and measurement of uncertain tax positions. The implementation has had no impact on the Corporation's forecasted financial statements.

Use of Estimates

The preparation of forecasted financial statements in conformity with U.S. generally accepted accounting principles 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 forecasted financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Risks and Uncertainties

The Corporation holds investments in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. While no changes in investments have been forecasted, due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will continue to occur in the near term and that such changes could materially affect the Corporation's investment balances and the amounts reported in the forecasted balance sheets of the Corporation.

Management's Basis for Forecast of Revenue

Revenue for the Corporation is generated primarily as follows:

- Independent Living Revenue- Reflects revenue from monthly service fees for the Existing Independent Living Units, Terraces 1 and Terraces 2.
- Healthcare Revenue- Reflects revenue from per diem charges from the assisted living and nursing residents as well as home care fees.
- Earned Entrance Fees- Reflects revenue (non cash) associated with the amortization of deferred revenue from entrance fees.

Revenue for the Existing Independent Living Units, Terraces 1 and Terraces 2 is based on the monthly service fees assumed by Management to be charged to the residents and the assumed utilization of the Existing Independent Living Units, Terraces 1 and Terraces 2. Healthcare revenues consist of funds generated from services provided to residents transferring from the independent living units, and those services provided to residents directly admitted into either assisted living or nursing. Healthcare revenue also includes home care revenue being provided to residents.

Forecasted Occupancy Levels

Forecasted occupancy for the Corporation's Existing Independent Living Units, Terraces 1 and Terraces 2 is based upon the historical experience of Management and the actuarial report, giving consideration to current economic conditions and expectations of ongoing success in its marketing activities.

Occupancy of the assisted living units and nursing beds is forecasted to be from Existing Independent Living Units, Terraces 1 and Terraces 2 transfers as well as a limited number of direct admissions. Nursing bed occupancy is based primarily on internal transfers from Existing Independent Living Units, Terraces 1 and Terraces 2 and assisted living units. Forecasted resident transfers from independent living to assisted living or nursing have been provided by Management.

The following tables present the forecasted occupancy for Independent Living Units, as forecasted by Management. In the table that follows, the overall occupancy and available units is based on the units being open for a partial year.

Management’s Basis for Forecast of Revenue (continued)

Table 3
Southminster
Forecasted Utilization of the Existing Independent Living Units, Terraces 1 and Terraces 2

Year Ending September 30,	Average Number of Independent Living Units Occupied	Average Number of Independent Living Units Available	Average Occupancy Percentage
Forecasted:			
2019	263	269	97.8%
2020	273	287	95.1%
2021	297	305	97.4%
2022	297	305	97.4%
2023	297	305	97.4%

Source: Management

The forecasted double occupancy percentages in the independent living units are based upon assumptions provided by Management and are as follows:

Table 4
Forecasted Second Person Occupancy of the Existing Independent Living Units, Terraces 1 and Terraces 2

Year Ending September 30,	Average Number of Independent Living Units Occupied	Average Number of Existing Independent Living Units with Double Occupants	Double Occupancy Percentage
Forecasted:			
2019	263	74	28.1%
2020	273	77	28.2%
2021	297	87	29.3%
2022	297	84	28.3%
2023	297	80	26.9%

Source: Management

The combined 85 Health Center beds are all located on the third floor of the Existing Facility. For reasons of operating efficiency and regulatory requirements, assisted living residents may be placed in a skilled nursing unit (but not vice versa). Daily rates are based on level of care, not the physical location of the resident’s room.

See accompanying Independent Accountants’ Compilation Report

Management's Basis for Forecast of Revenue (continued)

Table 5
Southminster
Forecasted Utilization of the Assisted Living and Memory Support Units

Year Ending September 30,	Average Number of Available Units	Total Residents	Average Percent Occupancy
2019	25	23	92.0%
2020	25	23	92.0%
2021	25	24	96.0%
2022	25	24	96.0%
2023	25	24	96.0%

Source: Management

Table 6
Southminster
Forecasted Utilization of the Skilled Nursing Units

Year Ending September 30,	Average Number of Available Units	Total Residents	Average Percent Occupancy
2019	60	44	73.3%
2020	60	44	73.3%
2021	60	46	76.7%
2022	60	46	76.7%
2023	60	46	76.7%

Source: Management

Forecasted Entrance and Monthly Service Fees

The following tables summarize the entrance fees, monthly service fees and daily rates.

From time to time, Management may implement special incentives and move-in incentives with the effect of reducing the entrance fees or reducing net cash flow depending on the incentive. These are currently not being offered nor are they contemplated during the Forecast Period.

See accompanying Independent Accountants' Compilation Report

Management's Basis for Forecast of Revenue (continued)

Table 7
Southminster
Monthly Service and Entrance Fees through September 30, 2019

Unit Type	Units	Monthly Service Fee ⁽¹⁾	Entrance Fee ⁽²⁾
<i>Independent Living Units</i>			
<i>Existing:</i>			
<i>Apartments:</i>			
Studio	2	\$2,831	\$46,000
One-bedroom	49	\$3,367 - \$3,534	\$99,000 - \$146,000
One-bedroom/den	12	\$3,645 - \$3,823	\$190,000 - \$262,000
One-bedroom with den - 2007 expansion	24	\$3,823 - \$4,078	\$256,000 - \$325,000
Two-bedrooms	44	\$3,645 - \$4,079	\$198,000 - \$320,000
Two-bedrooms -2007 expansion	29	\$4,078 - \$4,645	\$342,000 - \$584,000
Two-bedrooms/den or great room	14	\$4,079 - \$4,861	\$280,000 - \$498,000
Two-bedrooms with den - 2007 expansion	36	\$4,289 - \$5,150	\$384,000 - \$820,000
<i>Cottages:</i>			
Small sunroom	4	\$3,637	\$305,000
Large sunroom	25	\$3,764	\$352,000 - \$394,000
<i>Project:</i>			
Two Bedroom - Terraces I	6	\$4,289 - \$4,361	\$369,000 - \$400,300
Two Bedroom with den - Terraces I	24	\$4,434 - \$4,934	\$439,700 - \$599,200
Two Bedroom - Terraces II	6	\$4,331	\$398,000 - \$403,000
Two Bedroom with den - Terraces II	30	\$4,434 - \$4,934	\$439,700 - \$599,200
Second Person Fees		\$1,930	\$25,000
Total Independent Living Units	305		
<i>Assisted Living</i>			
Assisted Living	25	\$246	\$25,000 ⁽³⁾
Assisted Living Memory Support (Pricing)		\$317	\$25,000 ⁽³⁾
Total Assisted Living Units	25		
<i>Skilled Nursing</i>			
Private	56	\$385	\$10,000 - \$12,500 ⁽³⁾
Semi-private	4	\$294	\$10,000 ⁽³⁾
Total Nursing Units	60		
Total Units/Beds	390		

Source: Management

- (1) Residents admitted directly to health care units/beds are charged daily rates, as shown.
- (2) Entrance fees listed above are for the Standard Plan (0%) refundable. Management also offers a 90% Refundable Plan and 50% Refundable Plan priced higher than the pricing shown in this table.
- (3) Entrance fees required for direct admission residents only.

Management’s Basis for Forecast of Revenue (continued)

Increases in fees are generally anticipated to approximate increases in operating expenses during the Forecast Period. However, fee increases may be adjusted to reflect actual changes in expenses which could be higher than forecasted. Entrance fees are continuously reviewed and adjusted as necessary to align with market demands. Management has forecasted a 3 percent annual increase in fees during the Forecast Period.

Entrance Fee Receipts

Entrance fee receipts and refunds are based on information provided by Management based on historical experience, as well as Management’s assumptions relating to occupancy during the Forecast Period. The following table reflects entrance fees received and refunds paid during the Forecast Period for the Corporation, as forecasted by Management.

Table 8
Southminster
Forecasted Entrance Fee and Deposit Receipts, Net of Refunds

	2019	2020	2021	2022	2023
Entrance fees received from unit turnover	\$ 8,234,946	\$ 9,853,000	\$ 10,847,000	\$ 11,822,000	\$ 12,706,000
Initial Entrance Fees and Deposits - Terraces 1 and Terraces 2	14,376,300	6,241,000	13,316,414	-	-
Entrance fees refunded from unit turnover	(2,000,000)	(1,785,000)	(2,075,000)	(2,157,000)	(2,282,000)
Total entrance fees received, net of refunds	\$ 20,611,246	\$ 14,309,000	\$ 22,088,414	\$ 9,665,000	\$ 10,424,000

Source: Management

For purposes of forecasting entrance fee receipts, Management has assumed that 75 percent of entrances would select the Standard Refund Plan, 10 percent would select the 50% Refundable Plan, and 15 percent would select the 90% Refundable Plan during the Forecast Period.

Investment Income

Investment income consists of interest earnings on cash, cash equivalents, investments, and assets limited as to use, as provided by Management. Management has assumed that its cash, cash equivalents, investments, and assets limited as to use would earn investment income throughout the Forecast Period.

The following table reflects Management’s assumed realized investment earning rates during the Forecast Period.

Table 9
Investment Income Earnings Rates

	2019	2020	2021	2022	2023
Cash and Cash Equivalents	0.00%	0.00%	0.00%	0.00%	0.00%
Debt Service Reserve Fund and Project Fund	2.00 - 2.75%	2.00 - 2.75%	2.75%	2.75%	2.75%
Other Restricted Funds	1.00%	1.00%	1.00%	1.00%	1.00%
Investments	2.00%	3.00%	3.00%	3.00%	3.00%

Source: Management

See accompanying Independent Accountants’ Compilation Report

Management's Basis for Forecast of Revenue (continued)

Other Revenue Items

Other income is comprised primarily of external home care cases and rent, with the most significant lessee being a hospice provider. Rent from this hospice provider is assumed to resume in 2021 upon completion of the HC Replacement Project.

Management has also forecasted unrestricted contributions throughout the Forecast Period based on historical experience.

Management has forecasted contributions with donor restrictions totaling \$203,203 during the Forecast Period. Management also is forecasting a release of net assets with donor restrictions totaling \$753,545 in 2023 (associated with the early payment of debt related to the Series 2018 Bonds in 2023 which is the first year where there is no call premium associated with the repayment of a portion of the Series 2018 Bonds).

Management's Basis for Forecast of Expenses

Operating Expenses

Management has forecasted operating expenses based upon Management's experience and its operating plans for the Projects and the Existing Facility. Operating expenses are forecasted to increase approximately three percent annually for inflation throughout the Forecast Period, as well as for increases in costs relating to the addition of Terraces 1 and Terraces 2.

The specific basis for major expense items were formulated by Management and are discussed below.

Salaries, Wages and Employee Benefits

Salaries and wages are forecasted to increase at a rate of three to four percent per annum for years 2019 through 2023 depending on the type of position and to account for forecasted increases in home care caseload, and to give effect to the forecasted impact of the Projects.

Management has forecasted a total of 290 full time equivalents "FTEs" in 2019, increasing to a total of 303 FTEs by 2023 to account for the impact of the Projects.

Benefit costs include payroll taxes and employee benefits including FICA, unemployment taxes, workers' compensation, health insurance, 403(b) profit sharing plan, incentives and other miscellaneous benefits for the entire facility. These benefit costs are assumed to approximate 31 percent of wages during the Forecast Period, based on Management's historical experience.

Healthcare Expenses

Costs include those for providing care in the Health Center and on-campus home care. Costs, other than those related to labor, are forecast to increase approximately three percent annually throughout the Forecast Period for inflation.

Administrative Expenses

Costs include insurance, professional service fees, and other administrative costs including community benefit. Resident support amounts are forecast to increase which will allow community benefit amounts to maintain a 3 percent increase taking into account revenue related to Terraces 1 or Terraces 2.

Other costs, excluding those related to labor, are forecasted to increase at a rate of three percent annually throughout the Forecast Period for inflation.

Maintenance Expenses

Costs include electricity, water and sewer, gas, and cable television and all activities of maintenance for the campus. Costs, other than those related to labor, would increase approximately three percent annually throughout the Forecast Period for inflation. Costs are also forecasted to increase as a result of the addition of the Projects.

Laundry Expenses

Costs include laundry costs for the Corporation. Costs, other than those related to labor, would increase approximately three percent annually throughout the Forecast Period for inflation.

Management's Basis for Forecast of Expenses (continued)

Housekeeping Expenses

Costs include housekeeping costs for the Corporation. Costs, other than those related to labor, would increase approximately three percent annually throughout the Forecast Period for inflation. Costs are also forecasted to increase as a result of the addition of the Projects.

Dietary Expenses

Costs include raw food and dietary supplies. Costs, other than those related to labor, would increase approximately three percent annually in years 2019 through 2023 for inflation. Costs are also forecasted to increase as a result of the addition of the Projects.

Other Operating Expenses

Costs include all other costs incurred with operation of the campus, exclusive of the costs noted above. Costs, other than those related to labor, would increase approximately three percent annually throughout the Forecast Period for inflation.

Management's Basis for Forecast of Other Items

Assets Limited as to Use

Held by the Trustees:

The trustees are assumed, by Management, to maintain the following funds for the Series 1996 Bonds (as defined subsequently hereinafter) and the Series 2016 Bonds (as defined subsequently hereinafter), as well as the Series 2018 Bonds (as defined subsequently hereinafter) (collectively referred as the "Bonds") under the terms of the related trust agreements for each series of Bonds and the Master Trust Indenture:

- Bond Funds – The Bond Funds combine the Interest, Principal, and Sinking Fund Accounts required to be funded for the Bonds. Management assumes that the Corporation would make monthly deposits into the Interest Accounts equal to 1/6th of the next semi-annual interest payments due on the Bonds and monthly deposits into the Principal Accounts equal to 1/12th of the next scheduled principal payments for the Bonds.
- Debt Service Reserve Funds and Construction Funds for the Projects – The Debt Service Reserve Funds include reserves, as required by the Master Trust Indenture for the various Bonds that require debt service reserve funds. Funds in the construction accounts represent amounts that will be utilized to pay costs of construction and development related to the Projects that have been funded by Series 2018 Bond proceeds.

Board Designated:

- Southminster Community Fund – Board Designated amount supporting Southminster's fundraising and community benefit efforts.
- North Carolina Statutory Operating Reserve Requirement – Section 58-64-33 of the General Statutes of North Carolina, as amended, requires that all continuing care facilities maintain operating reserves equal to 50% of the total operating costs (as defined in Section 58-64-33) (or 25% of the total operating costs if such facilities maintain an occupancy level in excess of 90% and the North Carolina Commissioner of Insurance so approves) forecasted for the twelve-month period following the period covered by the most recent annual statement filed with the North Carolina Department of Insurance. Such operating reserves may only be released upon approval of the North Carolina Commissioner of Insurance. Management has forecasted, based on its forecasted occupancies, meeting the 25% operating reserve requirement.

The following table sets forth the forecasted calculation of the operating reserve.

Management's Basis for Forecast of Other Items (continued)

**Table 10
Southminster
Forecasted Operating Reserve Calculation**

	2019	2020	2021	2022	2023	Estimated 2024
Forecasted Total Operating Expenses	\$ 31,413,177	\$ 39,990,345	\$ 40,700,385	\$ 41,608,685	\$ 42,492,814	
Include:						
Principal Payments	\$ 1,970,000	\$ 24,160,066	\$ 2,115,000	\$ 2,968,545	\$ 2,325,000	
Exclude:						
Depreciation	\$ (6,520,733)	\$ (9,609,792)	\$ (9,658,835)	\$ (9,897,156)	\$ (10,053,155)	
Amortization	\$ (17,444)	\$ (21,155)	\$ (21,155)	\$ (21,155)	\$ (21,155)	
Debt Service Reserve (Limited to Scheduled Principal and Interest)	\$ (4,239,232)	\$ (8,529,512)	\$ (8,530,097)	\$ (8,536,456)	\$ (8,546,755)	
Unscheduled Principal Payments Paid from Entrance Fee Receipts	-	(22,125,066)	-	-	-	
Unscheduled Principal Payment Paid from Release from Temporarily Restricted Assets	-	-	-	(753,545)	-	
Adjusted Total Operating Costs	\$ 22,605,768	\$ 23,864,886	\$ 24,605,298	\$ 25,368,918	\$ 26,196,749	\$ 27,050,425
Applicable Operating Costs (Next Year)	\$ 22,605,768	\$ 23,864,886	\$ 24,605,298	\$ 25,368,918	\$ 26,196,749	\$ 27,050,425
Forecasted Occupancy at Fiscal Year End						
Independent Living	263	273	297	297	297	297
Assisted Living	23	23	24	24	24	24
Total Occupied Units	286	296	321	321	321	321
Available Independent Living Units	269	299	305	305	305	305
Available Assisted Living Units	25	25	25	25	25	25
Total Available Units	294	324	330	330	330	330
Occupancy Percentage	97%	91%	97%	97%	97%	97%
Required Operating Reserve Percentage	25%	25%	25%	25%	25%	25%
Operating Reserve	\$ 5,651,442	\$ 5,966,222	\$ 6,151,325	\$ 6,342,230	\$ 6,549,187	\$ 6,762,606

Source: Management

Property and Equipment

Property and equipment balances, net of accumulated depreciation, were forecasted based on costs of routine property and equipment additions during the Forecast Period, reduced by estimated annual depreciation. Amounts for fiscal year 2019 also include the final acceleration of depreciation in areas of the campus impacted by the Projects. The following table presents capital expenditures during the Forecast Period.

**Table 11
Southminster
Capital Expenditures**

	2019	2020	2021	2022	2023
Routine Capital Additions	\$ 4,289,053	\$ 3,500,000	\$ 3,500,000	\$ 3,500,000	\$ 3,500,000
Terraces 1:					
Project Costs	8,249,987	-	-	-	-
Terraces 2:					
Project Costs	18,750,000	15,775,575	-	-	-
HC Replacement:					
Project Costs	27,062,073	26,913,024	-	-	-
Capitalized Interest	4,578,419	4,744,568	-	-	-
(Less) Plus Retainage	(2,973,598)	4,568,991	-	-	-
Total Property and Equipment Additions	\$ 59,955,934	\$ 55,502,158	\$ 3,500,000	\$ 3,500,000	\$ 3,500,000

Source: Management

See accompanying Independent Accountants' Compilation Report

Management's Basis for Forecast of Other Items (continued)

Long-Term Debt and Interest Expense

Forecasted interest expense and long term debt during the Forecast Period were based on the Series 1996 Bonds (paid off October 1, 2018), Series 2016 Bonds, the 2017 and 2018 Bank Loans, and the Series 2018 Bonds as described below.

Expansion Projects

On August 31, 2017, the Corporation entered into a term loan agreement (the 2017 Bank Loan) with a financial institution to provide up to \$34,000,000 to finance the construction, equipping, and furnishing of up to two independent living Terrace projects. On May 23, 2018, the Corporation entered into an Amended and Restated Loan Agreement (the Amendment) extending an additional nonrevolving term loan of up to \$5,000,000 (the 2018 Bank Loan) for the same purpose of constructing the two Terraces. Terms of the 2018 Bank Loan are similar to that of the 2017 Bank Loan with the exception that the 2018 Bank Loan bears interest at one-month LIBOR plus 1.50%, and the 2017 Bank Loan bears interest at one-month LIBOR plus 1.35%. The 2018 Bank Loan has an unused commitment fee of .25% per year, unlike the 2017 Bank Loan, which has no such fee. The Amendment extended the draw period from August 31, 2020 to February 28, 2021, with all other terms remaining unchanged. Interest-only payments are due monthly during the draw period. Principal payments are required to be made monthly in an amount equal to 1/240 of the outstanding principal balance on February 28, 2021. For the period March 1, 2021 through August 31, 2024, principal and interest payments are to be made on a monthly basis.

On July 18, 2018, the Corporation entered into a loan agreement with the Public Finance Authority (the Authority) and, concurrently, the Authority issued its \$86,200,000 Retirement Facilities First Mortgage Revenue Bonds (Southminster), Series 2018 (Series 2018 Bonds). The Series 2018 Bonds were issued to finance the construction of a replacement health center and a portion of the two independent living construction projects (being financed by a combination of the Series 2018 Bonds and the 2017 and 2018 Bank Loans discussed above). The Series 2018 Bonds will be used for additional common areas, kitchen expansion, office spaces for environmental services operations (housekeeping, maintenance, transportation), and a reconfigured loading dock. Proceeds from the Series 2018 Bonds were also used to pay issuance costs and fund debt service reserves.

Management's Basis for Forecast of Other Items (continued)

Other Long-Term Debt

2007 Expansion, Financing, and Refinancing

In 2007, the Corporation undertook a \$73 million expansion and renovation project which resulted in the addition of 89 new independent living apartments, a new wellness/aquatic center, expansion of and enhancements to administrative and common areas, and a modest renovation to the health center. The Corporation began accepting reservation deposits in 2006; construction began in January 2007 using a bank line of credit and construction loan that was later repaid as part of the November 2007 permanent financing. Construction was completed during fiscal year 2010.

On November 15, 2007, the Corporation entered into a loan agreement with the North Carolina Medical Care Commission (the Medical Care Commission) and, concurrently, the Medical Care Commission issued \$62,180,000 and \$2,000,000 Fixed Rate Retirement Facilities First Mortgage Revenue Bonds (Southminster Project) Series 2007A and 2007B Bonds (Series 2007A Bonds and Series 2007B Bonds), respectively, and \$25,500,000 Variable Rate Retirement Facilities First Mortgage Revenue Bonds (Southminster Project) Series 2007C (Series 2007C Bonds). In addition to repaying the outstanding construction loan and line of credit, the proceeds from Series 2007 Bonds were deposited with the Trustee to cover the remaining construction, capitalized interest, and other project-related costs; to pay for costs of issuance; and to fund various debt service reserves.

On October 1, 2016, the Corporation made its first scheduled principal payment of \$325,000 on the Series 2007A Bonds repaid out of the Series 2007AB Interest Account. Subsequently, on November 10, 2016, the Corporation entered into a loan agreement with the North Carolina Medical Care Commission (the Medical Care Commission) and, concurrently, the Medical Care Commission issued \$58,765,000 Retirement Facilities First Mortgage Revenue Refunding Bonds Series 2016 in order to advance refund \$61,515,000 of the remaining \$61,855,000 in Series 2007A Bonds, pay for costs of issuance, and fund debt reserves. The Series 2016 Bonds mature on October 1, 2017 through 2037 with interest rates ranging from 1.5% to 5%. The remaining \$340,000 of Series 2007A Bonds, bearing interest at 5.2%, was paid off on its maturity date of October 1, 2017. The Series 2007B Bonds were repaid in full on October 1, 2013. The Series 2007C Bonds were repaid in full in March 2011.

Series 1996 Bonds

In December 1996, the Corporation entered into a loan agreement with the North Carolina Medical Care Commission (the Medical Care Commission) and concurrently the Medical Care Commission issued \$5,055,000 of fixed-rate, tax-exempt bonds (the Series 1996 Bonds) to finance a renovation and expansion of the Health Center facilities and 8 new independent living apartments.

On October 1, 2014, the Corporation accelerated one year of principal payments totaling \$1,015,000 repaid out of the Series 1996 Interest Account. In December 2014, the Corporation entered into a bank term loan in the principal amount of \$3,940,000 to redeem \$3,940,000 of the remaining \$4,040,000 of the Series 1996 Bonds. The bank term loan bears an interest rate of one-month LIBOR plus 1.35% and is due and payable in full on October 1, 2018 with required monthly principal payments beginning November 2015. The bank term loan was paid off during the year ended September 30, 2017. The remaining \$100,000 of Series 1996 Bonds, bearing interest at 6.125%, was paid off subsequent to year-end on its maturity date of October 1, 2018.

Management's Basis for Forecast of Other Items (continued)

Forecasted principal payments on the Corporation's debt are as follows.

Table 12
Southminster
Forecasted Principal Payments

Fiscal Year Ending September 30,	Series 1996 Bonds	Series 2016 Bonds	2017 and 2018 Bank Loans	Series 2018 Bonds	Total Principal Payments
2019	\$ 100,000	\$ 455,000	\$ 14,374,934	\$ -	\$ 14,929,934
2020	-	1,970,000	-	-	1,970,000
2021	-	2,035,000	22,125,066	-	24,160,066
2022	-	2,115,000	-	-	2,115,000
2023	-	2,215,000	-	753,545	2,968,545
2024	-	2,325,000	-	-	2,325,000
2025	-	2,440,000	-	-	2,440,000
2026	-	2,555,000	-	-	2,555,000
Thereafter	-	42,550,000	-	85,446,455	127,996,455
Total ⁽¹⁾	\$ 100,000	\$ 58,660,000	\$ 36,500,000	\$ 86,200,000	\$ 181,460,000

Source: Management

Notes: (1) The schedule above does not include any bond premiums, discounts or issuance costs that have been netted with debt in Management's forecasted balance sheets.

Management's Basis for Forecast of Other Items (continued)

Current Assets and Current Liabilities

Cash

Cash balances for the Forecast Period are based on the results of the forecasted Statements of Cash Flows. For purposes of presentation, cash balances are forecasted to achieve a balance of \$2,500,000.

Net Accounts Receivable

Net accounts receivable are forecasted to remain at historical levels throughout the Forecast Period, adjusted for inflation.

Other Current Assets

Other current assets include interest receivable, sales tax receivable, prepaid expenses and dietary inventories which have been forecasted based on historical levels.

Accounts Payable

Accounts payable have been forecasted based on historical levels throughout the Forecast Period, adjusted for inflation, except for amounts related to construction that are included only in 2019.

Retainage Payable

Retainage payable is based on estimates of amounts that are assumed to be retained relative to construction cost payments through 2019.

Accrued Expenses

Accrued expenses have been forecasted based on historical levels throughout the Forecast Period, adjusted for inflation.

Accrued Interest

Accrued interest has been calculated based on forecasted interest rates and repayment terms on the outstanding debt of the Corporation.

ATTACHMENT 3 -

In the prior year, Southminster prepared forecasted financial statements for 2018-2022 showing financial results both with and without pieces of various capital projects it was contemplating. Because all pieces of that project were initiated during 2018, those results are most comparable to the projected financial statements included in the 5-year forecast. As such, information below is comparing prior year Projected 2018 results with Actual 2018 results and any variances greater than \$500,000 are explained in further detail.

Statement of Operations:

	PY PROJECTION	ACTUAL		
	2018	2018	VARIANCE	
REVENUES, GAINS, AND OTHER SUPPORT				
Independent Living Revenue	\$ 12,221,065	\$ 12,436,838	\$ 215,773	
Healthcare Revenue	9,838,465	9,275,307	(563,158)	[1]
Earned Entrance Fees	5,731,644	5,721,904	(9,740)	
Investment Income	474,195	1,374,962	900,767	[2]
Contributions	360,000	288,377	(71,623)	
Net Assets Released from Restrictions	50,861	41,260	(9,601)	
Other Income	194,306	875,733	681,427	[1]
Total Revenues, Gains and Other Support	28,870,536	30,014,381	1,143,845	[5]
OPERATING EXPENSES:				
Healthcare Expenses	4,251,437	4,154,711	96,726	
Administrative Expenses	4,193,950	3,740,391	453,559	
Maintenance Expenses	3,100,039	3,331,190	(231,151)	
Laundry Expenses	159,499	135,894	23,605	
Housekeeping Expenses	1,202,942	1,186,387	16,555	
Dietary Expenses	4,071,779	4,011,605	60,174	
Other Expenses	3,009,864	3,164,108	(154,244)	
Depreciation	6,643,925	5,973,664	670,261	[3]
Amortization	80,172	80,170	2	
Interest expense	2,441,127	2,411,913	29,214	
Total Operating Expenses	29,154,734	28,190,033	964,701	[4]
OPERATING INCOME	(284,198)	1,824,348	2,108,546	[5]
EXCESS OF REVENUES OVER EXPENSES	(284,198)	1,824,348	2,108,546	[5]
OTHER CHANGES IN UNRESTRICTED NET DEFICIT				
Change in Unrealized Gain on Investments	-	765,049	765,049	[6]
(INCREASE) DECREASE IN UNRESTRICTED NET DEFICIT	(284,198)	2,589,397	2,873,595	[7]
UNRESTRICTED NET DEFICIT, BEGINNING OF YEAR	(14,415,904)	(14,415,903)	1	
UNRESTRICTED NET DEFICIT, END OF YEAR	(14,700,102)	(11,826,506)	(2,873,596)	[7]
NET ASSETS RELEASED FROM TEMPORARY RESTRICTION	(50,861)	(41,260)	(9,601)	
TEMPORARILY RESTRICTED CONTRIBUTIONS	250,000	540,741	(290,741)	
TEMPORARILY RESTRICTED NET ASSETS, BEGINNING OF YEAR	50,861	50,861	-	
TEMPORARILY RESTRICTED NET ASSETS, END OF YEAR	250,000	550,342	300,342	
CHANGE IN NET DEFICIT	(85,059)	3,088,878	3,173,937	[8]
NET DEFICIT, BEGINNING OF YEAR	(14,365,043)	(14,365,042)	1	
NET DEFICIT, END OF YEAR	\$ (14,450,102)	\$ (11,276,164)	\$ 3,173,938	[8]

[1] The primary driver of the lower Healthcare Revenue and the higher Other Income in 2018 was a result of Home Care revenue/growth, which was forecast for FY18 in Healthcare Revenue but because the revenue growth occurred in the external caseload, that revenue was recorded in Other Income with other non-resident related revenues, rather than where it had been forecast in Healthcare Revenue. Another driver in the Healthcare Revenue variance was lower permanent health center occupancy than forecast in FY18. Other Income was also higher due to rent revenue from a third party hospice provider that had to temporarily move offsite during demolition/reconstruction of their space; that rental income continued

during FY18 four months longer than forecasted. [2] The Investment income variance of \$900,767 was due to \$473,000 and \$147,000 in realized gains and capital gains, respectively, that were not included in the projection. (Southminster has not historically budgeted for realized gain/loss or capital gains distributions). Southminster also had higher interest earnings on the Series 2018 Bond proceeds, slightly offset by higher investment management fees due to larger portfolio values. [3] Depreciation expense was \$670,261 lower as the forecast included \$434,000 in depreciation that was able to be accelerated into the prior 2017 fiscal year. This related to areas of the campus impacted by the expansion currently underway. The remaining variance relates to significant portions of the campus becoming fully depreciated. [4] Total Operating Expenses came in \$964,701 below forecast due to lower depreciation expense and \$200,000 in unspent contingency included in forecasted Administrative Expenses. [5] Operating Income was over \$2 million higher than forecast due to higher Investment Income and Independent Living Revenue, as well as Other Income offset by lower Healthcare revenues; plus lower Depreciation and contingency expenses. Independent living revenues were higher than forecast as the forecast anticipated remaining relocations due to the expansion to be completed in the first quarter of fiscal year 2018, however, relocations continued through June 2018, leading to additional revenue recognized on those units taken offline. [6] Southminster does not forecast for unrealized gain/loss on investments but in 2018 had \$765,049 in Change in Unrealized Gain on Investments. [7] The financial results from operations as well as the Change in Unrealized Gain on Investments resulted in a reduction in the Unrestricted Net Deficit of \$2.6 million as compared to a projected increase of \$284,000. This brought Southminster's Unrestricted Net Deficit down to \$11.8 million as compared to a projected Net Deficit of \$14.7 million. [8] By taking into account the impact of temporarily restricted net assets activity, Southminster's total net deficit was reduced \$3.1 million bringing the total Net Deficit to \$11.3 million as compared to a projected net loss of \$85,000 increasing the total Net Deficit to \$14.5 million.

Statement of Cash Flows:

	PY PROJECTION	ACTUAL		
	2018	2018	VARIANCE	
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net deficit	\$ (85,059)	\$ 3,088,878	\$ 3,173,937	[8]
Adjustments to reconcile change in net deficit to net cash provided by operating activities:				
Depreciation and amortization	6,724,097	6,053,834	(670,263)	[3]
Amortization of debt issuance costs	69,017	78,653	9,636	
Loss on disposal of assets	-	12,825	12,825	
Realized and unrealized gain on investments	-	(1,238,179)	(1,238,179)	[2][6]
Change in Other Assets	149,991	(1,008,746)	(1,158,737)	[9]
Increase in Prepaids and Receivables	(30,805)	(120,158)	(89,353)	
Increase in Current Liabilities	1,401,064	477,730	(923,334)	[10]
Earned entrance fees	(5,731,644)	(5,721,904)	9,740	
Amortization of bond premium	(453,066)	(491,871)	(38,805)	
Net cash provided by operating activities	2,043,595	1,131,062	(912,533)	
CASH FLOWS FROM INVESTING ACTIVITIES				
Sales (purchases) of investments	5,171,785	(5,204,604)	(10,376,389)	[11]
Fixed asset additions	(33,693,000)	(16,499,642)	17,193,358	[12]
Interest cost capitalized during construction, net of interest earnings	(1,352,000)	(883,202)	468,798	
Payment of marketing costs	(135,000)	-	135,000	
Increase in assets limited as to use	(65,955,958)	(79,014,990)	(13,059,032)	[13]
Net cash used in investing activities	(95,964,173)	(101,602,438)	(5,638,265)	
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from entrance fees and deposits, net	8,817,700	5,795,301	(3,022,399)	[14]
Proceeds from Issuance of Series 2018 Bonds	73,395,000	90,670,373	17,275,373	[13]
Proceeds from 2017 and 2018 Bank Loans	14,986,000	5,854,041	(9,131,959)	[15]
Repayments of long-term debt	(445,000)	(445,000)	-	
Debt issuance costs	(1,605,000)	(1,704,610)	(99,610)	
Net cash provided by financing activities	95,148,700	100,170,105	5,021,405	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,228,122	(301,271)	(1,529,393)	[16]
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	\$ 1,271,878	\$ 1,271,877	\$ (1)	
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,500,000	\$ 970,606	\$ (1,529,394)	[16]
Supplementary Disclosure: Interest paid during year	\$ 3,012,963	\$ 2,891,363	\$ (121,600)	

[2,3,6,8] Net cash provided by operating activities – Differences related to variances discussed above regarding Change in Net Deficit, Depreciation, and unbudgeted Realized and unrealized gains on investments. [9] The increase in other current assets of \$1,008,746 (as compared to a forecasted decrease of \$150,000), related to two items not included in the prior year forecast. First, a new line item on the financial statements (not included in the forecast) for Pledges Receivable totaling \$530,016 as a result of the start of a capital campaign undertaken by Southminster. Second, Other current assets also increased due to higher receivables related to interest income on the 2018 Construction Fund, and sales tax receivable due to capital purchases for the expansion.

[10] The projected increase in current liabilities included significant increases in accrued interest, however for purposes of actual 2018 results, those increases related to bond issuance and capital expansion were netted within Property & Equipment purchases in Investing Activities on the Statement of Cash Flows. [11] The prior year projection anticipated the need to liquidate significant investments for capital purchases and debt service related to the expansion. Instead, the Series 2018 bond transaction was sized to reimburse Southminster for \$6.5 million in previous capital spending related to the expansion. As such, almost \$5 million of short-term investments were purchased prior to the end of 2018, as compared to the liquidation of over \$5 million that was forecast. [12] Cash outflow related to fixed asset purchases were \$17 million lower than projected, due to lower spending related to recurring capital as well as a slower start for capital spending related to the second round of Terraces and the health center replacement projections. In the non-expansion related capital budget in the projection, Southminster anticipated \$5 million each year in continued work on the conversion of the HVAC system in its original

buildings from two-pipe to four-pipe. While work continues on this system, spending was lower than projected. There was also \$4 million in purchases of Property & Equipment that was in retainage payable and accounts payable at yearend that was not anticipated in the projection. [13] The increase in assets limited as to use of \$79 million as compared to the \$66 million projection was due to the larger sizing of the 2018 Bond transaction (in order to reimburse Southminster for previous spending) to \$86.2 million, favorable interest rate (market) conditions at issuance, and the resulting Series 2018 bonds being issued at a premium of approximately \$4 million.

[14] The \$3 million in lower entrance fee proceeds is a result of \$2.6 million in refunds paid out during the fiscal year, as compared to \$1.5 million forecast. The projection also anticipated receipts of Terraces deposits of \$3.3 million whereas actual receipts totaled \$2.9 million during 2018. [15] Because of the sizing of the bond transaction and timing of project cash flows, Southminster only had to draw \$5,854,041 as compared to the \$15 million projected to be drawn on its bank loans. As it relates to the overall expansion project, the health center replacement is funding entirely by the Series 2018 Bonds, while the two phases of Terraces independent living apartments are financed by a combination of the Series 2018 Bonds and 2017 and 2018 Bank Loans.

[16] In total, Southminster's cash balance was decreased \$301,271 as compared to the forecasted increase of \$1.2 million as a result of the Series 2018 bond proceeds increasing Assets Limited as to Use and used to purchase Short-term Investments. This brought the cash balance to \$970,606 as compared to a projected \$2.5 million.

Balance Sheet:

	PY PROJECTION	ACTUAL		
	2018	2018	VARIANCE	
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 2,500,000	\$ 970,606	\$ (1,529,394)	[16]
Short-term Investments	-	4,973,038	4,973,038	[17]
Accounts Receivable, Net	256,988	369,660	112,672	
Other Current Assets	800,639	1,255,899	455,260	
Total Current Assets	3,557,627	7,569,203	4,011,576	[18]
ASSETS LIMITED AS TO USE				
Bond Fund, current	1,967,588	3,144,621	1,177,033	[19]
Expansion deposits	3,283,000	-	(3,283,000)	[20]
Debt Service Reserve Funds	8,846,767	9,046,637	199,870	
Funded Interest	5,741,000	-	(5,741,000)	[21]
Project Fund	52,545,000	72,937,294	20,392,294	[22]
Southminster Community Fund	50,000	50,000	-	
Operating Reserve Fund Required Under North Carolina Statutes	5,197,808	5,511,644	313,836	
Total Assets Limited As To Use	77,631,163	90,690,196	13,059,033	[23]
PROPERTY AND EQUIPMENT				
	172,309,781	152,499,483	(19,810,298)	[25]
Less Accumulated Depreciation	(76,106,832)	(67,611,662)	8,495,170	[24]
Net Property and Equipment	96,202,949	84,887,821	(11,315,128)	
PLEDGES RECEIVABLE, NET				
	-	451,349	451,349	
LONG-TERM INVESTMENTS				
	16,983,655	23,625,185	6,641,530	[26]
DEFERRED MARKETING AND OTHER COSTS				
	382,769	476,577	93,808	
TOTAL ASSETS	\$ 194,758,163	\$ 207,700,331	\$ 12,942,168	[27]
	PY PROJECTION	ACTUAL		
	2018	2018	VARIANCE	
LIABILITIES AND NET DEFICIT				
CURRENT LIABILITIES				
Accounts Payable	\$ 1,311,384	\$ 3,940,389	\$ (2,629,005)	[28]
Retainage Payable	-	1,595,393	(1,595,393)	[29]
Accrued Expenses	911,184	1,141,857	(230,673)	
Accrued Interest	2,758,588	2,295,789	462,799	
Current Portion of Long-Term Debt	555,000	555,000	-	
Total Current Liabilities	5,536,156	9,528,428	(3,992,272)	[30]
LONG-TERM DEBT, NET OF CURRENT PORTION AND ISSUANCE COSTS				
	149,076,658	157,091,721	(8,015,063)	[31]
ADVANCE ENTRANCE FEE DEPOSITS				
	3,989,699	3,595,244	394,455	
DEFERRED REVENUE				
	33,127,309	31,598,065	1,529,244	[32]
REFUNDABLE ENTRANCE FEES				
	17,478,443	17,163,037	315,406	
Total Liabilities	209,208,265	218,976,495	(9,768,230)	[33]
NET ASSETS (DEFICIT):				
Unrestricted	(14,700,102)	(11,826,506)	(2,873,596)	[7]
Temporarily restricted	250,000	550,342	(300,342)	
Total Net Assets (Deficit):	(14,450,102)	(11,276,164)	(3,173,938)	[8]
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 194,758,163	\$ 207,700,331	\$ (12,942,168)	

[17] As noted above, Southminster reimbursed itself \$6.5 million out of the Series 2018 bond proceeds (which was not contemplated in the prior year forecast) and as a result of that, was able to purchase almost \$5 million in short-term investments prior to the end of fiscal year 2018. Those investments are expected to be liquidated during fiscal year 2019 for use in paying debt service. [18] Total Current Assets was \$4 million higher than forecast, due to amounts for short-term investments and pledges receivable (included in "Other Current Assets") not included in the prior year forecast, plus higher receivables related to interest income on the 2018 Construction Fund, and sales tax receivable due to

capital purchases for the expansion; these were offset by lower than forecast cash and cash equivalents.

Regarding Assets Limited as to Use, the [19] Bond Fund, current is \$1.2 million higher than forecast due to interest amounts paid to the Trustee related to interest on the Series 2018 bonds. [20] Expansion deposits were forecast at \$3.3 million, however, the \$2.7 million in expansion deposits received for the Terraces projects are not required to be segregated/held in escrow. [21] The projection included \$5.7 million of interest payments being included in the bond sizing, however Southminster chose to fund those interest payments out of operations. [22] The final bond sizing resulted in a construction fund balance of \$73 million at fiscal year end, as compared to \$52.5 million projected. This was due primarily to including a portion of the Terraces financing in the bond sizing, rather than financing those strictly out of the bank loans. [23] Those items, along with increases in the Debt Service and Operating Reserves due to increasing expenses and debt service needs, resulted in \$13 million more in Assets Limited as to Use in 2018 as compared to the projection.

[24] During 2018, Southminster disposed of \$7.8 million in fully depreciated Property and Equipment, primarily related to portions of the campus that were demolished in preparation for new construction. This plus \$670,000 less in depreciation expense during 2018 resulted in accumulated depreciation being lower than forecast by \$8.5 million. [25] Gross Property & Equipment was \$20 million less than the projection due to almost \$8 million in disposals plus \$9 million less in expansion spending/accruals and \$2 million less than projected capital spending due to lower spending related to the HVAC system 2-pipe to 4-pipe conversion.

[26] Long-term Investments were \$6.6 million higher than forecast as the forecast assumed sales of \$5 million in investments which was not needed during the fiscal year. That coupled with unrealized and realized gains that were not included in the projection, led to the increased long-term investment balance. [27] Total assets equaled \$207.7 million, \$13 million higher than projected due primarily to higher Assets Limited as to Use balances related to the actual sizing of the 2018 bond issuance.

[28] Accounts payable for fiscal year ended 9/30/18 included \$3 million in capital-related purchases. At 9/30/17 (on which the FY18 projection was based), there was approximately \$200,000 in capital spending included in A/P at period end. [29] Southminster began receiving construction invoices in early 2018 that included retainage payable, which was not contemplated in the prior year projection. [30] Current liabilities were \$4 million higher than forecast due to accruals related to higher capital spending necessary for the capital expansion.

[31] Long-term debt increased due to the sizing of the Series 2018 bond issuance (\$86.2 million plus \$4 million premium) offset somewhat by lower draws on the bank loan than forecast in prior year. [32] Proceeds received from entrance fees during the 2018 fiscal year were approximately \$1.5 million lower than forecast, due in part to unit turnover being used to relocate the remaining residents needed for expansion. [33] Increases in current liabilities as well as increased long-term debt resulted in Total liabilities of \$219 million, \$9.8 million over projected amounts.

ATTACHMENT 4 -

- Residence and Services Agreement



S O U T H M I N S T E R

8919 Park Road – Charlotte, NC 28210

Residence and Services Agreement

I. Introduction

This Residence and Services Agreement (hereinafter called the “Agreement”) is made this day of _____, 20____, by and between Southminster, Inc., a North Carolina non-profit corporation (hereinafter called “Southminster”), and ____ (hereinafter called "Resident", “You”, or “Your”). In the event that more than one person enters into this Agreement together, the terms Resident, You, and Your shall apply to all persons jointly and severally except where the context otherwise requires.

Southminster is a continuing care retirement community and is solely responsible for the financial and contractual obligations of Southminster. The Southminster Foundation, Inc. is an affiliated organization that raises charitable donations for the benefit of Southminster and Southminster’s Residents. The Southminster Foundation, Inc. has no responsibility for the financial or contractual obligations of Southminster. Christ Episcopal Church, 1412 Providence Road, Charlotte, NC 28207 and Myers Park Baptist Church, 1900 Queens Road, Charlotte, NC 28207 are the founding churches of Southminster. The founding churches have no responsibility for the financial or contractual obligations of Southminster.

II. Definitions

- A. Basic Fees. Basic Fees are Your Entrance Fee and Your Service Fees.
- B. Date of Agreement. The Date of Agreement is the date, appearing in the Introduction Section, when You and Southminster execute this agreement provided that You have paid Southminster an Entrance Fee deposit to reserve a Residence for potential occupancy. Southminster does not approve You for residency and is not obligated to provide You with a Residence or services until the Date of Occupancy.
- C. Date of Availability. The Date of Availability is the date when the Residence that You reserved is declared by Southminster, at its sole discretion, to be available for occupancy.

- D. Date of Occupancy. The Date of Occupancy is the mutually agreed upon date when Southminster's obligation to provide You with services as defined in this Agreement begins, when Southminster provides an accommodation for You to occupy as Your Residence, and when Your obligation to pay for services begins.
- E. Date of Termination. The Date of Termination is the date when Southminster is no longer obligated to provide You with services or with an accommodation for Your use as a Residence.
- F. Date of Vacancy. The Date of Vacancy is the date on or after the Date of Termination when the Residence that You last occupied is Vacated. When more than one (1) Resident is a party to this Agreement, this definition applies only when the last party to this Agreement Vacates.
- G. Entrance Fee. The Entrance Fee is a fee paid by the Date of Occupancy. An Entrance Fee has an associated refund plan that You select from options that may be provided to You. Schedule I specifies the Entrance Fee You pay, the Entrance Fee refund plan that You select, and the method for calculating any Entrance Fee refund for which You may be eligible based in that selected refund plan. Additions to the number of parties to this Agreement or certain changes in Residence may result in an additional Entrance Fee amount.
- H. Health Center Credit Day. A Health Center Credit Day is a credit that You can use to offset one (1) day's worth of the Service Fees for an accommodation in the Health Center.
- I. Health Center. The Health Center consists of licensed, and at Southminster's option, unlicensed health care accommodations. At the Date of Agreement, the two (2) licensed levels of care provided by Southminster are Nursing and Adult Care Home as defined, regulated, and licensed by the appropriate governing authorities.
- J. Independent Living. Independent Living consists of accommodations in cottages and apartments. When Your Residence is in Independent Living, there is an expectation that You are able to live independently. Southminster makes available limited health services to Your Residence in Independent Living. Southminster policy specifies the criteria for initial and continued occupancy of a Residence in Independent Living.
- K. Move. A Move is a permanent change in Your Residence.
- L. Rescission Period. The Rescission Period is a period of thirty (30) days following the later of the Date of Agreement or the date You receive a disclosure statement from Southminster that meets the requirements of North Carolina law.
- M. Residence. Residence is the accommodation at Southminster that is Your home. You are entitled to one (1) Residence at any given time, except that when there are multiple parties to this Agreement each may be entitled to separate Residences under circumstances defined in this Agreement. Any of Southminster's different types of accommodations may serve as Your Residence, including those in Independent Living

and in the Health Center. Southminster may restrict the number of people that may occupy a Residence.

- N. Service Fees. Service Fees are periodic fees that You pay beginning with the Date of Occupancy and on an on-going basis until the Date of Vacancy. For different types of accommodations, Service Fees may be monthly fees or daily fees.
- O. Transfer. A Transfer is a temporary stay in an accommodation that is not Your Residence and is at or outside of Southminster.
- P. Vacate. Vacate means to remove all of Your property from the Residence (and associated storage areas) from which You are Moving and to return all Southminster property (including items such as keys, access cards, etc.). If there is not another party to this Agreement that is still a Resident, Your property must be removed from Southminster property.

III. Additional Terms Applicable until the Date of Occupancy

- A. Final Admission Decision. The final decision to approve You for admission is made solely by Southminster by the Date of Occupancy. At all times before the Date of Occupancy, You agree to provide or arrange for others to provide Southminster with requested health and financial information as required by Southminster for the admission process, and to immediately notify Southminster of changes in Your health or financial circumstances that may affect the admissions decision. You may be required to interview with Southminster health staff, or to obtain, at Your expense, physical and mental examinations and tests as required by Southminster for the admissions process. Southminster reserves the right, as allowed by law, to accept or reject any person for residency up until the Date of Occupancy. If Southminster denies You admission, or if changes in Your health preclude You from taking occupancy, Sections IX.B. and X.B.a. define the process to cancel this Agreement and the refunds due to You. If You submit false or misleading information as part of the admission process, Southminster may terminate this Agreement in accordance with Section IX.E.
- B. Entrance Fee Deposit. By the Date of Agreement You will have paid a deposit equal to ten percent (10%) of the Entrance Fee for the Residence that You have reserved and selected the Entrance Fee refund plan as described in Schedule I. Your Entrance Fee deposit fixes Your Entrance Fee for Your reserved Residence at the amount in effect on the day of the deposit. You may change Your reserved Residence or Entrance Fee refund plan up until the Date of Occupancy, but for changes made more than thirty (30) days after the Date of Agreement, the Entrance Fee amount and the 10% deposit amount due may change based on the Entrance Fee rates in effect at the time of Your change. Your Entrance Fee deposit will be credited toward the balance of the Entrance Fee due or returned to You in accordance with Section X. When required by law, Your Entrance Fee deposit will be placed into an escrow account as described in Schedule I.
- C. Service Fees Prior to Occupancy. The Service Fees described in Schedule I are those in effect at the Date of Agreement for Your reserved Residence. Southminster may change

Service Fees with thirty (30) days written notice including during the period between the Date of Agreement and the Date of Occupancy.

- D. Availability and Occupancy of an Independent Living Residence. If Your reserved Residence was previously occupied, You must schedule a Date of Occupancy within sixty (60) days of the Date of Agreement unless an extension is granted in writing by Southminster. If Your reserved Residence has not been previously occupied (for example new construction), Southminster will give You at least forty-five (45) days notice of the Date of Availability and You must schedule a Date of Occupancy that falls within forty-five (45) days after the Date of Availability, unless an extension is granted in writing by Southminster. The Date of Occupancy cannot occur until You have been approved for residency by Southminster. If You do not schedule the Date of Occupancy or obtain an extension as stated in this paragraph, the Entrance Fee amount and the 10% deposit amount due may change based on the Entrance Fee rates in effect at the final Date of Occupancy, or Southminster may terminate this Agreement in accordance with Section IX.E. By the Date of Occupancy You must pay the remaining balance of the Entrance Fee and the first Service Fees due in advance for Your reserved Residence. **You are not required to have a Date of Occupancy that falls within the Rescission Period.** The Date of Occupancy will appear on Schedule I.
- E. Availability of Your Reserved Residence. If actions or events subsequently cause Southminster to notify You that the Residence that You reserved will not be available for occupancy, You will have thirty (30) days to reserve another Residence based on the same priority for reservation used in Your initial reservation, or to cancel this Agreement in accordance with Section IX.B. These are Your only remedies. You are not entitled to, and hereby waive, any right of specific enforcement to require Southminster to make available Your reserved Residence. Southminster will endeavor to make available the Residence that You reserved, but cannot guarantee delivery of that Residence or be held responsible for failure to deliver that Residence or campus renovations or expansions. Without limiting the foregoing, Southminster is not responsible for any delays in the delivery of a Residence resulting from causes beyond the control of Southminster, including changes and/or upgrades to the Residence made by You, Acts of God, natural disasters, fire, labor disputes or other force majeure occurrences. You will be kept informed of progress on Your reserved Residence.

IV. Residence

- A. Your Initial Residence. The number and a description of Your initial Residence is in Schedule I of this Agreement. An optional Schedule II describes options, upgrades, or other non-standard items that You have chosen, changes made by previous occupants that You have chosen to keep, along with additional conditions, charges, and terms for payment associated with those items.
- B. Continuum. Southminster provides a variety of accommodations for Your Residence, including some accommodations designed to provide for additional support and services if and when required by changes in Your health or capabilities. You understand that Your Residence may change during the time You live at Southminster in accordance with the

terms of this Agreement. By executing this Agreement, You agree to abide by Southminster's policy regarding criteria for remaining in a Residence in Independent Living or in accommodations in the different levels of care in the Health Center.

- C. Modification of Your Residence by Southminster. Southminster has the right to modify Your Residence to meet applicable law or regulation, for reasons of health or safety, for maintenance or repair, to prevent damage or deterioration, to maintain it in marketable condition, or for other reasonable purposes.
- D. Modification of Your Residence by You. Southminster must approve, in advance, any structural or physical change to Your Residence or to the surfaces, fixtures or equipment provided by Southminster. You are responsible for the costs of any such change. Unless Southminster chooses to keep the changes, You or Your estate are liable for the subsequent cost to return the Residence to its original condition. Southminster will own and retain title to such changes, but is not responsible for the cost of maintenance of such changes. The value of changes is not a factor in determining any Entrance Fee refund due.
- E. Right of Entry. You authorize employees or agents of Southminster to enter Your Residence or storage areas for the purposes of services, repairs, maintenance, renovation, inspection, security, emergency drills, in the event of an emergency, to check compliance with this Agreement or with Southminster policy, and for other reasonable purposes. Southminster will always endeavor to maintain Your privacy and the privacy of the Residence.
- F. Vacating Your Residence. If You terminate this Agreement or Move from a Residence, and that Residence does not continue to be the Residence of another party to this Agreement, You must Vacate that Residence within the time allowed by Southminster policy. Your Date of Termination and Date of Vacancy must be the same except in the event of Your death in which case Southminster policy defines the time available to Vacate the Residence. If You have not Vacated within the time allowed, Southminster may charge extra fees, or may remove and either dispose of, or store, Your personal belongings at the expense of You or Your estate. Section VI.I. describes Your obligation for Service Fees as You Vacate.
- G. Condition of Vacated Residence. Upon Vacating Your Residence, You shall leave it in good condition. Except for normal wear and tear, You or Your estate shall be liable to Southminster for costs required to restore the Residence to good condition or to standard condition.

V. Common Areas and Amenities, Programs and Services

- A. Common Areas and Amenities. Southminster will provide common areas and amenities for Your use and benefit. Common areas include at a minimum, dining rooms, multi-purpose rooms, spaces and facilities for activities, lounges, a chapel, a library, an equipped exercise room, and facilities for beautician services. Southminster may also provide facilities for limited banking services, facilities for the sale of sundry items, and

other amenity areas dependent on Southminster's determination of demand or the availability of providers.

- B. Utilities, Communications, and Alarm Systems. Your Basic Fees include water, sewer, one telephone line (including local telephone service as provided through Southminster), trash removal, basic cable television service (or equivalent), access to premium cable television service (or equivalent), an urgent call system, a fire alarm system, and a carbon monoxide detector (where required). Electricity is included in Your Basic Fees except for in cottages where it is an additional cost. Gas is available in all cottages and is an additional cost. Gas may be available in some other Residences but may be an additional cost. You are responsible for the cost of long-distance telephone service and calls and for premium cable television service. Additional telephone lines may be available for additional cost. You may arrange internet services through an internet provider at Your cost.
- C. Meals. If Your Residence is in Independent Living, Your Basic Fees each month include a number of meals equivalent to one (1) dinner for each day in the month, usable anytime within the month in a Southminster dining room. If Your Residence is in the Health Center, Your Basic Fees include three (3) meals per day. Other meals, meals for guests, and catering are available at an additional cost. Special diets as prescribed by Your physician are provided in Basic Fees when You are in the Health Center. Limited special diets may be available for You if Your Residence is in Independent Living and may be at an additional cost. Limited tray service will be provided when it is determined by Southminster health staff to be appropriate and may be at an additional cost.
- D. Housekeeping and Laundry Services. Your Basic Fees include housekeeping services on at least a weekly basis. Housekeeping includes at a minimum vacuuming, dusting, cleaning of baths and kitchens, changing of bed linens, and trash removal. Other housekeeping services may be available at an additional cost. If Your Residence is in Independent Living, Your Basic Fees include weekly laundering of personal linens as defined in Southminster policy. If Your Residence is in the Health Center, Your Basic Fees include bed and bath linen provided by Southminster. Some Residences are equipped with a washer and dryer. Southminster provides washers and dryers in common areas at no additional cost to You if You do not have a washer and dryer in Your Residence. If Southminster determines that safety, sanitation, or health issues arise in Your Residence because of Your actions or inactions, You agree that Southminster will provide, at Your expense, whatever additional housekeeping or laundry services Southminster determines are necessary to mitigate the issues.
- E. Groundskeeping. Your Basic Fees include basic groundskeeping services including lawn, tree, and shrubbery care for those items that are provided by Southminster. Southminster at its sole discretion may make changes to lawns, trees, shrubs, or any other landscaping on its property. You may plant items approved by Southminster in areas determined by Southminster, but You are responsible to maintain those areas and plants at Your expense.

- F. Maintenance and Repairs. Your Basic Fees include the maintenance, repair, and replacement of property, furnishings, and equipment owned or leased by Southminster. Other maintenance services may be available at an additional cost.
- G. Staffing. Southminster will have staff present at Southminster twenty-four hours per day, every day of the year.
- H. Transportation. Your Basic Fees include scheduled local transportation for You for shopping trips, medical appointments, and occasional activities and events. Transportation for special, personal, or group trips may be available and may be at an additional cost.
- I. Parking. Your Basic Fees include one (1) parking space for each Residence provided that You or another party to this Agreement who shares the Residence owns a licensed personal vehicle and has a valid driver's license. Covered or enclosed parking spaces may be subject to additional charges. Southminster policy governs registration requirements, space assignment and use, allowed vehicles, and other terms for parking.
- J. Life Enrichment. Various social, recreational, spiritual, educational and cultural programs and activities will be provided by Southminster for You to enjoy at Your option. Some of these programs may require an additional charge.
- K. Health Center. As part of Your Base Fees when You occupy an accommodation in the Health Center, Southminster will provide facilities, equipment, staff, and services that are required to maintain current licenses, and will provide services permitted and typically provided for each licensed level of health care. At a minimum, the following services are provided as part of Your Basic Fees when you are staying in an accommodation in the Health Center:
 - a. Medical Director. Southminster will retain a licensed physician as Medical Director to consult on the medical aspects of the licensed levels of care.
 - b. Nursing Staff. Licensed and/or Registered Nurses will be available twenty-four (24) hours per day.
 - c. Other Services. Other services include diet planning by a registered and licensed dietitian, assisted bathing facilities, goal-oriented care planning, social services, and planned activities.
- L. Other Health Services Not Included in Basic Fees. Additional health services not included in Your Basic Fees may include, but are not limited to: physician services; dental work; physical, occupational, and speech therapy; rehabilitative treatments and equipment; ambulance services; outpatient nursing services; pharmacy services and medicines; laboratory services; durable medical equipment; food supplements; personal care and incontinence supplies or other health related items; and nursing, care planning, case management, or personal care services for Residents in Independent Living or above what is required for each licensed level of health care in the Health Center. Some services may be available exclusively only for Residents in the Health Center or only for Residents in Independent Living. These additional services are subject to additional

charges by Southminster or by third-parties that provide the services on Your or on Southminster's behalf.

VI. Financial Arrangements

- A. Entrance Fee. By the Date of Occupancy You agree to pay Southminster the remaining balance of the Entrance Fee for Your Residence as set forth in Schedule I. Entrance Fee deposits and reservation or waiting list deposits not previously credited or paid to You will be credited toward the balance of the Entrance Fee due. Your Entrance Fee may be subject to refund (see Section X).
- B. Service Fees. You agree to pay Service Fees on an on-going basis for a period beginning with Your Date of Occupancy and ending with Your Date of Vacancy except as described in this Agreement or in Southminster policy. Service Fees are to be paid in advance and will be pro-rated for partial months. If there is more than one party to this Agreement, the first or single person rate applies to one (1) of You when You share the same Residence, and to each of You if You each have different Residences.
- C. Additional Fees and Charges. There may be additional fees and charges for services that are not included in the Basic Fees. The means for billing or payment of these additional fees and charges will be decided by Southminster. When services are provided by third parties, You may be responsible for payment arrangements directly with those parties.
- D. Adjustments in Fees and Charges. Southminster may change the Service Fees or any other fees or charges at any time with thirty (30) days advance notice to You. It is anticipated that Service Fees will be adjusted at least annually to coincide with the start of Southminster's fiscal year.
- E. Billing and Payment Terms. Southminster will furnish You with a monthly statement showing Service Fees and additional fees or charges for the current or previous periods. The total amount due is payable within ten (10) days of the monthly statement date. Southminster may charge interest at a rate not to exceed the maximum allowed by law on any unpaid balance owed thirty (30) days from the monthly statement date. Southminster may terminate this Agreement if You have a past due amount in excess of sixty (60) days. You shall be responsible for the payment of attorney's fees and all other costs incurred by Southminster relative to the collection of any amounts past due. Termination of this Agreement does not end the obligation of You or Your estate to pay all amounts due, no matter when incurred.
- F. Health Center Credit Days. At the Date of Occupancy, each Resident whose Residence is in Independent Living is granted fourteen (14) Health Center Credit Days. At each subsequent anniversary of the Date of Occupancy, unused Health Center Credit Days for each Resident may be carried forward and, for each Resident whose Residence is in Independent Living, up to fourteen (14) new days granted, provided that the total accumulated for each Resident never exceeds forty-four (44) days. Health Center Credit Days are non-transferable, must be used only as defined in this Agreement and in

Southminster policy, and have no value if not used. No new Health Care Credit Days are granted after You Move to the Health Center.

- G. Use of Health Center Credit Days in the Health Center. Unless otherwise specified by Southminster policy, for each day You occupy or hold an accommodation in the Health Center, whether or not that accommodation is Your Residence, You must use a Health Center Credit Day until all such accumulated days are used. When You use a Health Center Credit Day, one day's worth of the Service Fee for an accommodation in the Health Center is waived but You will be charged for the additional two (2) meals per day provided in the Health Center and for other items that are not included in Your Base Fees. While You use Health Center Credit Days, Your Service Fees continue based on the Independent Living Residence from which You Moved or Transferred.
- H. Stays in a Health Center Accommodation without Health Center Credit Days. For each day that You occupy an accommodation in the Health Center without the use of a Health Center Credit Day, whether or not the accommodation is Your Residence, You will be charged the Service Fees for the Health Center accommodation.
- I. Continuation of Service Fees. Except as described in this Agreement or by Southminster policy, You are obligated to continue to pay Service Fees for Your Residence (including a Residence in the Health Center) until the Residence has been Vacated or while You are away from the Residence for any reason including a temporary stay in a different accommodation at or outside of Southminster.

VII. Terms of Residency

- A. Rights of Occupancy and Use. Subject to the terms and provisions of this Agreement, You have the right to occupy, use, and enjoy a Residence, common areas, amenities, programs and services of Southminster as defined in this Agreement from the Date of Occupancy until the Date of Termination.
- B. Damage. You are responsible for any damage to Southminster's owned or controlled property, including the cost of repair, replacement, or diminution of value that occurs as a result of Your negligence, abuse, or misuse or that of Your guest, employee, contractor or volunteer.
- C. Inappropriate Use. You may not engage in illegal activity while on or in Southminster owned or leased property, including in Your Residence, nor may that property be used in any manner in violation of any law or regulation. Your Residence may not be used for commercial purposes unless approved in writing by Southminster.
- D. Policies. You agree to abide by Southminster policies and procedures, including amendments, modifications and changes as may be adopted by Southminster. Such policies and procedures shall be made readily available to You.
- E. Access to Southminster. Southminster has the right to deny access to, or limit the use of its premises and property by any party but may not deny You access to Your Residence

or to common areas except in emergencies, for health or safety reasons, or as provided for in this Agreement.

- F. Transfer of Property. You agree not to make any gift or other transfer of property for the purpose of evading Your obligations under this Agreement, or if such gift or transfer would render You unable to meet such obligations. Such action could render You ineligible for potential financial assistance from Southminster.
- G. Representations Made by You. You affirm that representations and information that You provided for consideration for admission to Southminster, including health and financial information and including all additional information provided up to the Date of Occupancy, are accurate and reflect Your current status and, as such, are the basis for this Agreement.
- H. Financial and Health Information. While this Agreement is in effect and at Southminster's request, You agree to provide updates of the personal health and financial information that You originally provided to Southminster as part of the admission process. Except as prohibited by law, You agree to keep Southminster informed of health changes that affect Southminster's ability to meet its obligations to You, including authorizing access by appropriate Southminster staff or providers to records for health services that You receive away from Southminster.
- I. Visitors. Your visitors may stay for short periods in Your Residence or in other Southminster accommodations that may be provided. No person other than You may reside in Your Residence without the written approval of Southminster.
- J. Non-Southminster Service Providers. Should you choose to engage, on a paid or un-paid basis, the services of any party other than Southminster or its agents for services provided at Southminster, You agree to abide by Southminster policies and procedures for use of such providers. Southminster reserves the right to limit or prohibit access to its property by a provider or providers or to limit the use of providers. You agree to be responsible for the provider and the actions of the provider while engaged by You and to indemnify and hold harmless Southminster for any actions of such providers. Such providers are not considered Visitors as described in Section VII.I.
- K. Loss of Property. Southminster shall not be responsible for the loss of, or damage to any property belonging to You due to theft, mysterious disappearance, fire or any other cause.
- L. Insurance. You agree to furnish Southminster with evidence of required insurance coverage when requested. Any liability insurance that You carry should insure Your performance of the indemnity provisions of this Agreement. If You undertake activities that Southminster determines may create risk for Southminster, its employees and agents, other Residents, or visitors, Southminster may require that You carry other or additional insurance related to that risk. From the Date of Occupancy:
 - a. You agree to maintain Medicare Part A, Medicare Part B, and one supplemental health insurance policy or equivalent insurance coverage acceptable to

Southminster and to assign rights to proceeds to Southminster for services provided by Southminster;

- b. You agree to maintain insurance on vehicles that You park or drive at Southminster with coverage at least equal to the minimum required by law;
 - c. You agree to maintain an insurance policy that provides You with liability and personal property insurance with coverage at least equal to the minimum recommended in Southminster policy. You are strongly encouraged to carefully consider Your circumstances in deciding if limits higher than the minimum required by Southminster are appropriate.
- M. Will, Power of Attorney, and Health Care Power of Attorney. You agree, prior to the Date of Occupancy, to have executed a will naming an executor and a general power of attorney designating a competent person as attorney-in-fact. You are strongly encouraged to execute a healthcare power of attorney, and, if so desired, a living will. You agree to provide Southminster with copies of general and health care power of attorney documents, any living will, any other advance directives, and the location of Your will, prior to the Date of Occupancy. Except for Your will, You agree to provide Southminster with copies when these documents are changed.
- N. Inability to Manage Your Affairs. You agree that if you become incapable of governing yourself and managing your affairs and you have no legally recognized representative that can act on Your behalf, Southminster will have an interest in the matter which will entitle Southminster to institute legal action for the determination of Your competency and for the appointment of a legal guardian.
- O. Personal Physician. You agree to designate a licensed physician as Your personal physician. You are responsible for the cost of physician services.

VIII. Moves, Transfers, and Marriage after Occupancy

- A. General. Moves or Transfers within Southminster may occur with Southminster approval and are subject to the availability of the desired accommodation. A Move may involve the payment of an additional Entrance Fee amount and other fees as described in Southminster policy. You are responsible for Move costs and arrangements except as specified in Southminster policy or as agreed to in writing by Southminster. Southminster may prioritize Moves and Transfers at its sole discretion.
- B. Moves or Transfers to or within the Health Center. As a continuing care retirement community, Southminster provides multiple levels of care and Residence options. Each of these is designed to serve various needs that You may have as a Resident. Should You have needs that require or are best met by an accommodation in the Health Center, or by a change to a different accommodation there, You agree to Move or Transfer as recommended by Southminster. Southminster will consult to the extent possible with You, Your designated representative, Your physician, Southminster health care professionals, and representatives of Your family when appropriate in assessing the

appropriate accommodation. You agree that Southminster retains the right to make a final determination of the need to recommend that You Move or Transfer, and You agree to voluntarily comply with that recommendation as one of the conditions of being a Resident of Southminster.

- C. Move or Transfer to an Outside Organization. Southminster is not designed or licensed to care for persons who have certain conditions, including but not limited to certain psychiatric conditions or mental illnesses, certain acute medical conditions, and certain contagious or dangerous diseases. If You or Southminster determines that You need care beyond that provided by Southminster, or that Your continuing presence at Southminster is detrimental to the health or peace of You or of others at Southminster, You agree to voluntarily Move or Transfer to an outside organization capable of providing such care as one of the conditions of being a Resident of Southminster. Except in an emergency, Southminster will consult to the extent possible with You, Your designated representative, Your physician, Southminster health care professionals, and representatives of Your family when appropriate in assessing the appropriate accommodation. You agree to pay the expense of such a Move or Transfer and for all care subsequently provided by the other organization. This Agreement will be terminated by You or by Southminster in accordance with Section IX if the outside Move or Transfer becomes permanent.
- D. Temporary Displacement from Your Residence. If Southminster decides that Your Residence must be temporarily unoccupied for more than one (1) day for an emergency, to meet a law or regulation, for reasons of health or safety, for inspection, for purposes of modifications or repairs, or for some other reasonable purpose, You agree to Transfer to a temporary accommodation arranged by Southminster. Your Service Fees will continue but the costs of Transfer and of the temporary accommodation will be paid by Southminster unless the reason for the Transfer was caused by actions or inactions by You, Your guests, or Your non-Southminster service providers.
- E. Move to Accommodate Changes by Southminster. You agree to Move to a different Residence if changes implemented by Southminster will eliminate or significantly change Your Residence. Such a Move would only be required when deemed necessary by Southminster for the welfare of current or future Residents or for the continued successful operation of Southminster. You will be given at least thirty (30) days notice. All costs for Your Move will be paid by Southminster. Southminster will endeavor to provide You with a similar Residence whenever possible. Improvements that You made to the Residence that You are Vacating will be reimbursed by Southminster based on fair market value or, at Southminster's option and expense, relocated or replicated in Your new Residence.
- F. Marriage or Addition of Another Party after Date of Occupancy. Should You marry a person who is also a Resident of Southminster, the two of You may occupy either Residence or both Residences. Should You marry a person who is not a Resident or wish to add an additional party to this Agreement, Your spouse or the additional person may become a Resident if he or she meets all the requirements for admission, enters into a Residence and Services Agreement with Southminster, and pays the Entrance Fee and

Service Fees as defined in this Agreement. If Your spouse or the additional person does not meet the requirements of Southminster for admission as a Resident, You may terminate this Agreement in accordance with Section IX.C. or IX.D. (whichever is appropriate), or Your spouse or the additional person may be approved for admission under special circumstances and with negotiated fees as agreed to in writing by all parties to this Agreement.

IX. Rescission, Cancellation, and Termination

- A. Rescission. (See the definition of Rescission Period at II.L. on page 2.) You may rescind this Agreement during the Rescission Period. (See Section X.B.a. for refund terms.) You are not required to have a Date of Occupancy that falls within the Rescission Period.
- B. Cancellation. If, prior to the Date of Occupancy, Southminster denies You admission, or You die, or if, on account of illness, injury, or incapacity You are precluded from occupying a Residence at Southminster, this Agreement is automatically cancelled. You agree to provide evidence of changes in Your condition and Southminster will determine if the changes preclude You from occupancy. If more than one of You is a party to this Agreement, and the changes listed above that preclude occupancy affect only one of You, the Agreement can continue or be cancelled at the option of the other party or parties as expressed in writing to Southminster. If Southminster notifies You that Your reserved Residence will not be available for occupancy, You may reserve another Residence in accordance with Section III.E. or cancel this Agreement in accordance with the terms of this paragraph. (See Section X.B.a. for refund terms.)
- C. Termination by You Before the Date of Occupancy. After the Rescission Period and before Your Date of Occupancy, You may terminate this Agreement for reasons other than those defined in Section IX.B. above with thirty (30) days written notice. (See Section X.B.b. for refund terms.)
- D. Termination by You After the Date of Occupancy. After the later of the Rescission Period or the Date of Occupancy, You may terminate this Agreement by giving Southminster thirty (30) days written notice of such termination. In the event of the death of the last surviving Resident that is a party to this contract, this Agreement shall terminate immediately. (See Section X.B.c. for refund terms.)
- E. Termination by Southminster. Southminster may terminate this Agreement at any time if there is a determination by Southminster that there is just cause. Just cause may include, among other reasons, any material misrepresentation or omission made by You in the materials that You submitted as part of the admissions or financial assistance process; Your failure to make timely payments in accordance with Section VI; Your failure to abide by Southminster policies; the breach of any of the terms and conditions of this Agreement; Your refusal to voluntarily make a Move or Transfer that is deemed necessary and recommended in accordance with this Agreement; Your permanent Move or Transfer to an outside organization; or a good faith determination made by Southminster that You are a danger to Yourself or to others. Southminster will provide You with thirty (30) days notice of termination unless You are determined to be a danger

to Yourself or others in which case termination may be effective immediately. (See Section X.B.b. or Section X.B.c. for refund terms.). Denial of admission by Southminster prior to the Date of Occupancy is considered a cancellation rather than a termination and is described in Section IX.B.

X. Refund of the Entrance Fee

- A. General. Schedule I identifies the Entrance Fee that You paid, the Entrance Fee refund plan that You selected, and the basis for calculating the amount of the Entrance Fee that may be refundable to You. Any Entrance Fee refund for which You may be eligible is not made until the last surviving Resident that is a party to this Agreement has a Date of Vacancy and all other terms of this Agreement have been met. For purposes of calculating any refund of Your Entrance Fee, additional Entrance Fees paid under this Agreement after the Date of Occupancy (for certain Moves or for adding additional parties to the Agreement) are added together and treated as if paid at the first Date of Occupancy. Your refund will be paid to Your estate unless You arranged otherwise in writing with Southminster.
- B. Entrance Fee Refund by Type of Termination. This section describes Entrance Fee refunds, by type of terminations as described in Section IX.
- a. Rescission or Cancellation. If there is a rescission or cancellation as described in Sections IX.A and IX.B, the refund is 100% of all portions of the Entrance Fee that You have paid, less applicable non-standard costs described in Schedule II. Depending on the type of termination, any refund due will be paid within thirty (30) days of the end of the Rescission Period or from the date of cancellation.
 - b. Termination Before the Date of Occupancy. If, before the Date of Occupancy, You or Southminster terminate this Agreement as described in Sections IX.C. or IX.E., the refund is 100% of all portions of the Entrance Fee that You have paid, less non-refundable fees specified in Schedule I, less applicable non-standard costs described in Schedule II, less any other amounts owed under the terms of this Agreement. Any refund due will be paid within thirty (30) days from the date of termination.
 - c. Termination After the Date of Occupancy. If, after the Date of Occupancy, You or Southminster terminate this Agreement as described in Sections IX.D. or IX.E., the refund is the refundable portion of Your Entrance Fee as described in Schedule I, less applicable non-standard costs described in Schedule II, less any other amounts owed under the terms of this Agreement. Any refund due will be paid within thirty (30) days of the date of receipt by Southminster of an Entrance Fee received in full by Southminster from the next Resident that occupies the Independent Living Residence being Vacated as a result of Your termination.

XI. Financial Assistance

As long as Southminster remains classified as a non-profit charitable organization under Federal law and regulation, Southminster will endeavor to avoid termination of this

Agreement solely because You are financially unable to pay Southminster's fees. The decision to deny or grant financial assistance is at the sole discretion of Southminster. Southminster will provide financial assistance only if it can do so without impairing its ability to operate on a sound financial basis.

You agree that to be eligible for consideration for financial assistance, You will provide all information that Southminster decides is necessary to assess Your eligibility for financial assistance, and You will, when so requested by Southminster, obtain any other form of financial assistance that might be available to You including family assistance or government subsidy programs. You agree to notify Southminster immediately if you become aware that You might reasonably expect to need financial assistance and to work cooperatively with Southminster to make reasonable changes that might help delay or minimize any eventual financial assistance need.

If You receive financial assistance from or arranged through Southminster, You agree to comply with reasonable conditions which may include a Move to a different Residence. You agree that Southminster will deduct from refunds due to You, or may seek to recover from Your estate, any financial assistance that Southminster or any of its' owned, controlled, or affiliated organizations has provided to You.

XII. General

- A. Assignment. Your rights and privileges under this Agreement are personal to You and may not be transferred or assigned by You by any act by You, by legal proceeding, or in any other manner.
- B. Management of Southminster. The absolute rights of management are reserved by Southminster. Southminster reserves the right to accept or reject any person for residency as allowed by law.
- C. Multiple Residents as Parties to this Agreement. When more than one (1) Resident is a party to this Agreement, Date of Availability, Date of Occupancy, Date of Termination, and Date of Vacancy applies to each Resident separately when such dates do not coincide for all the Residents. This Agreement continues in force until the last Resident that is party to this Agreement has a Date of Termination and a Date of Vacancy. All Residents that are parties to this Agreement shall all be equally and fully responsible for the payment of all fees and charges required under this Agreement.
- D. Rights to Property/Subordination. This Agreement does not transfer or grant any interest in the real or personal property owned or administered by Southminster other than the rights and privileges as described in this Agreement. Nothing contained in this Agreement shall be construed to create the relationship of landlord and tenant between Southminster and You. Any rights, privileges, or benefits under this Agreement, including Your right to a full or partial refund (except for escrowed Entrance Fee deposits as described in Section III.B. and Schedule I), shall be subordinate to any existing or subsequent mortgages or deeds of trust on any of the premises or to any other interest in the real property of Southminster and to all amendments, modifications, replacements, or

refinancing of any existing or subsequent mortgages or deeds of trust or to any liens or security interests held by secured creditors of Southminster. This subordination provision means that the claims of secured creditors, in the event of Southminster's bankruptcy or default on its financial obligations, shall be paid before You are entitled to receive any applicable refund. Upon request, You shall execute and deliver any document which may be required by Southminster, or by the holder of any such mortgages or deeds of trust or other encumbrances, to effect or confirm such subordination.

- E. Severability and Forbearance. If any term or provision of this Agreement or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Agreement or the application of such term or provision to persons or circumstances other than those to which it is held invalid or unenforceable shall not be affected thereby, and each term and provision of the Agreement shall be valid and enforceable to the fullest extent permitted by law. No act of forbearance or failure to insist upon prompt performance of any of the terms of this Agreement by Southminster shall be construed as a waiver of rights granted to Southminster, or limit Southminster's ability to enforce all the provisions of this Agreement.
- F. Repair, Construction, or Destruction of Property. Southminster shall not be liable for any damage, compensation or claim by reason of inconvenience or annoyance resulting from the necessity of repairing Southminster buildings or property, from construction at Southminster, or from displacement from property as the result of damage, destruction, construction, or repair.
- G. Third Party Injuries and Claims. You agree to indemnify, defend and hold Southminster harmless from and against any and all claims, demands, liabilities, losses or damages (including attorneys' fees) arising out of any injury to or death of any person or any damage to property occurring within the Southminster retirement community and caused by Your acts or omissions or the acts or omissions of Your invitees, licensees, or guests.
- H. Entire Agreement. All schedules and addenda attached to this Agreement are incorporated herein and made a part hereof by reference. This Agreement, including any schedules and addenda attached hereto, constitutes the entire agreement between Southminster and You and supersedes all prior written or prior contemporaneous oral understandings or agreements between Southminster and You. Southminster shall not be liable or bound in any manner by any statements, representations, or promises made by any person representing or assuming to represent Southminster, unless such statements, representations, or promises are set forth in this Agreement or its Schedules and Addenda.
- I. Amendments and Modifications. This agreement shall not be altered, amended or modified except in writing and duly executed by You and Southminster.
- J. Successors and Assigns. Except as set forth herein, this Agreement shall bind and inure to the benefit of the successors and assigns of Southminster and Your heirs, executors, administrators, guardians, and assigns.

K. Gender. Throughout this Agreement, the use of the masculine or feminine gender shall include either, and the use of the singular shall include the plural.

L. Notice Provisions. Any notices, consents, or other communications to Southminster hereunder (collectively “notices”) shall be in writing and addressed as follows:

President
Southminster, Inc.
8919 Park Road
Charlotte, NC 28210

M. Governing Law. This Agreement shall be governed by the laws of the State of North Carolina.

IN WITNESS WHEREOF the parties have hereunder set their hands and seals as of the day and year first written above.

SOUTHMINSTER, INC.

RESIDENT(S)

By: _____

Title: _____



S O U T H M I N S T E R

A Continuing Care Retirement Community

8919 Park Road – Charlotte, NC 28210

Schedule I of the Residence and Services Agreement

I. Introduction

This Schedule I is a part of the Residence and Services Agreement entered into on this day of _____, 20____, by and between Southminster, Inc., a North Carolina non-profit corporation (hereinafter called "Southminster"), and _____ (hereinafter called "Resident", "You", or "Your").

II. Residence

You have reserved Residence number _____ for occupancy by _____ party (parties). This Residence is the following type:

cottage apartment nursing assisted living assisted living – dementia.

This Residence is or is not constructed as of the Date of Agreement.

This Residence is unfurnished but is provided with standard features selected and provided by Southminster. If You select options, upgrades, or request or accept other non-standard features or if there are features that are provided as an additional charge, those are identified in Schedule II. Following is a description of the reserved Residence:

III. Entrance Fee

- A. Entrance Fee Amount: The Entrance Fee for the Residence that You have reserved, based on the Entrance Fee refund plan that You have selected, is \$_____ for the 1st person and \$_____ for the 2nd person for a total of \$_____.
- B. Entrance Fee Deposit: Your Entrance Fee deposit is \$_____. This is 10% of the total Entrance Fee noted above. This deposit is or is not required by law to be placed into an escrow account.
- C. Entrance Fee Refund Plan: You have selected the _____ Entrance Fee refund plan. Based on the refund plan You selected, the method for calculating any Entrance Fee refund for which You may be eligible in accordance with Section X is described below. Note that when calculating the refundable portion for all plans, a month is defined as a full or partial calendar month including the months of the Date of Occupancy and of the Date of Vacancy and all months are counted from the Date of Occupancy.

Standard Entrance Fee Refund Plan. The refundable portion of the Entrance Fee is the difference between the total Entrance Fee paid less 5% of that sum per month. No refund of the Standard plan Entrance Fee is made after twenty (20) months.

50% Entrance Fee Refund Plan. The refundable portion of the Entrance Fee is the difference between the total Entrance Fee paid less 5% of that sum per month through the earlier of the tenth (10th) month or the Date of Vacancy. After the tenth (10th) month, the refundable portion is 50% of the sum of Entrance Fees paid.

90% Entrance Fee Refund Plan. The refundable portion of the Entrance Fee is the difference between the total Entrance Fee paid less 5% of that sum per month through the earlier of the second (2nd) month or the Date of Vacancy. After the second (2nd) month, the refundable portion is 90% of the sum of Entrance Fees paid.

- D. **Escrow of Entrance Fee Deposit.** If Your Entrance Fee deposit is required to be placed into an escrow account as indicated in this section, You acknowledge receipt of a copy of the escrow agreement between Southminster and the escrow agent and agree to the terms of that escrow agreement. The escrow agreement defines the instruments into which the escrow may be invested to earn interest, and the terms and conditions under which the escrow agent will release Your Entrance Fee deposit to Southminster or to You. Southminster selects and may change the escrow agent.

IV. Service Fee

The Service Fee for the Residence that You have reserved is a **monthly** or **daily** fee. It equals \$ _____ for the 1st person and \$ _____ for the 2nd person for a total of \$ _____ as of Date of Agreement. **NOTE that the Service Fee may change before and after the Date of Occupancy in accordance with Section III and VI of the Agreement. The Service Fee at the Date of Occupancy will be based on the rates in effect at that date.**

V. Date of Occupancy

Your Date of Occupancy is _____. All parties to this Agreement acknowledge this Date of Occupancy by initialing below:

Southminster: _____ Resident: _____ Resident: _____

VI. Non-refundable Fee

If You or Southminster terminate this Agreement as described in Section IX.C. or Section IX.E. of the Agreement, You will owe Southminster a non-refundable fee of \$ _____ in addition to any other obligations defined under the Agreement. As described in Section X of the Agreement, the non-refundable fee, when owed, may be deducted from any refund due to You.



SOUTHMINSTER

8919 Park Road – Charlotte, NC 28210

Schedule II of the Residence and Services Agreement

I. Introduction

This Schedule II is a part of the Residence and Services Agreement entered into on this day of _____, 20____, by and between Southminster, Inc., a North Carolina non-profit corporation (hereinafter called “Southminster”), and _____ (hereinafter called "Resident", “You”, or “Your”). The Residence that You have reserved is #_____.

II. Non-standard Features You Have Requested

You have selected the upgrades, options, or other non-standard features as described and at the prices shown below in this section. Prices and payment term for these items are also described. As described in Section X of the Agreement, You are required to pay for these items even if termination occurs prior to the Date of Occupancy.

[Note: a chart is inserted to list the item, associated price, and payment terms.]

III. Non-standard Features from Previous Occupants

The Residence that You have reserved has the following features that were implemented by a previous Resident:

[Note: a chart is inserted to list the item, associated price, and responsibility for maintenance.]

IN WITNESS WHEREOF the parties have hereunto set their hands and seals as of the _____ day of _____, 20_____.

SOUTHMINSTER, INC.

RESIDENT(S)

By:_____

Title:_____

ATTACHMENT 5 -

- Southminster's Mission Statement



SOUTHMINSTER

Our Vision

Southminster will be a national leader and the community of choice enabling seniors to live their lives to the fullest.

Our Mission

Southminster is a non-profit, charitable community that embraces the individual, fostering a quality of life characterized by choice, independence, well-being, spirituality, dignity, privacy and peace of mind for each person.

Guiding Philosophy

Founded with pride in 1987 by two local churches, Southminster has become the premier non-profit retirement community in the Charlotte region. We serve a vibrant community of residents and others who are living their lives to the fullest. With a respected and highly capable staff, Southminster provides the highest quality healthcare, services, and programming. Recognizing the uniqueness of every person, we are seen as a national leader in care for the aging. We reach out to those in the community and help them throughout the transition of aging. For many, this includes a physical move to Southminster. We continually update our services and residences so that they are the most attractive in the area. We embrace change, diversity and technology, not for our own sake but to improve the lives of our residents and others we serve. We have a strong financial foundation which we are continually improving. Southminster is seen as a leader in giving back to the community through its many partnerships and other charitable activities.

Southminster's Values

Southminster is committed to the following core values:

- 1) **Community:** Southminster residents and others we serve live their lives to the fullest in a collaborative atmosphere of mutual respect, compassion and trust.
- 2) **Excellence:** Our leadership and staff have a professional dedication to excel at everything they do, knowing such efforts will improve the lives of our residents and others we serve.
- 3) **Integrity:** Our community of staff, residents and others we serve strive for the highest levels of ethical behavior, financial responsibility, fair practices and accountability.

4) **Respect for the Individual:** Because every individual is unique, Southminster strives to help each resident and others we serve to maximize their independence and well-being.

5) **Charity and Outreach:** Southminster provides residents peace of mind so that they can continue to live a dignified life should unforeseen circumstances cause them to outlive their assets. Additionally, Southminster is dedicated to making a difference in the broader Charlotte community through its charitable work and donations.

ATTACHMENT 6 -

- Acknowledgment of Receipt of Disclosure Statement

ACKNOWLEDGEMENT OF RECEIPT
OF
DISCLOSURE STATEMENT

Southminster, Inc.
8919 Park Road
Charlotte, NC 28210

Southminster (the "Facility") has delivered a Disclosure Statement to me, a prospective resident, prior to or at the time of executing a Residency Agreement to provide continuing care, or prior to or at the time of the transfer of any money or other property to the facility, whichever occurred first.

As a prospective resident, the facility's representatives have encouraged me to read the Disclosure Statement in its entirety before entering into any contract or written agreement or paying any fee.

I understand the facility, like all other continuing care facilities in the State of North Carolina, is subject to an act concerning registration and disclosure by continuing care facilities (the "Act"). Registration under the act does not constitute approval, recommendation, or endorsement of the facility by the Department of Insurance or the State of North Carolina, nor does such registration evidence the accuracy or completeness of the information in the Disclosure Statement.

I understand this matter involves a financial commitment and associated risk as well as a legally binding contract. In evaluating the Disclosure Statement and the Financial Statements prior to any commitment, I was encouraged to consult with an attorney and/or financial advisor who can review these documents with me, if any matters contained herein are not clear, including an understanding of solvency and deficit fund balance levels for this and other continuing care facilities.

Prospective Resident

Date of Signature

Facility Representative

Date of Signature

ATTACHMENT 7 –

- Interim Financial Statements as of December 31, 2018

SOUTHMINSTER, INC.
INTERIM STATEMENT OF OPERATIONS AND CHANGE IN NET DEFICIT
December 31, 2018

	FIRST QUARTER			YEAR TO DATE		
	ACTUAL	BUDGET	VARIANCE	ACTUAL	BUDGET	VARIANCE
REVENUES, GAINS, AND OTHER SUPPORT						
Independent Living Revenue	\$ 3,116,084	\$ 3,155,186	\$ (39,102)	\$ 3,116,084	\$ 3,155,186	\$ (39,102)
Healthcare Revenue	1,825,181	1,968,893	(143,712)	1,825,181	1,968,893	(143,712)
Other Health Center Revenue	632,493	616,884	15,609	632,493	616,884	15,609
Less Resident Assistance	(130,311)	(161,165)	30,854	(130,311)	(161,165)	30,854
Earned Entrance Fees	1,381,236	1,405,257	(24,021)	1,381,236	1,405,257	(24,021)
Investment Income, net	1,161,558	551,556	610,002	1,161,558	551,556	610,002
Contributions	46,035	83,000	(36,965)	46,035	83,000	(36,965)
Net Assets Released from Restrictions	4,998	-	4,998	4,998	-	4,998
Other Income	257,357	227,660	29,697	257,357	227,660	29,697
Total Revenues, Gains, and Other Support	<u>8,294,631</u>	<u>7,847,271</u>	<u>447,360</u>	<u>8,294,631</u>	<u>7,847,271</u>	<u>447,360</u>
OPERATING EXPENSES						
Salaries, Wages, and Employee Benefits	3,725,686	3,762,025	36,339	3,725,686	3,762,025	36,339
Maintenance, Housekeeping, and Utilities	547,747	527,524	(20,223)	547,747	527,524	(20,223)
Food and Related Supplies	358,573	353,124	(5,449)	358,573	353,124	(5,449)
Insurance	47,584	49,401	1,817	47,584	49,401	1,817
Consulting & Professional Fees	72,742	73,531	789	72,742	73,531	789
Other Operating Expenses	605,655	638,841	33,186	605,655	638,841	33,186
Depreciation	1,447,350	1,468,400	21,050	1,447,350	1,468,400	21,050
Interest Expense	580,704	580,706	2	580,704	580,706	2
Loss on Disposal of Assets	100	10,000	9,900	100	10,000	9,900
Community Benefit	73,811	71,124	(2,687)	73,811	71,124	(2,687)
Total Operating Expenses	<u>7,459,952</u>	<u>7,534,676</u>	<u>74,724</u>	<u>7,459,952</u>	<u>7,534,676</u>	<u>74,724</u>
OPERATING INCOME	<u>834,679</u>	<u>312,595</u>	<u>522,084</u>	<u>834,679</u>	<u>312,595</u>	<u>522,084</u>
Change in Unrealized Losses on Investments	<u>(3,247,068)</u>	<u>-</u>	<u>(3,247,068)</u>	<u>(3,247,068)</u>	<u>-</u>	<u>(3,247,068)</u>
INCREASE IN UNRESTRICTED NET DEFICIT	<u>(2,412,389)</u>	<u>312,595</u>	<u>(2,724,984)</u>	<u>(2,412,389)</u>	<u>312,595</u>	<u>(2,724,984)</u>
Temporarily Restricted Contributions	161,920	23,214	138,706	161,920	23,214	138,706
Net Assets Released from Restrictions	<u>(4,998)</u>	<u>-</u>	<u>(4,998)</u>	<u>(4,998)</u>	<u>-</u>	<u>(4,998)</u>
CHANGE IN NET ASSETS (DEFICIT)	<u>(2,255,467)</u>	<u>335,809</u>	<u>(2,591,276)</u>	<u>(2,255,467)</u>	<u>335,809</u>	<u>(2,591,276)</u>
NET DEFICIT AT BEGINNING OF PERIOD	<u>(11,276,168)</u>	<u>(11,276,168)</u>	<u>-</u>	<u>(11,276,168)</u>	<u>(11,276,168)</u>	<u>-</u>
NET DEFICIT AT END OF PERIOD	<u>\$ (13,531,635)</u>	<u>\$ (10,940,359)</u>	<u>\$ (2,591,276)</u>	<u>\$ (13,531,635)</u>	<u>\$ (10,940,359)</u>	<u>\$ (2,591,276)</u>

SOUTHMINSTER, INC.
INTERIM BALANCE SHEET
December 31, 2018

	2019	2018
Assets		
Current Assets		
Cash & Cash Equivalents	\$ 765,984	\$ 2,182,782
Short-Term Investments	4,000,645	-
Trusteed Cash Assets	2,473,711	845,765
Accounts Receivable-Residents	327,040	277,873
Interest Income Receivable	490,384	14,017
Sales Tax Receivable	310,638	86,175
Accounts Receivable-Other	91,073	79,100
Pledge Receivable	106,150	-
Prepaid Expenses	445,521	533,886
Total Current Assets	9,011,146	4,019,598
Property, Plant, & Equipment, At Cost		
Land and Land Improvements	3,843,367	3,716,755
Buildings	119,101,976	123,771,857
Furniture, Fixtures and Equipment	6,584,837	6,591,320
	129,530,180	134,079,932
Less Accumulated Depreciation	(68,985,659)	(70,143,821)
	60,544,521	63,936,111
Construction in Progress	33,924,534	4,254,163
Net Property, Plant, & Equipment	94,469,055	68,190,274
Other Assets		
Operating Reserve	5,511,644	4,995,361
Southminster Community Fund	50,000	50,000
2018 Construction Fund	69,272,317	-
Debt Service Reserves	9,028,915	4,759,641
Investment Securities, At Market	21,027,423	23,203,773
Deferred Marketing Cost-Expansion	98,600	279,617
Deferred Rent	16,021	26,627
Pledge Receivable	524,366	-
Other Long Term Assets	142,746	185,812
Total Other Assets	105,672,032	33,500,831
Total Assets	\$ 209,152,233	\$ 105,710,703
Liabilities		
Current Liabilities		
Accounts Payable	\$ 2,678,233	\$ 998,836
Retainage Payable	2,510,163	-
Accrued Payroll and Employee Benefits	1,121,737	1,023,133
Accrued Interest Expense	1,805,341	706,361
Current Portion of Long Term Debt	1,970,000	555,000
Total Current Liabilities	10,085,474	3,283,330
Long Term Debt		
Series 2016 Bonds, Plus Unamortized Premium	61,251,922	63,674,109
Series 2018 Bonds, Plus Unamortized Premium	90,592,763	-
2017 Term Bank Loan	6,274,934	28,020
2018 Term Bank Loan	5,000,000	-
Unamortized Bond Issuance Costs	(2,727,092)	(1,114,354)
Total Long Term Debt, Net	160,392,527	62,587,775
Advance Entrance Fee Deposits	4,197,500	2,061,008
Deferred Standard Entrance Fee Revenue	30,913,230	32,779,099
Refundable Entrance Fees	17,095,137	17,732,117
Total Liabilities	222,683,868	118,443,329
Net Assets (Deficit)		
Temporarily Restricted Net Assets	707,264	2,486
Unrestricted Net Assets (Deficit)	(14,238,899)	(12,735,112)
Total Net Assets (Deficit)	(13,531,635)	(12,732,626)
Total Liabilities and Net Assets (Deficit)	\$ 209,152,233	\$ 105,710,703

SOUTHMINSTER, INC.
INTERIM STATEMENT OF CASH FLOWS
December 31, 2018

For the three months ended,
12/31/2018 **12/31/2017**

	12/31/2018	12/31/2017
Cash Flows from Operating Activities		
Change in Total Net Deficit	\$ (2,255,467)	\$ 1,632,418
Adjustments:		
Earned Entrance Fees	(1,381,236)	(1,787,034)
Depreciation	1,447,350	1,518,771
Amortization of Bond Premium	(151,193)	(113,267)
Amortization of Bond Issue Costs	29,126	16,335
Amortization of Deferred Marketing Costs	-	20,043
Loss on Disposal of Assets	100	4,028
Net Unrealized Losses/(Gains) on Investments	3,247,068	(716,648)
Realized (Gains)/Losses on Investments	(56,956)	93,215
 (Increase)/Decrease In:		
Accounts Receivable, Net	42,619	(28,371)
Other Current Assets	483,044	1,086,116
Deferred Assets	146,193	(34,167)
Increase/(Decrease) In:		
Accounts Payable	(46,666)	20,621
Accrued Payroll and Employee Benefits	(20,121)	138,488
Accrued Interest Expense	(709,816)	(715,898)
Net Cash Provided by Operating Activities	774,045	1,134,650
Cash Flows from Investing Activities		
Change of Assets Limited to Use	3,682,699	2,462
Sales (Purchases) of Long-Term Investments	380,043	(424,900)
Purchases of Property and Equipment for Routine Additions	(501,019)	(621,128)
Purchases of Property and Equipment for Expansion Projects	(10,609,020)	(811,060)
Net Cash Used In Investing Activities	(7,047,297)	(1,854,626)
Cash Flows from Financing Activities		
Proceeds from Entrance Fees	1,110,527	1,495,552
Entrance Fees Refunded	(482,025)	(773,554)
Deposits Received, Net of Refunds and Conversions to Entrance Fees	246,185	126,869
Deposits Received on Terraces, Net of Refunds	356,070	1,227,440
Proceeds from 2017 and 2018 Bank Loans	5,392,873	-
Principal Payments on Series 1996 Bonds	(100,000)	-
Principal Payments on Series 2007 Bonds	-	(340,000)
Principal Payments on Series 2016 Bonds	(455,000)	(105,000)
Payment of 2017 Bank Loan Financing Costs	-	(427)
Net Cash Provided by Financing Activities	6,068,630	1,630,880
Net (Decrease) Increase in Cash and Cash Equivalents	(204,622)	910,904
Cash and Cash Equivalents, Beginning of Year	970,606	1,271,878
Cash and Cash Equivalents, End of Year	\$ 765,984	\$ 2,182,782