

**DISCLOSURE STATEMENT  
(Information Booklet)**

**THE CYPRESS  
OF RALEIGH**

**8801 Cypress Lakes Drive  
Raleigh, North Carolina 27615  
(919) 870-9007**

**June 19, 2020**

**THE CYPRESS OF RALEIGH MUST DELIVER A DISCLOSURE STATEMENT TO A PROSPECTIVE MEMBER PRIOR TO OR AT THE TIME A PROSPECTIVE MEMBER EXECUTES A MEMBERSHIP AGREEMENT (RESIDENCY AGREEMENT) TO PROVIDE CONTINUING CARE, OR PRIOR TO OR AT THE TIME A PROSPECTIVE MEMBER TRANSFERS ANY MONEY OR OTHER PROPERTY TO THE CYPRESS OF RALEIGH, WHICHEVER OCCURS FIRST.**

**THE CYPRESS OF RALEIGH, LIKE ALL OTHER CONTINUING CARE FACILITIES IN THE STATE OF NORTH CAROLINA, IS SUBJECT TO AN ARTICLE CONCERNING LICENSURE AND DISCLOSURE BY CONTINUING CARE FACILITIES (THE "ARTICLE"). LICENSURE UNDER THE ARTICLE DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT OF THE CYPRESS OF RALEIGH BY THE DEPARTMENT OF INSURANCE OR THE STATE OF NORTH CAROLINA, NOR DOES SUCH LICENSURE EVIDENCE THE ACCURACY OR COMPLETENESS OF THE INFORMATION IN THIS DISCLOSURE STATEMENT.**

**Unless earlier revised, The Cypress intends for this Disclosure Statement to remain effective for a period of one (1) year and one hundred fifty (150) days after the date hereof through November 16, 2021. The delivery of the Disclosure Statement to a contracting party before the execution of a contract for the provision of continuing care is required by Chapter 58, Article 64 of the North Carolina General Statutes. Note: This Disclosure Statement has not been reviewed or approved by any government agency or representative to ensure accuracy or completeness of the information set out.**

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## INTRODUCTION

The Cypress of Raleigh (“The Cypress”) brings, to those who are sixty-two (62) years of age and older, a style of retirement living known as “continuing care”. This concept offers active retirees a lifestyle which is designed to meet their unique needs while allowing them the freedom to pursue their personal interests. Continuing care communities such as The Cypress encompass these important components: a privately owned condominium Cottage or Villa, a wide array of personal services, and the security of an on-site licensed health care center (the “Health Center” or “The Rosewood”). The services provided to Members encompass meal preparation (personalized for the medical and nutritional needs of the Member), personal safety, socialization, transportation, and monitoring of other activities of daily living, and are part of a coordinated system of care and resources to address both medical and non-medical drivers of health outcomes associated with growing older.

One of the purposes of this Disclosure Statement (Information Booklet) is to explain to prospective Villa and Cottage purchasers and/or Members of The Cypress (sometimes referred to in this Disclosure Statement interchangeably as “Members”), their families, and their advisors who and what is involved in the operation of The Cypress. This Disclosure Statement was prepared on the basis of information available and assumptions which were believed to be realistic as of the publication date. Such information and assumptions are, of course, subject to change and, in particular, could be affected by changes in local and global market conditions, including changes in inflation and interest rates. Because of the possibility of future changes, modifications in the operation of The Cypress may be necessary.

If after reviewing the information contained in this Disclosure Statement a prospective Member would like additional information or would like to make inquiries regarding facilities or services, the marketing office should be contacted. A prospective Member or prospective Member's legal representative with a general power of attorney also has a right to ask for and receive information regarding reserve funding, experience of persons who will make investment decisions, a current actuarial study, if available, and information regarding persons having a five percent (5%) or greater ownership interest in The Cypress.

Because no technical language has been used in this Disclosure Statement, there may be differences between the text of this booklet and the language of the specific Purchase and Sale Agreement, Resale Purchase and Sale Agreement, Reservation Agreement (with conversion to Purchase and Sale Agreement), and Membership Agreement signed by a Member. If there are any such differences, the terms of the executed Purchase and Sale Agreement, Resale Purchase and Sale Agreement, Reservation Agreement (with conversion to Purchase and Sale Agreement), and Membership Agreement will govern.

**We are pledged to the letter and spirit of U.S. policy for the achievement of equal housing opportunity throughout the Nation. We encourage and support an affirmative advertising and marketing program in which there are no barriers to obtaining housing because of race, color, religion, sex, handicap or national origin.**

# **I. THE PEOPLE**

## **OVERVIEW**

The Cypress is made up of several distinct legal entities, each with its own powers and responsibilities. The Cypress Management Group, LLC, has a controlling interest in The Cypress of Raleigh, LLC. The Cypress of Raleigh, LLC is the entity that planned, designed, and built The Cypress. The Cypress of Raleigh, LLC currently has no new inventory of homes for sale. However, in its ordinary course of business, The Cypress of Raleigh, LLC often acts as the listing agent for resales of Villa and Cottage residences, in which event it represents the interests of the seller. The Cypress of Raleigh, LLC will also enter into a Membership Agreement with each of The Cypress' prospective Members. The Cypress of Raleigh Club, Inc. ("The Club") and The Cypress of Raleigh Owners' Association, Inc. (the "Association") are two distinct North Carolina non-profit corporations which have no affiliation with any religious, charitable or other non-profit organizations. Because The Cypress offers condominium ownership of a Cottage or Villa, the Association was formed to comply with North Carolina law regarding the ownership of commonly held property. In the event of a conflict among the CCRC Act and the North Carolina Condominium Act, a Member, by signing the Membership Agreement, evidences the Member's acknowledgement and agreement that the CCRC Act shall control, including specifically North Carolina General Statutes § 58-64-85(b). The Club, a 501(c)(4) non-profit entity, was organized to manage the various membership functions of The Cypress that are included in each Member's Membership Agreement, in accordance with The Club's obligations under the Management Agreement dated August 1, 2008 by and between The Cypress of Raleigh LLC and The Club. The financial and contractual obligations of the facility are the responsibility of The Cypress of Raleigh, LLC and The Club. The Cypress of Raleigh, LLC, The Club, and the Association are licensed by the North Carolina Department of Insurance to offer and provide continuing care at The Cypress.

### **THE CYPRESS OF RALEIGH, LLC**

The Cypress of Raleigh, LLC (the "Company") is a North Carolina limited liability company formed for the purpose of developing and managing a continuing care retirement community. Its current principal business address is 7101 Creedmoor Road, Suite 142, Raleigh, North Carolina 27613. The Company has developed luxury condominium single-family Cottages and Villas for sale to individuals ages sixty-two (62) years and older who are capable of independent living, with or without reasonable accommodation or modification. In addition to developing luxury condominium Cottages and Villas, the Company has also developed all common areas of the retirement community, including the Clubhouse and Health Center. For its efforts in developing and managing the ongoing operations of the continuing care retirement community, the Company receives from The Club and the Association a payment equal to a percentage of actual costs of operating The Cypress. In addition, the Company is entitled to assess and collect from new Members a Membership Fee for services incidental to membership in The Club, which services are provided for in each new Member's Membership Agreement. As discussed in more detail on page 32, a Member's membership interest in The Club is separate and distinct from such Member's real estate interest in a Villa or Cottage.

Upon request, The Cypress shall make available the names and business addresses of the Company's members. The Company's sole Managing member is The Cypress Management

Group, LLC, a North Carolina limited liability company. The Cypress Management Group, LLC is the only member of the Company that owns a five percent (5%) or greater equity or beneficial interest in the Company.

The Company has overall management responsibility for The Club. In its role as management agent, its primary duties shall include but not be limited to the review and approval of capital expenditures and operating budgets, and the monitoring of The Cypress' financial condition. Operational policies for The Cypress and criteria for membership admissions are subject to approval and periodic review. As the management agent, the Company also adopts and approves personnel policies for The Cypress' employees, annually reviews the insurance coverages on The Cypress' property and personnel, contracts for and supervises the provision of legal and accounting services for The Cypress, and actively monitors compliance with the budget and the performance of The Cypress and its management. These activities are carried out by means of reports, studies, regular meetings and frequent on-site inspections.

Operational management of The Cypress of Raleigh community (the "Community") is being performed by Life Care Services LLC ("Life Care Services") pursuant to a management contract with The Club. Life Care Services' responsibilities include: recruiting, employing, and training administrative personnel; supervising the licensing, equipping, and staffing of the Community; preparing annual budgets; establishing and operating a system of financial controls for the Community, including comparative analyses with other facilities; supervising the delivery of health care services which meet the guidelines of the Federal Medicare (Title XVIII) program; and overseeing the food service and quality accommodations provided by the Community. Life Care Services is not financially responsible for the contractual obligations or other obligations of The Club. The Company and The Club's Board of Directors retain the ultimate responsibility for hiring managers and monitoring the operating costs, wages, salaries, expenses, fees, and overall fiscal viability of the Community. Life Care Services' business information and extensive experience in managing continuing care retirement communities is discussed in detail in pages 12 and 13 of this Disclosure Statement.

In addition to utilizing the expertise of Life Care Services in managing the Community, the Company entered into a consulting and licensing agreement with James P. Coleman and Marc A. Puntereri to utilize The Cypress brand and their considerable experience and reputation in the field of equity ownership continuing care retirement communities. Final payment was paid under this consulting and licensing agreement on September 14, 2011. No further payments are required under this agreement. During the term of the consulting and licensing agreement, the Company was solely responsible for payments due thereunder, and this agreement had no financial impact on the members of the Community. The business address for Mr. Puntereri and Mr. Coleman is 20 Lady Slipper Lane, Hilton Head Island, South Carolina 29926, and their respective biographical information is as follows:

James P. Coleman obtained a Bachelor of Science degree in Business Administration from the University of North Carolina. Mr. Coleman served as a captain in the U.S. Air Force from 1967 to 1971. In 1972, he joined Sea Pines Company and served as Senior Vice President of Hilton Head Plantation Company from 1974 to 1984. In 1984, he formed The Melrose Company with two partners. In 1988 he formed The Cypress Group and led the development of The Cypress of



Hilton Head and The Cypress of Charlotte. As a resident of Hilton Head Island for 45 years, Mr. Coleman has held the position of President of the Hilton Head Board of Realtors, chairman of the board of deacons of the First Presbyterian Church, chairman of the Hilton Head Plantation Architectural Review Board, chairman of the board of Hilton Head Preparatory School, and trustee of the Heritage Classic Foundation.

Marc A. Puntereri obtained a Bachelor of Arts degree in Psychology from the University of Virginia in 1973 and a Master's degree in Business Administration from the Colgate Darden School at the University of Virginia in 1977. He has been involved in the development and operations management of large-scale golf and resort planned communities for more than 40 years, including Vice-Chairmanship of the then publicly-traded resort and real estate company, Sea Pines Associates, Inc. Mr. Puntereri is a managing member of The Cypress Group, LLC and has worked with a number of state agencies to revise regulations to acknowledge equity ownership within existing CCRC licensing criteria. He also has served as a consultant to private developers on a variety of retirement communities. Mr. Puntereri has been a keynote speaker on retirement living at a number of universities and industry conferences in the US, Europe and Australia. His community service has included board and committee service for Hilton Head Hospital, Hilton Head Health Services, Inc., Hilton Head Medical Associates, Inc., Community Services Associates, Inc., Sea Pines Associates, Inc., Sea Pines Montessori School, Hilton Head Preparatory School, St. Luke's Episcopal Church Vestry, the Episcopal Diocese of South Carolina, United Way, Chamber Business/Education Partnership, the Deep Well Project, and Volunteers in Medicine.

### **THE CYPRESS MANAGEMENT GROUP, LLC**

The Cypress Management Group, LLC is a North Carolina limited liability company formed on May 24, 2005. As stated above, The Cypress Management Group, LLC is the only member of the Company that owns a controlling interest in the Company, and it is the sole manager of the Company. The sole member-managers of The Cypress Management Group, LLC are Michael G. Sandman, Craig C. Huggins and Mark T. Andrews. The Cypress Management Group, LLC's address is 7101 Creedmoor Road, Suite 142, Raleigh, North Carolina 27613.

Michael G. Sandman obtained a Bachelor of Science degree in finance from The American University in 1982, and a Juris Doctor degree from the University of North Carolina at Chapel Hill in 1985. Mr. Sandman has practiced residential and commercial real estate law and business law in Raleigh, North Carolina since 1986. Since 1991, Mr. Sandman has been a principal in more than thirty (30) real estate ventures of various product types, including, residential subdivisions, residential and office condominiums, senior living, office, retail, multi-family housing, warehouses, and hotels. In addition to his business activities, Mr. Sandman is active in the Raleigh community. His community service has included board, committee and volunteer work for Temple Beth Or, Ravenscroft School, The New Bern Avenue Corridor Alliance, Together Raleigh, The North Carolina Museum of Art and Triangle Family Services. Mr. Sandman's office is located at 7101 Creedmoor Road, Suite 142, Raleigh, North Carolina 27613.

Mark T. Andrews hails from a real estate family in Western Pennsylvania. After receiving an engineering degree from Penn State University in 1984, Mark relocated to Raleigh-Durham and founded a commercial real estate firm called Property Resources. Over nine years, he grew

Property Resources to 85 employees handling over 50 properties and 6,000,000 square feet of space. Property types included office, warehouse and retail spread across Raleigh-Durham, Greensboro and Richmond, Virginia. In 1996, Mr. Andrews sold Property Resources to CB Richard Ellis, the largest commercial real estate firm in the world, and served as Managing Officer for North and South Carolina for three years before transitioning out. In 1996, Mr. Andrews founded another company, now named TME Investments, focused on real estate acquisitions and development in the Raleigh-Durham area. TME has completed over 30 projects with an asset value of over \$400,000,000 including office, flex, warehouse and multifamily properties. Some notable projects include: The Paramount, a 10 story 81 unit condominium project in Downtown Raleigh; The Cypress of Raleigh, a 48 acre continuing care retirement community; and the Aloft Raleigh Hotel, a landmark property across the street from the historic NC State Bell Tower. Mark is a regular guest lecturer for MBA students at the Kenan Flagler Business School at The University of North Carolina. For more information about TME Investments and to view selected projects, please visit [www.tmeinvestments.com](http://www.tmeinvestments.com). Mr. Andrews' office is located at 8521 Six Forks Road, Suite 106, Raleigh, North Carolina 27615.

Craig C. Huggins is a native of North Carolina and obtained a Bachelor of Science degree in Business Administration from the University of North Carolina at Chapel Hill in 1981. Mr. Huggins began his business career in Charlotte with Bank of America's Commercial Real Estate Lending Group and then joined Dickinson, Logan, Todd and Barber, a Raleigh based commercial mortgage banking firm, in 1984. Mr. Huggins formed Chandler Financial, Inc. in 1989 and began acquiring and developing residential and commercial properties in partnership with Michael Sandman. During the past 38 years, Mr. Huggins has developed, acquired, financed or handled the sale of a wide range of investment properties including residential condominiums, single family neighborhoods, apartments, office buildings, hotels, retail centers, warehouses, nursing homes and continuing care retirement communities. As a resident of Raleigh since 1982, Mr. Huggins has been active in the community through White Memorial Presbyterian Church, Step Up Ministry, the Boy Scouts of America, the Salvation Army and Wake County's Best Friends program. Mr. Huggins' office address is 7201 Creedmoor Road, Suite 110, Raleigh, North Carolina 27613.

### **THE CYPRESS OF RALEIGH CLUB, INC.**

The Cypress of Raleigh Club, Inc. (the "Club") is a North Carolina non-profit corporation. Its principal business address is 8801 Cypress Lakes Drive, Raleigh, North Carolina 27615. The Club was formed to serve as the management entity to carry out the purposes of The Cypress Membership Agreement, as described in this Disclosure Statement. The Club manages the commonly owned property of The Cypress, including the Clubhouse and Health Center, as well as the services provided at the Clubhouse and Health Center. All monthly payments made by Members, all other operating receipts, and all disbursements flow through The Club. As discussed above, The Club has contracted with Life Care Services to provide the day-to-day operational management services for the Community, with the Company and The Club's Board of Directors retaining the ultimate responsibility for hiring managers and monitoring the operating costs, wages, salaries, expenses, fees, and overall fiscal viability of the Community. Life Care Services' extensive experience in managing continuing care retirement communities is discussed in detail on pages 12 and 13.

The Club is recognized as a 501(c)(4) tax-exempt entity by the Internal Revenue Service. No member or entity has a ten percent (10%) or greater ownership interest in The Club. As of the date of this Disclosure Statement, the following individuals comprise The Club's board of directors: (1) Michael G. Sandman (address listed above); (2) Joe Steven Cline, whose address is 2210 Fairview Road, Raleigh, North Carolina 27608; (3) Dave Gospodarek, whose office address is 4101 Lake Boone Trail, Suite 215, Raleigh, NC 27607; (4) John R. Mitterling, whose office address is 909 Aviation Parkway, Suite 1500, Morrisville, North Carolina 27560; and (5) Mark T. Andrews (address listed above). The Club's officers are Mark T. Andrews (President), Michael G. Sandman (Vice President), and Shane Gabis (Secretary/Treasurer). Mr. Gabis's office address is 8801 Cypress Lakes Drive, Raleigh, North Carolina 27615.

As set forth in the Membership Agreement and the Declaration of Condominium for the Cypress of Raleigh Condominium recorded in Book 13240, Page 738, Wake County Registry (the "Declaration"), The Club shall pay the Company an overhead payment equivalent to ten percent (10%) of total operating costs, including those of the Association, as compensation for services provided by the Company, which services are described in part on pages 7 and 8 of this Disclosure Statement. The overhead payment and the services that the Company provides are described in detail in the Membership Agreement and the Declaration, as well as in the Management Agreement dated August 1, 2008 by and between The Cypress of Raleigh LLC and The Cypress of Raleigh Club, Inc.

#### **THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**

The Cypress of Raleigh Owners' Association, Inc. was incorporated on July 1, 2005. Its principal business address is 8801 Cypress Lakes Drive, Raleigh, North Carolina 27615. Each Cottage or Villa owner at The Cypress will be a member of the Association as long as ownership of the Cottage or Villa is retained.

There shall be one membership in the Association for each Cottage or Villa owned. If Cottage or Villa ownership is vested in more than one person, then all owners of the Cottage or Villa will designate one of the co-owners to act as a member of the Association. Voting rights in the Association shall be as prescribed in the Declaration and Bylaws of the Association. An owner's membership in the Association will automatically terminate when ownership of the Cottage or Villa ceases. Members who transfer their units and move into the Health Center retain their membership interest in The Club, and they shall pay monthly fees at the then applicable member rates.

The owners of Villas and Cottages will own the common property of The Cypress, including the Clubhouse and Health Center, and the Association will serve as the governing body for all issues related to the real estate aspects of the Cottages, Villas and common properties. All activities undertaken by the Association shall be for the sole benefit of the Cottage and Villa owners, and all funds received by the Association shall be used for the benefit of all Cottage and Villa owners. The Club shall serve as the managing agent for the Association. In that capacity, the Association has delegated to The Club the responsibility for the maintenance, repair, replacement, administration, and operation of The Cypress' property. Life Care Services carries

out the day-to-day performance of these services for the Community pursuant to its contract with The Club. Life Care Services' extensive experience in managing continuing care retirement communities is discussed in detail on pages 12 and 13 of this Disclosure Statement.

The Association acts through its Board of Directors, which is elected by the Cottage and Villa owners at a regular annual meeting in accordance with the Bylaws of the Association. No member or entity has a ten percent (10%) or greater interest in the Association. As of the date of this Disclosure Statement, the following individuals comprise the Association's board of directors: (1) Michael G. Sandman (address listed above); (2) Mark T. Andrews (address listed above); (3) Craig C. Huggins (address listed above); and (4) Kathleen Miller, whose address is 8601 Cypress Lakes Drive, Unit A111, Raleigh, North Carolina 27615. In addition to these four (4) members, a fifth board seat is filled by the individual who is the then current chair of the Members' Council Finance Committee. Currently this fifth board seat is filled by Jack Hogge, whose address is 8601 Cypress Lakes Drive, Unit 208, Raleigh, North Carolina 27615. The Association's officers are Mark T. Andrews (President), Michael G. Sandman (Vice President), and Shane Gabis (Secretary/Treasurer) (address listed above). Mr. Gabis's office address is listed above.

### **LIFE CARE SERVICES LLC**

As stated above, The Club has retained Life Care Services LLC ("Life Care Services") to manage the Community. Life Care Services' business address is 400 Locust Street, Suite 820 Des Moines, Iowa 50309. Life Care Services is a wholly-owned subsidiary of Life Care Companies LLC ("LCS"), an Iowa limited liability company.

LCS is a nationally recognized leader in the development, marketing and management of senior living communities throughout the United States. Since 1971, LCS has been instrumental in the planning, developing, marketing and managing of senior living communities throughout the United States. Management services are provided through Life Care Services, and it currently manages approximately 140 communities serving over 40,000 residents in 33 states (see Exhibit O attached to this Disclosure Statement).

**Principal officers of LCS include Mr. Joel Nelson, Ms. Diane Bridgewater, Mr. Rick Exline, Mr. Jason Victor, and Ms. Jill Sorenson.**

Joel Nelson is President and Chief Executive Officer of LCS, the 2nd largest senior living operator, which includes not-for-profit and for-profit assets across the continuum of senior living. He is an experienced leader in governance within the senior living industry, including all phases of real estate acquisition, development, operations, marketing and sales. Mr. Nelson is responsible for executing the business strategy across the six business lines in the LCS family of companies. He thrives on driving business growth, achieving service excellence, and enhancing the company's stability and value among financial partners, property owners, and other stakeholders in the senior living field. Currently, Mr. Nelson serves on the board of managers for Life Care Companies and LCS Holdings, and is past-chair and a current member of the Investment Committee. Outside of LCS, Mr. Nelson is a member of the National Investment Center (NIC) operator advisory board, and the Central Iowa Alzheimer's Association board. He is also past chair and current board member of ChildServe, Inc., one of Des Moines largest not-for-profit organizations serving

children and families with complex health care needs. Mr. Nelson earned a Bachelor of Science degree in health service administration from Simpson College.

Diane Bridgewater is Executive Vice President/Chief Financial and Administrative Officer of LCS. Ms. Bridgewater joined the organization in 2006 after filling several executive level positions with Pioneer Hi-Bred International, a DuPont Company. In her years with Pioneer, she held a number of operational and financial roles including: Chief Financial Officer, Vice President and Business Director for North America, Director of Customer and Sales Services for Seed and Crop Protection, Worldwide Finance Director, and other roles. Ms. Bridgewater started her career with KPMG. Ms. Bridgewater earned her undergraduate degrees in Accounting and French from the University of Northern Iowa and received her CPA certification in 1986. Ms. Bridgewater currently serves on the boards of LCS Holdings, Inc., Life Care Companies LLC, Casey's General Stores, and Bankers Trust.

Rick Exline, who is Executive Vice President and Senior Managing Director of Life Plan Communities, joined the company in 1978 and is responsible for the oversight of the company's life plan communities, including third party and investment senior living management services. Mr. Exline oversees the communities' senior living management teams, health care group, national sales, new business development and life plan community development teams. Mr. Exline serves on the board of managers for Life Care Companies LLC and the board of directors for LCS Holdings, Inc., as well as executive leadership and senior living management teams. Mr. Exline is also a trustee for the company's 401(k) benefits program and serves on the board of trustees for Simpson College. He holds dual bachelor's degrees: one in business administration from Simpson College and one in health care administration from Oklahoma Baptist University. He is a graduate of the Executive Institute at The University of North Carolina at Chapel Hill.

Jason Victor is Vice President/Controller, Treasurer and a Manager of Life Care Services. Mr. Victor joined the organization in 2007 and currently has responsibility for the organization's Corporate Accounting, Treasury and Tax functions. He oversees all aspects of general accounting, cash management, payroll, consolidations, and financial reporting. In addition, Mr. Victor provides oversight and guidance related to audits, internal controls, technical accounting, tax, and financial management systems. Mr. Victor started his career with Ernst & Young and later spent 9 years in various finance positions with Praxair, a Fortune 500 organization. He earned his undergraduate degree in Accounting from the University of Northern Iowa and currently holds an active CPA license in the state of Iowa. Mr. Victor also serves on the board of directors of Hexagon Insurance Company, Ltd.

Jill Sorenson is Senior Vice President/Senior Director of Operations Management and a Manager of Life Care Services. She has been employed by Life Care Services since 1982. After spending 15 years at the Life Care Services corporate office, working in the areas of accounting, IT liaison, and corporate resource management, Jill transferred to San Diego to work at a continuing care retirement community, and became the Executive Director of that community in 2000. She was promoted to Director of Operations Management in 2007, to Vice President in 2010, and Senior Vice President/Senior Director of Operations Management in 2012. Ms. Sorenson provides oversight for senior living communities in Oregon, California, Hawaii, Arizona, Utah, Ohio, and Indiana. She has her MBA and bachelor's degree in Business Administration from

Simpson College. Ms. Sorenson also served as a CARF/CCAC site evaluator from 2000-2007. She has presented at various industry conferences on a state and national level on a variety of topics affecting the senior living industry.

## **EXECUTIVE DIRECTOR**

After serving as the Associate Executive Director and Administrator since 2011, Shane Gabis was promoted to the position of Executive Director in 2015. He has worked for LCS since 2002. Mr. Gabis has over ten (10) years of experience in healthcare administration, including Administrator and Executive Director positions. Prior to joining The Cypress of Raleigh, Mr. Gabis served in multiple interim assignments in Pennsylvania, Michigan and Ohio, and he has served on the Board of Directors of Mobile Meals Inc., a not for profit community-based organization in Akron, Ohio, and currently sits on the LeadingAge North Carolina Social Policy Committee.

Mr. Gabis has a Bachelor of Science degree from Davenport University in Kalamazoo, Michigan, where the university faculty awarded him the 1999-2000 Outstanding Allied Health Student of the Year. Mr. Gabis is a Licensed Nursing Home Administrator in North Carolina, and has previously held licenses in Pennsylvania, Michigan and Ohio.

In March 2020, Dan Cuthriell was hired by Life Care Services to serve as the Interim Executive Director for The Cypress of Raleigh while Mr. Gabis takes a temporary leave of absence. Mr. Cuthriell has served in various CEO and Senior Level Administrative positions in the CCRC industry since 1993 and has held administrative positions in rehabilitation and acute care centers since 1981. Prior to joining The Cypress of Raleigh, Mr. Cuthriell worked as a management consultant for another CCRC and was responsible for planning, financing and developing several new CCRCs in North Carolina. Mr. Cuthriell has a Bachelor of Science degree from James Madison University in Virginia, a Master of Science degree from Nova Southeastern University in Florida and a Master of Business Administration degree from Regent University in Virginia. He has served on the Board of Directors for LeadingAge North Carolina and is a Licensed Nursing Home Administrator.

## **ADMINISTRATOR**

Alicia Stewart is employed by LCS and began serving as the Administrator at the Cypress of Raleigh in January 2019. She is a licensed Nursing Home Administrator in the States of North Carolina and Pennsylvania. Mrs. Stewart has nine (9) years of healthcare administration experience. Prior to arriving at The Cypress of Raleigh, Mrs. Stewart worked for a community in Pennsylvania serving as Nursing Home Administrator and Director of an Inpatient Rehabilitation Unit. Mrs. Stewart received a Bachelor of Science degree in Social Science and Nursing Home Administration course work from the Philadelphia College of Osteopathic Medicine.

No officer or director of The Company, The Club, or the Association has been convicted of a felony or pleaded nolo contendere to a felony charge or been held liable or enjoined in a civil action by final judgment for a felony or civil action involving fraud, embezzlement, fraudulent conversion or misappropriation of property; or 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 action brought by a governmental agency or department, arising out of the business of health care, including actions affecting a license to operate a foster care facility, nursing home, retirement home, home for aged, or facility subject to Section 58-64 of the North Carolina General Statutes, or similar law in another state.

### **MEMBER COMMITTEES**

The Club has established Member Advisory Committees. The six (6) Member committees are finance, buildings and grounds, food and beverage, health and safety, library, and social and activities. Regularly scheduled meetings are held to enable the Members to ask questions and to permit the Cypress' administration to communicate with the Members for the purpose of free discussion of subjects as they apply to The Cypress, as well as proposed changes in policies, programs and services, or other issues for the good of The Cypress.

### **ORGANIZATION CHART**

See Exhibit A attached hereto and incorporated herein by reference.

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## II. THE CYPRESS



## **THE LOCATION**

The Cypress campus is located on approximately forty-four (44) acres of land bounded by Strickland Road on the north, Lead Mine Road on the west, Forum Drive on the south, and Harvest Oaks Drive on the east in Raleigh, North Carolina. It is surrounded by quiet, residential neighborhoods, but conveniently located to Raleigh's most prestigious commercial areas for shopping, dining and professional services. Rex Hospital, Wake Med North Healthplex and Duke Raleigh Hospital also are located nearby.

## **THE CAMPUS**

The Cypress is a condominium continuing care retirement community designed to provide customized homes and services to accommodate persons sixty-two (62) years of age or older in a dignified setting and style. Phase I and Phase II (as described in the Declaration) opened in Fall 2008 and include thirty four (34) free-standing Cottages with garages and one hundred sixty eight (168) one (1) and two (2) bedroom single-story Villas located in three (3) mid-rise buildings (Buildings A, B and C). Phase I and Phase II also include a Clubhouse of approximately 42,709 square feet and a forty (40) bed Health Center (expandable to sixty (60)). The Clubhouse serves as the hub for Community activities. The Clubhouse also includes formal and informal dining rooms, crafts and activities rooms, game room, private dining room, beauty and barber shop, exercise room, hobby shop, reading room, classrooms, indoor lounges and an indoor exercise pool and spa. The Rosewood Health Center, which can be expanded to sixty (60) beds, has a unit specializing in memory care programming for individuals with cognitive disorders. The Rosewood has private and semiprivate rooms, a physical therapy room, an arts and crafts therapy area, a dining room, and lounges. For Members who are able to do so, the Rosewood emphasizes restorative care and wellness for purposes of returning these Members to their Cottages or Villas.

There are eighteen (18) different Villa floor plans in Phases I and II for the following types of units: one bedroom, two bedroom, corner two bedroom, and corner two bedroom with den. There are also four (4) different standard Cottage plans. All Villas and Cottages are furnished with washers and dryers, and fully equipped kitchens. The units also contain many safety features, including grab rails in the bathtub, an urgent call system monitored twenty-four (24) hours a day, and smoke alarms.

The Cypress of Raleigh, LLC has the right (but not the obligation) to construct Phase III (as described in the Declaration), which may consist of up to one hundred twenty eight (128) Villas in two (2) mid-rise buildings and between zero (0) and five (5) Cottages. Phase III currently includes three (3) Cottages, bringing the total number of Cottages in The Cypress to 37. Phase III also includes 57 new Villa homes located in Building D (the "Building D Villas").

The Cypress of Raleigh, LLC has sold all of the Phase I and II Villas and all of the Cottages. In addition, construction on Building D was completed in September 2018, and all of the Building D Villas have been sold. Going forward, all sales of Cottages, Phase I and II Villas and the Building D Villas will be re-sales pursuant to the terms of a Resale Purchase and Sale Agreement substantially in the form attached hereto as Exhibit U.

The second and last of the mid-rise buildings in Phase III will be Building E, and it will contain 57 custom homes, consisting of 8 different floor plans ranging in size from 1,368 to 2,152 square feet (the “Building E Expansion”). These Units will contain the same safety features included in the Phase I and II homes and the Building D Villas. During the first quarter of 2019, the Company began accepting from prospective purchasers of Building E Units (each individually a “Building E Purchaser”) a Reservation Agreement (with conversion to Purchase and Sale Agreement) in substantially the form attached hereto as Exhibit T (“Reservation PSA”). Each Reservation PSA is secured by a refundable deposit equal to ten percent (10%) of the desired Unit’s gross purchase price, inclusive of the Membership Fee. A Reservation PSA can be converted to a binding purchase contract through the execution of an Addendum Conversion to Purchase and Sale Agreement substantially in the form attached hereto as Exhibit T (the “Addendum”). When a Reservation PSA has been converted to a binding purchase contract, the 10% deposit becomes non-refundable (subject to the purchaser’s right to terminate described on page 34 of this Disclosure Statement). The Company has received signed binding Addendum agreements for all of the Building E Units, each of which is secured by a non-refundable ten percent (10%) deposit. On July 2, 2019, the Department of Insurance issued a Preliminary Certificate for the Building E Expansion, and construction of the Building E Units is in process. The Company estimates that construction on Building E will be complete by November 2020, if not sooner.

When making the determination to move forward with the Building E Expansion, the Company obtained actuarial population projections to project move-in rates, resident profiles, age distribution, assisted living and Health Center utilization, and resale rates. This information has been updated through the end of December 2017 and is contained in a letter dated October 3, 2018 from Christina J. Buckrop, an Actuarial Financial Analyst with Life Care Services, a copy of which we have attached as Exhibit Z. This October 3<sup>rd</sup> letter includes the actuary’s statement estimating that The Cypress will have the capacity to meet its contractual obligations to Members if it proceeds with the Building E Expansion.

The maximum number of units in Phase I, Phase II and Phase III will not exceed three hundred thirty five (335); provided, however, that The Cypress of Raleigh, LLC reserves the right (but not the obligation) to develop an additional phase of the Condominium consisting of up to one hundred eleven (111) units.

As of May 5, 2020, The Cypress of Raleigh had 368 Members. If The Cypress of Raleigh, LLC were to complete Phase III, The Club estimates they would have 483 Members at 100% occupancy.

## **THE PERSONNEL**

As approved by The Club, Life Care Services employs an executive director and health care administrator for The Cypress. The Club or the Company employs all other personnel, although some services, such as landscape maintenance, may be out-sourced. A medical doctor, an occupational therapist, a physical therapist, and a speech and hearing therapist are available for consultation.

## **THE SERVICES**

The decision to move into a continuing care retirement community demands careful consideration of many factors, including the services to be provided. A detailed description of the services to be provided by The Club is found below. A Member typically will purchase a fee simple interest in a Cottage or Villa for the Member's lifetime use. At the same time, the Member will sign a non-transferable Membership Agreement to obtain a membership interest in The Club, which, for a monthly payment, will entitle the Member to access the following services: (1) Club activities; (2) urgent call system; (3) a monthly food service allowance; (4) availability of a private dining room; (5) weekly flat laundry; (6) weekly housekeeping; (7) scheduled maintenance of the Cottages, Villas, and common areas; (8) grounds care and gardening; (9) certain utilities; (10) scheduled transportation; (11) campus security; (12) mail delivery; (13) Health Center services; (14) Health Center activities; (15) Member committees; (16) monthly billing services; and (17) uncovered surface parking for Members and guests. The services provided pursuant to the Membership Agreement are part of a coordinated system of care to address both medical and non-medical drivers of health outcomes. As discussed in more detail on pages 33 and 34, the fee simple interest in a Cottage or Villa is separate and distinct from the membership interest the Member obtains in The Club.

Health Center services will be available to all Members of The Cypress, as stated in the Membership Agreement, and a Member may be admitted directly to the Health Center from his/her Cottage or Villa with proper physician's orders. Members who are able to do so will be encouraged to return to their Cottages or Villas as soon as possible. Members who are, however, unable to return to their Cottages or Villas, have the benefit of access to permanent care in the Health Center.

Those Members who do not require care in the Health Center, but who need additional personal services to continue living in their Cottages or Villas, will be eligible for the assistance-in-living and/or home care program. Assistance-in-living and home care services will be provided by nursing staff and other staff members. Services such as bathing, dressing, shopping, personal laundry, additional housekeeping, in home care and special transportation will be available to the Members, on a fee for service basis.

The Club received its own Home Care Agency License on August 25, 2009 (See Exhibit W). With this License, The Cypress of Raleigh Home Care agency is able to provide a full range of home health care services to Members in their Cottages and Villas.

## **DESCRIPTION OF THE SERVICES**

The services which are available to Members are listed and described in detail in the Membership Agreement. To explain the services further, the following descriptions have been prepared. The procedures to be followed in furnishing these services may be modified by the Company in order to best meet the needs of the Members. Members will be advised of any changes in these services through Member Committees and written and verbal communications. While the services are outlined herein separately, they are part and parcel of a coordinated system of care to address both medical and non-medical drivers of health outcomes.

### **SERVICES COVERED UNDER THE MONTHLY PAYMENT**

The monthly payment made pursuant to a Member's Membership Agreement entitles the Member to the following services:

#### **CLUB ACTIVITIES**

A full-time Director of Community Life Services is employed by The Club who plans and organizes a variety of events tailored to the special interests of the Members. These programs are focused on wellness to meet the intellectual, physical, emotional, social and spiritual needs of the Members. Activities include cultural excursions, multiple lecture series, dance and art classes, card games, craft activities, tournaments, and shopping, as described in the Core Wellness brochure attached hereto as Exhibit Y. A full-time Wellness Coordinator is employed who plans and organizes fitness and wellness programs such as Tai-Chi, yoga, aquatic, aerobic and strength and balance classes.

#### **URGENT CALL SYSTEM**

All Cottages and Villas have a two-way urgent call system. The purpose of this system is to summon help in an emergency. The urgent call system is connected to an indicator panel in the Health Center, which identifies the Cottage or Villa from which the signal was initiated. Licensed nursing personnel with emergency training will respond to calls from the urgent call system and will summon any other appropriate emergency personnel that may be required.

#### **MONTHLY FOOD SERVICE ALLOWANCE**

As part of residency at The Cypress of Raleigh, Members receive meal services as described in this section. To assist in tracking meal usage and monitoring the health of Members, Members receive monthly meal points, which may be used for food and beverage selections from a varied menu of favorites, seasonal and daily specials, giving the Members optimal choice and flexibility for their dining experience. A Member's meal points are designed to be allocated in the Member's discretion over the course of each month and are sufficient for one meal per day. With four distinct dining venues, the Members can choose to use meal points on dining experiences in the formal or main dining venues or on quick grab-and-go menu items from the buffet-style bistro and bar menus. Home delivery and take-out meals are also available. A registered dietician is

available for consultation. A Member's monthly meal points may not be used to pay for guest meals or for meals for other Members. Charges for guest meals will be published by The Club and subject to change without prior notice based on variable food and labor costs. A Member's meal point allowance is not equivalent to dollars, cannot be exchanged for dollars, and does not reflect the actual cost of food and labor utilized for the delivery of food service as part of a Member's residency at The Cypress of Raleigh. Unused meal points will not carry over to the next month and are not refundable or redeemable for other products or services. Additional meal points cannot be purchased. Any additional meals that may be requested by a Member in excess of their monthly meal points will be charged on a per-item basis to the Member at a dollar amount determined by The Cypress of Raleigh. To the extent required by law, appropriate sales and use taxes will be charged to Members and collected on sales of alcohol, guest meals, and if prescribed by law, meals served in excess of the monthly point total.

Healthy eating and nutrition are central to a Member's well-being and are interrelated with health, personal safety, socialization, transportation and monitoring other activities of daily living that may not be apparent absent daily use of Cypress dining in the presence of trained staff. The excellence of The Cypress of Raleigh's dining program supports the coordinated system of care provided by The Club to address both medical and non-medical drivers of health outcomes.

#### **PRIVATE DINING ROOM**

A private dining room is available for use by Members and their guests for special family or social occasions. Catered events and wait staff may be available, upon request, for an additional charge. Advance reservations with the Director of Food & Beverage or Dining Room Manager are required. Standing reservations for groups and/or clubs are not available.

#### **WEEKLY FLAT LAUNDRY**

Members receive weekly flat laundry service, which includes sheets, pillow cases, towels, face cloths and dish cloths. The flat laundry will be washed, dried, folded and returned on a weekly basis at the next scheduled housekeeping visit. The Club reserves the right to charge a reasonable fee for additional services to those Members who utilize the flat laundry service in excess of typical Member usage.

#### **WEEKLY HOUSEKEEPING SERVICES**

Members will receive weekly housekeeping services. These services include kitchen and bathroom cleaning, surface cleaning, dusting, and vacuuming. Periodically, window washing, carpet cleaning and other additional housekeeping will be performed.

#### **SCHEDULED MAINTENANCE OF COTTAGE OR VILLA AND COMMON AREA**

Maintenance, as more particularly described in the Declaration of Condominium, will be provided for each Cottage and Villa, and The Cypress common areas. If a Member needs maintenance service, the Member may submit a request with the Facilities Coordinator or concierge.

## **GROUNDS CARE AND GARDENING**

The Club's lawns, trees and shrubs will be maintained, as well as the interior and exterior of the club house, the parking areas, walks and exercise trails. In addition, gardening areas are available for Members' use and will be under the direction of the Director of Community Life Services on a first-come, first-serve basis.

## **CERTAIN UTILITIES**

Electric, gas (if applicable), water, sewer, and basic cable services will be included in the monthly payment for owners of Villa Units. Owners of Cottage Units must pay a separate charge for electric and gas.

## **SCHEDULED TRANSPORTATION**

Scheduled transportation is available for The Cypress Members. Scheduled trips include nearby grocery stores, banks, shopping centers and select cultural events and activities. Special trips may be periodically scheduled at an additional cost to each participant.

## **CAMPUS SECURITY**

The Cypress is a gated community with security staff personnel onsite twenty-four (24) hours a day. Additionally, cameras and a card access system provide security to all buildings and the community.

## **MAIL DELIVERY**

Once each business day, the U.S. Postal Service collects and distributes mail to each Member's personal mailbox. At the request of a Member, mail can be forwarded during the Member's absence from his/her Villa or Cottage.

## **ABSENCE CREDIT**

If a Member provides prior written notice to The Club that the Unit will be unoccupied for a period of not less than fourteen (14) consecutive days, the Member may be entitled to an "absence credit" in an amount determined by The Club to be applied against the monthly payment.

## **INTERRUPTION OR DELAY OF SERVICES**

If the Club is delayed, hindered, or prevented from delivering or performing any of the services described in the Membership Agreement by reason of any event or circumstance, whether or not foreseeable, not under The Club's reasonable control, including without limitation any governmental restriction, scarcity of labor or materials, strike, riot, civil disorder, fire, natural disaster, extreme weather event, disease, medical epidemics or outbreaks, curtailment of transportation facilities or infrastructure, and/or threats or acts of terrorism, the delivery or performance of such

services shall be excused for the period of delay, and the delivery or performance of any such services shall be extended as necessary to complete performance after the delay period.

## **THE ROSEWOOD HEALTH CENTER**

The Club has secured a license from the North Carolina Department of Health & Human Services, Division of Facility Services to have an on-site Health Center, named The Rosewood, to provide nursing care services up-to and including skilled care to The Cypress Members (see Exhibit W). The Club provides its Members quality health care within the limits of its license. Licensure for hospital-level care cannot be obtained; and, therefore, hospital-level services are not provided within the Health Center. Such level of care must be provided by a hospital, and the costs related to hospitalization will be the responsibility of the Member.

A physician will be retained on a consulting basis to act as Medical Director for The Rosewood. Currently, the Medical Director is Steven Liebowitz, M.D. If the Medical Director determines, in consultation with the Member's attending physician, family or personal representative and the Member (to the extent possible), that the Member requires health care in the Health Center, such care will be provided for up to ninety (90) lifetime cumulative days at the regular monthly payment. The regular monthly payment will cover health care at the semiprivate room rate. In addition to the regular monthly payment, the Member will be responsible for the cost of two (2) extra meals per day, plus nursing supplies, therapies, pharmacy, special duty nurses, personal laundry, rental of equipment, and other services provided upon request. If the Member requires care at the Health Center beyond the ninety (90) lifetime cumulative days of care, the Member will be responsible for the monthly payment (reduced by the appropriate absence credit) in addition to the applicable Member rate for health care at the Rosewood and other charges, pursuant to the terms of the Membership Agreement.

Both private and semiprivate rooms are available in The Rosewood. Basic rates are based on a semiprivate room. A Member may elect to occupy an available private room for an additional charge. Should only a private room be available, a Member who opts for a private room would pay the difference between the private and semi-private rate. Care in The Rosewood will include, but will not be limited to, basic nursing care, food service, housekeeping, and flat laundry service. If a Member would like to obtain additional nursing staff care while a resident in The Rosewood, arrangements may be made through The Cypress Home Care for an additional charge. Friends, relatives, or spouses may, at an additional charge, have meals with Members admitted to The Rosewood, so long as advance notice is given to The Rosewood. A schedule showing current room rates for The Rosewood is attached hereto as Exhibit P, and a schedule showing the average increase in those rates since 2014 is attached hereto as Exhibit Q.

If the Health Center is fully occupied, the Member will be provided health care services in, and agrees to relocate to, another health care facility. The Club will be responsible for any additional charges associated with the alternate health care accommodations so long as the Member continues to pay the monthly payment. The Member will be relocated to the Health Center when accommodations become available. The Membership Agreement (see Exhibit S) sets forth in greater detail the extent that health care services are provided and the terms for providing such services.

Members may be admitted to The Rosewood from a hospital or directly from their Cottages or Villas. Upon a Member's admission to The Rosewood, The Rosewood staff will determine the appropriate level of nursing care (as prescribed by a physician) required by the Member. As part of this determination, the Member's long-term ability to return to his/her Cottage or Villa is evaluated. The professional staff will provide an appropriate plan of care, the ultimate goal of which shall be, if at all possible, to return the Member to his/her Cottage or Villa as soon as practicable. If approved by the Member's physician, the Member may visit his/her Cottage or Villa with the assistance of volunteers as a part of the rehabilitation process.

Members who are unable to return to their Cottage or Villa have the benefit of permanent care in The Rosewood. If a Member who is the sole occupant of his/her Villa or Cottage is permanently assigned to The Rosewood, he/she will pay the monthly service fee at the then applicable Member rate reduced by an absence credit. In addition, after ninety (90) lifetime cumulative days in The Rosewood, the Member will pay the standard applicable Health Center fee until the Cottage or Villa is resold. After the Cottage or Villa is resold, the Member will pay only the applicable Health Center fee. If two (2) Members occupy a Unit and one (1) of them becomes a permanent resident of The Rosewood, then the monthly payment for the Member continuing to occupy the Unit will be reduced to the single occupancy rate. The Member residing in The Rosewood will pay the applicable Member rate.

A Member will not be admitted to or treated in The Rosewood in the event that such Member requires care that cannot lawfully be provided at The Rosewood and/or the Medical Director determines in his or her reasonable opinion that such Member's mental or physical condition is such that his or her admittance or treatment at The Rosewood would present an unreasonable risk of injury or detriment to that Member or any other Member receiving treatment or residing at The Rosewood, including but not limited to, a situation in which the Member seeking admittance or treatment at The Rosewood has been or is suspected to have been infected with a communicable disease for which there is no readily available cure and/or vaccine.

## **HEALTH CENTER ACTIVITIES**

An activities director is responsible for coordinating and directing the arts, crafts, social and recreational activities for Members staying in The Rosewood Health Center. The focus of these activities will be restorative care by enhancing the quality of life through physical, emotional, psychological and spiritual programs while catering to the individual needs of each Member.

## **MEMBER COMMITTEES**

The Member Committees hold regularly scheduled meetings to promote communication between the Members and The Cypress' administration. The six (6) Member committees are finance, buildings and grounds, food and beverage, health and safety, library, and social and activities.



## **MONTHLY BILLING SERVICE**

Monthly statements are placed in each Member's mailbox or other appropriate location on or before the fifth (5th) day of the month. Each monthly statement must be paid within ten (10) days after the delivery date of the statement. Payment may be made at the accounting office, accounting drop box or by mail. Payments made after the ten (10) day period may be subject to a late fee. A staggered billing system may be implemented in the discretion of The Club.

## **UNCOVERED SURFACE PARKING FOR MEMBERS AND GUESTS**

The Cypress has ample surface parking for both the Members and their invited guests. In addition, all Cottages have a two-car garage. As discussed below, limited assigned covered parking and garage parking is available to Villa Members at an extra charge.

## **OTHER SERVICES NOT INCLUDED IN MONTHLY PAYMENT**

Upon request, additional services may be provided to Members at an additional charge. The additional charges will be added to the Member's monthly statement. The additional services may include guest meals, additional meals in excess of those meals covered by the Member's monthly meal points, valet service, and such other reasonable services as may be requested. For a list of services for which there is an additional charge, see Sections 8 and 9 of the Membership Agreement (see Exhibit S) and the table attached hereto as Exhibit X. To explain some of the additional services further, the following descriptions have been prepared.

## **BEAUTY AND BARBERSHOP**

Beauty and barbershop services are provided by professional beauticians and barbers at an extra charge. Space is provided in the Clubhouse and Health Center for this service.

## **COVERED PARKING AND GARAGE PARKING**

Limited assigned covered parking and garage parking is available to Villa Members at an extra charge. A copy of the covered parking plan is available during normal business hours at The Cypress' marketing office. Additional surface parking is available to Villa Members at no charge. All Cottages have a two-car garage.

## **HOME CARE AGENCY**

Those Members who do not require care in the Health Center, but who need additional personal services to continue living in their Cottages or Villas, will be eligible for the assistance-in-living and/or home care program. Assistance-in-living and home care services will be provided by nursing staff and other staff members. Services such as bathing, dressing, shopping, personal laundry, additional housekeeping, in home care and special transportation will be available to the Members on a fee for service basis. As stated above, The Club has its own Home Care Agency License. This license enables The Cypress of Raleigh Home Care agency to provide

a broad range of home health care services and to facilitate these services for Members in the comfort of their Cottages and Villas.

### **DEVELOPMENT TIME FRAME**

As discussed on pages 17 through 18 and 32 through 34 of this Disclosure Statement, Phase III will consist of between fifty-seven (57) and one hundred twenty-eight (128) Villas in one (1) or two (2) mid-rise buildings. The first of these buildings is Building D, which contains 57 Units. The second and last of these Phase III mid-rise buildings will be Building E, and it will contain 57 custom homes, consisting of 8 different floor plans ranging in size from 1,368 to 2,152 square feet. The Company has received signed Addendum agreements converting the Reservation PSAs to binding purchase contracts for more than fifty percent (50%) of the Building E Units, each of which is secured by a non-refundable deposit equal to ten percent (10%) of the desired Unit's gross purchase price, inclusive of the Membership Fee. The Department of Insurance has issued a Preliminary Certificate for the Building E Expansion, and construction on Building E is in process. The Company estimates that such construction will be complete in November 2020, if not sooner.

Please note that all schedule dates are estimates and subject to change.

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## III. THE PROPOSAL

## **THE CONTINUING CARE CONCEPT**

The Cypress' continuing care concept ensures a Member lifetime ownership and/or occupancy of a Cottage or Villa, a wide array of personal services, and long-term nursing care in the on-site Health Center if he/she can no longer live independently (with or without reasonable accommodation or modification) in a Cottage or Villa. This concept has grown as the result of the increasing number of men and women reaching retirement age and the concern for providing an alternative to traditional retirement living. A Member typically will purchase a Cottage or Villa in accordance with the terms of a Purchase and Sale Agreement, a Resale Purchase and Sale Agreement or a Reservation PSA. The terms and provisions of the Purchase and Sale Agreement, the Resale Purchase and Sale Agreement, and the Reservation PSA are substantially similar. Accordingly, references to a "Purchase and Sale Agreement" throughout this Disclosure Statement shall include the Resale Purchase and Sale Agreement and the Reservation PSA.

At the time of signing a Purchase and Sale Agreement for a Cottage or Villa, the Member will enter into a non-transferable Membership Agreement. Pursuant to the terms of the Membership Agreement, the Member will pay a monthly fee for the personal services the Member receives. This monthly fee/payment includes a monthly contribution to the Association.

## **ACCEPTANCE FOR RESIDENCY**

Purchase and Sale Agreements and Membership Agreements are subject to acceptance by the Company. At the time of signing a Purchase and Sale Agreement and/or a Membership Agreement, the Member (or such Member's spouse) must be sixty-two (62) years of age or older. Each Member also must be capable of independent living (with or without reasonable accommodation or modification), free of communicable diseases, and able to pay the purchase price, Membership Fee, monthly payment, two (2) months of common expenses, twelve (12) months of hazard and flood insurance premiums, and a reserve deposit. After these payments, the Member must have sufficient financial resources to enable the Member to make the monthly payments, cover personal expenses which may be reasonably expected, and meet anticipated increases in the cost of living, including any increases in the monthly payment.

Prior to purchase of a Villa or Cottage, the Company may terminate the Purchase and Sale Agreement if the prospective Member fails to pay any of the sums due and owing under the Purchase and Sale Agreement and/or Membership Agreement. If all such sums are paid prior to purchase, but after the purchase closes the Member (or the Member's spouse, as applicable) is unable to live independently (with or without reasonable accommodation or modification) in the Villa or Cottage, the Member (or the Member's spouse, as applicable) will be admitted to the Health Center, so long as the Health Center can provide the level of care required by the Member. If, prior to closing on the purchase, a prospective Member dies or becomes incapable of living independently (with or without reasonable accommodation or modification) in a Villa or Cottage, the prospective Member or his/her estate, as applicable, may terminate the Purchase and Sale Agreement and receive a refund of all earnest money.

## 2020 Prices, Membership Fee and Monthly Fees

HOME TYPE	PHASES I, II & III		2020 MONTHLY FEES	
	Starting Prices	Approx. Size	1 Person	2 People
<b><u>Bldg. B Villas</u></b>				
The Alexander	\$350,000+	813 sf	\$2,582	\$4,044
The Arbor	\$360,000+	993 sf	\$2,764	\$4,226
The Ascot	\$450,000+	1261 sf	\$3,086	\$4,548
The Bayberry I	\$525,000+	1377 sf	\$3,257	\$4,719
The Bayberry II	\$525,000+	1465 sf	\$3,257	\$4,719
The Camden	\$625,000+	1637 sf	\$3,552	\$5,014
The Covington	\$575,000+	1623 sf	\$3,552	\$5,014
The Dogwood	\$625,000+	1626 sf	\$3,507	\$4,969
The Rosewalk	\$615,000+	1867 sf	\$3,753	\$5,215
<b><u>Bldg. A &amp; C Villas</u></b>				
The Indigo I	\$375,000+	1070 sf	\$2,858	\$4,320
The Indigo II	\$395,000+	1122 sf	\$2,858	\$4,320
The Park	\$575,000+	1627 sf	\$3,527	\$4,989
The Azalea I	\$650,000+	1871 sf	\$3,753	\$5,215
The Azalea II	\$695,000+	2021 sf	\$3,753	\$5,215
The Gallery I	\$750,000+	2296 sf	\$4,019	\$5,481
The Gallery II	\$850,000+	2472 sf	\$4,019	\$5,481
The Osprey I	\$865,000+	2597 sf	\$4,299	\$5,761
The Osprey III	\$865,000+	2472 sf	\$4,299	\$5,761
<b><u>Bldg. D Villas</u></b>				
The Ashcroft	\$475,000+	1368 sf	\$3,257	\$4,719
The Bradford I	\$570,000+	1386 sf	\$3,257	\$4,719
The Bradford II	\$540,000+	1465 sf	\$3,257	\$4,719
The Caldwell	\$625,000+	1652 sf	\$3,552	\$5,014
The Danbury	\$675,000+	1779 sf	\$3,653	\$5,115
The Newport	\$630,000+	1950 sf	\$3,753	\$5,215
The Prescott	\$740,000+	2152 sf	\$3,887	\$5,349
<b><u>Bldg. E Villas</u></b>				
The Ashcroft	\$475,000+	1368 sf	\$3,257	\$4,719
The Bradford I	\$570,000+	1386 sf	\$3,257	\$4,719
The Bradford II	\$540,000+	1465 sf	\$3,257	\$4,719
The Caldwell	\$625,000+	1652 sf	\$3,552	\$5,014
The Danbury	\$675,000+	1779 sf	\$3,653	\$5,115
The Newport	\$630,000+	1950 sf	\$3,753	\$5,215
The Prescott	\$740,000+	2152 sf	\$3,887	\$5,349
<b><u>Cottages</u></b>				
The Holly	\$850,000+	2210+ sf	\$4,385	\$5,847
The Laurel	\$875,000+	2427+ sf	\$4,506	\$5,968
The Poplar	\$895,000+	2502+ sf	\$4,506	\$5,968
The Magnolia	\$935,000+	2779+ sf	\$4,737	\$6,199

**Note 1:** THE PURCHASE PRICES INCLUDE THE 10% MEMBERSHIP FEE.

**Note 2:** Some plans may be modified from the original plan and may have upgraded finishes.

**Note 3:** The monthly fees shown are for 2020 and will be adjusted annually. In 2018 and 2019, the Condominium Fee represented approximately 22% of the total Monthly Fee, and the Service Fee represented approximately 78 % of the total Monthly Fee.

**Note 4:** The purchase prices for Villas A, B, C and D and the Cottages are estimates only and are based on resales of Villas and Cottages. Resales will be priced individually based on custom modifications, location and view. Resale prices are determined by the individual owners. The purchase prices for the Building E Units are initial prices only. All purchase prices and monthly fees are subject to change.

**Note 5:** Covered and garage parking spaces may be sold independent of the home.

**Note 6:** The monthly fee includes many services, amenities, wellness and healthcare benefits which are outlined in the Membership Agreement.

**Note 7:** In some circumstances, floor premiums may apply.

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**ANNUAL MONTHLY FEE INCREASE PER UNIT TYPE (FROM 2015)**

See Exhibit R attached hereto and incorporated herein by reference.

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## THE PURCHASE AND SALE AGREEMENT

In this portion of the Disclosure Statement, the basic terms and conditions for purchasing a Cottage or Villa are summarized based upon the more prevalent transaction wherein the purchaser and prospective Member are one and the same. Variations are common and discussed elsewhere in this Disclosure Statement. Beginning January 1, 2012 through the date of this Disclosure Statement, the prospective purchaser of an existing Unit enters into a Re-Sale Purchase and Sale Agreement, substantially in the form attached hereto as Exhibit U (“Re-Sale PSA”), typically depositing fifteen percent (15%) of the home’s gross purchase price. During the fall of 2019, the Company began accepting Reservation PSAs (See Exhibit T) for the pre-construction Building E Units, depositing at least ten percent (10%) of the home’s gross purchase price. All of the Building E Purchasers have converted their Reservation PSAs into binding contracts by executing Addendum agreements (See Exhibit T). All of the Building E Units are now reserved under binding contracts, each of which is secured with a non-refundable ten percent (10%) deposit. For purposes of this Disclosure Statement, the Purchase and Sale Agreement, the Re-Sale PSA, the Reservation PSA and the Addendum are sometimes referred to collectively as the “Purchase Documents”). In the event of any conflict between this Disclosure Statement and the Purchase Documents, the terms of the Purchase Documents shall control.

The basic terms and conditions for purchasing a Cottage or Villa under the Purchase Documents are summarized as follows:

1. Purchase Price. At the time of signing a Re-Sale PSA, the prospective Member typically will pay a deposit equal to fifteen percent (15%) of the purchase price for the Cottage or Villa selected. At the time of signing a Reservation PSA for the purchase of a yet to be constructed Villa in Building E, the prospective Member will pay a deposit equal to ten percent (10%) of the purchase price for the Villa selected. The deposits provided under the Re-Sale PSA and the Reservation PSA typically will be placed in the Company's Escrow Account at First Citizens Bank & Trust Company. At closing, the Member will pay the balance of the purchase price for the Cottage or Villa selected.

2. Membership Fee. At the time of signing either a Re-Sale PSA or a Reservation PSA, the prospective Member will also sign a Membership Agreement. The terms of the Membership Agreement will govern the Member’s membership interest in The Club. Membership in The Club is not an estate or interest in land and is not incidental to the ownership of a real property interest in a Villa or Cottage. The cost of Membership is a separate, non-refundable Membership Fee calculated as ten percent (10%) of the gross purchase price, which is payable to the Company. This Membership Fee is not a traditional entrance fee and thus is treated as income by The Company when received and not amortized. The Membership Fee entitles a Member to that certain license or collection of rights, coupled with the corresponding responsibilities and obligations, associated with permanent residency within The Cypress. Only membership (as distinguished from ownership of a Unit) gives a Member the right to use the Club Facilities and the right to live in the Health Care Center when (s)he is no longer capable of independent living.

3. General Warranty Deed. The Company or Member owner will convey good and marketable title to purchaser at the time of closing.



4. Monthly Payment. Effective as of the closing, the Member must make the monthly payments to The Club. The monthly payments cover the cost of various services provided by The Club, which are part of a coordinated system of care to address both medical and non-medical drivers of health outcomes. As a matter of convenience, the monthly payments also cover the monthly contribution to the Association, known as the condominium fee.

5. Common Expenses. At closing, the purchaser of a Villa or Cottage must also pay to the Association a non-refundable working capital fund contribution equal to two (2) months of purchaser's assessment for common expenses of the Association.

6. Reserve Deposit. The State of North Carolina Department of Insurance, in accordance with Chapter 58, Article 64 of the North Carolina General Statutes (the "CCRC Act"), requires that all continuing care facilities maintain operating reserves equal to fifty percent (50%) of the total operating costs forecasted for the twelve (12) month period following the period covered by the most recent annual statement filed with the Department. Facilities that maintain an occupancy level in excess of ninety percent (90%) shall only be required to maintain a twenty-five percent (25%) operating reserve upon approval of the Commissioner.

Each Purchase and Sale Agreement signed on or before December 31, 2011 required the purchaser (each a "Pre-2012 Purchaser" and collectively the "Pre-2012 Purchasers") to pay to The Club an operating reserve deposit in the sum of \$9,000 (each a "\$9,000 Operating Reserve Deposit" and collectively the "\$9,000 Operating Reserve Deposits"). The \$9,000 Operating Reserve Deposits will be held in a separate capital management account (the "Operating Reserve Account"), with interest and dividends, less fees, on such deposits accruing for the benefit of the Pre-2012 Purchasers. So long as it is not necessary for The Club to use proceeds or assets from the Operating Reserve Account, interest and/or dividends earned on the \$9,000 Operating Reserve Deposits shall be paid to each Pre-2012 Purchaser on a prorata basis in February of each year. Upon re-sale of a Pre-2012 Purchaser's Villa or Cottage any unused portion of the \$9,000 Operating Reserve Deposit paid by such purchaser shall be returned to purchaser with available interest and/or dividends earned on such deposit prorated since the latest distribution from the account.

Each Purchase Document signed on and after January 1, 2012 requires the purchaser (each a "Post-2011 Purchaser", and collectively the "Post-2011 Purchasers") to pay to The Club an operating reserve deposit in the sum of \$14,000 (each a "\$14,000 Operating Reserve Deposit" and collectively the "\$14,000 Operating Reserve Deposits"). The \$14,000 Operating Reserve Deposits will be held in the Operating Reserve Account, with earnings on such deposits accruing for the benefit of The Club. Upon re-sale of a Post-2011 Purchaser's Villa or Cottage any unused portion of the \$14,000 Operating Reserve Deposit paid by such purchaser shall be returned to purchaser.

For purposes of this Disclosure Statement, we have attached as Exhibit U a Re-Sale PSA substantially in the form used on and after January 1, 2012, which form reflects the \$14,000 Operating Reserve Deposit obligation described above. Purchase and Sale Agreements signed prior to January 1, 2012 were substantially in the form attached as Exhibit P to the Disclosure Statement filed by The Cypress of Raleigh with the Department of Insurance on or around May 28, 2010, which form reflects the \$9,000 Operating Reserve Deposit obligation described above.

7. Taxes. After closing, the Unit owner will be responsible for the real estate taxes due and owing on his/her Villa or Cottage. At closing, real estate taxes will be prorated on a calendar year basis in accordance with the Purchase Documents.

8. Purchaser's Right to Terminate or Cancel. **In the event of Purchaser's cancellation of the Re-Sale PSA or the Reservation PSA and Addendum within the Cancellation Period defined below, all payments made by Purchaser prior to such cancellation shall be refunded to Purchaser in accordance with N.C.G.S. §58-64-25(a)(3). Notwithstanding the fact that N.C.G.S. §47C-4-108 provides for a seven (7) day cancellation period for condominium acquisitions, the Re-Sale PSA and Reservation PSA and Addendum provide for a longer cancellation period as follows.** A Purchaser shall have the absolute right to cancel either the Re-Sale PSA or the Reservation PSA and Addendum, as applicable, at any time by delivering written notice to the seller during the thirty (30) calendar day period immediately following the later of (i) the full execution of the Re-Sale PSA or the Addendum, as applicable, or (ii) the date the Disclosure Statement is delivered to Purchaser (the "Cancellation Period"). Purchaser's cancellation during the Cancellation Period is without penalty, and all payments made by the Purchaser before such cancellation shall be refunded by the seller within ten (10) days after the expiration of the Cancellation Period. The Re-Sale PSA and the Reservation PSA and Addendum, as applicable, also shall be automatically terminated in the event of a purchaser's death or incapacity prior to closing. If either the Re-Sale PSA or Reservation PSA and Addendum are terminated in such manner, all deposits will be refunded to purchaser, less the reasonable costs incurred by The Cypress, within ten (10) days after The Cypress receives the termination notice.

9. Re-sale of Cottage or Villa. When the owner of a Cottage or Villa wishes to sell his/her Cottage or Villa, and a bona fide offer has been received from a third party, the owner shall then offer it for sale to the Company for the same price as the highest bona fide offer received. If the Company fails to exercise its option to purchase the Cottage or Villa within thirty (30) days after receipt of the offer, the owner may sell the Villa or Cottage to the third party, subject to all covenants, restrictions, limitations, affirmative obligations and other agreements referenced and contained in the Re-Sale PSA (see Exhibit U) and Membership Agreement. Upon the re-sale of a Cottage or Villa, the new purchaser or Designated Member (as discussed below) will pay to the Company a Membership Fee, as detailed in the Re-Sale PSA.

10. Counterparts; Electronic Signatures. To facilitate execution and delivery of the Purchase Documents, the parties may execute and exchange executed counterparts by facsimile or e-mail in a PDF file to the other party or to the other party's counsel. Electronic, facsimile or signatures in a PDF file shall have the same legal effect as original signatures.

## **THE MEMBERSHIP AGREEMENT**

Typically, when one purchases a Villa or Cottage at The Cypress of Raleigh they are buying two separate and distinct property interests. First, they are buying a real property interest in the Villa or Cottage. Second, they are buying membership in The Cypress of Raleigh Club. The interest in the real estate is transferrable, but the membership is not. In some situations, a

Villa or Cottage is purchased by someone who will not be residing in the home and will not be a Member of The Club. In such an instance, the purchaser must designate the person(s) who will use the membership interest, which must be acquired at the time the Villa or Cottage is purchased (the "Designated Member"), and the Designated Member will sign a Membership Agreement (see Exhibit S). The Designated Member must: (a) meet the basic eligibility requirements for membership in The Cypress; (b) be approved by the Company; (c) execute the Membership Agreement; and (d) comply with the terms of the Membership Agreement, including, without limitation, assurances regarding the monthly payments (as described below). The Designated Member's membership in The Club will terminate when the Designated Member ceases to reside at The Cypress. Any subsequent residents of the Villa or Cottage, including the purchaser, must acquire their own membership in The Club prior to occupying the Villa or Cottage. The Membership Fee for the membership will be assessed at the then applicable rate for future Members and must be paid to the Company prior to occupancy of the Villa or Cottage. As outlined in the Membership Agreement, only membership entitles the purchaser or Designated Member to use the Clubhouse facilities, receive specific services, and receive health care in the Health Center when the Member is no longer capable of independent living, with or without reasonable accommodation or modification. The Membership Agreement requires a monthly payment which covers the cost of the various services and features provided at The Cypress. The monthly payment also includes the monthly contribution to the Condominium Association for the purchaser's Cottage or Villa.

1. Monthly Payment. Pursuant to the terms of the Membership Agreement, the purchaser or Designated Member must begin making monthly payments upon the earlier of the date on which the purchaser or Designated Member occupies the Villa or Cottage, or the closing date specified in the Re-Sale PSA or Reservation PSA and Addendum, as applicable. Thereafter, the monthly payment will be payable on the tenth (10th) day of each month. The monthly payment varies depending upon the type of Cottage or Villa purchased. The monthly payment includes the cost of services provided to Members by The Club, as described herein. The amount of the monthly payment for the calendar year in which the Re-Sale PSA or Reservation PSA and Addendum are executed will be stated in the applicable agreement. The total monthly payment, which is higher when a second person shares a Cottage or Villa, will also be stated in the applicable agreement. The monthly payment can be adjusted annually, in accordance with the consumer price index formula set forth in the Membership Agreement.

As a matter of convenience, the monthly payment also includes the condominium fee and services fee, as defined in the Membership Agreement. The condominium fee is the Member's pro rata share of the Association's common expenses (actual costs of operating, maintaining and repairing The Cypress' common elements, together with a reserve for replacements), which share is based on the Unit owner's ownership interest in the common elements. The services fee covers the cost of the various services provided to Members of The Club. The condominium fee and the services fee are included in the monthly payment as a convenience for the Members (so Members will not have to make multiple payments).

The monthly payment for the first full year of operations (calendar year 2009) was based upon estimated costs of operations provided by an experienced continuing care operator. Thereafter, the monthly payment has been, and will continue to be, determined after each full year

of operations based on the actual cost of operations and the cost of providing the services described herein. After the second full year of operations (calendar year 2010), with respect to services provided by The Club, the formula for determining the maximum increase permitted for that portion of the monthly payment has been, and will continue to be, based on the higher of: (a) the annual percentage increase of the Consumer Price Index, U.S. City Average, All Items (1967 - 100) (hereinafter "C.P.I.") issued by the U.S. City Average, Labor Statistics in its monthly report entitled "The Consumer Price Index, U.S. City Average" and its monthly report entitled "The Consumer Price Index, U.S. City Average and Selected Areas," or (b) the annual percentage increase of the Medical Care Component of the C.P.I. An additional three (3%) percent may be added to the higher of the annual percentages. This formula went into effect after the second full year of operations (calendar year 2010). The Members shall receive sixty (60) days advance notice of any monthly payment adjustment.

Each month The Club will provide an itemized billing statement which includes the first person monthly payment, the second person monthly payment, if applicable, and any additional charges not included in the monthly payment. For a list of services included in the monthly payment, see Section 7 of the Membership Agreement.

Each Member must make the monthly payment until his/her Cottage or Villa has been sold, transferred, or otherwise conveyed to a new Member, and the new Member assumes the ownership rights and obligations of membership in The Club with respect to the Cottage or Villa and the monthly payment. Provided, however, the Company shall pay only the condominium fee portion of the monthly payment for Cottages or Villas owned by the Company.

2. Additional Charges. A Member may, for an additional charge, request optional services which are not included in the monthly payment. The optional services may include, but will not be limited to, additional meals not covered by the Member's monthly meal points, additional housekeeping, beauty parlor, barbershop, home health, and assistance-in-living services in the Member's Cottage or Villa. Additional charges may also be assessed for special health services and supplies. The special services may include, but will not be limited to, therapies, pharmacy, special duty nurses, and medical treatment by an attending physician or the medical director. The additional charges for optional services will be payable on the tenth (10th) day of the month following the month in which the optional services were obtained. For a list of services for which there is an additional charge, see Sections 8 and 9 of the Membership Agreement and the table attached hereto as Exhibit X.

3. Adding a Member After Initial Occupancy. After initial occupancy of a Cottage or Villa by a Member, circumstances can arise in which the Member wants an additional person to have a right to occupy the Cottage or Villa. For example, the Member may get married and the couple may wish to make the Cottage or Villa their home, or the Member may wish to have a close family member move into the Cottage or Villa with him or her. Unless such additional person already is a Member, he or she may not occupy a Cottage or Villa without the express written approval of The Club. The additional person must go through The Cypress' admission procedures, and the acceptance of any such additional person will be in accordance with the current policies governing all other admissions. If the additional person is accepted for admission, he or she shall sign a Membership Agreement and pay a Membership Fee to the Company based on the fair market value

of the Cottage or Villa, as determined by an appraiser. The approved additional person shall also pay a second person monthly fee. If the additional person does not meet The Cypress' requirements for residency, he or she will not be permitted to occupy the Cottage or Villa for more than thirty (30) days (except with the express written approval of The Club), or the Membership Agreement may be terminated.

4. Marriage between Existing Members. In certain instances, two existing Members who each own a Unit may wish to marry and live in one Unit (the "Occupied Unit") and to sell the other Unit (the "Vacated Unit"). In that event neither Member would be required to pay an additional Membership Fee to the Company. However, until the Vacated Unit has been sold, the owner of the Vacated Unit would continue to be charged the Monthly Fee applicable to that Unit. For so long as the Member who owns the Vacated Unit is paying these Monthly Fees, he or she would not be required to pay a second person fee for the Occupied Unit. In the event that the married couple wishes to retain ownership of both of their Units, each Member would continue to be charged the Monthly Fee applicable to his or her Unit. Because both Members would have been admitted to The Cypress previously under separate Membership Agreements, each of their Membership Agreements would remain in effect separately.

5. Financial Hardship. It is intended that The Club will operate as a non-profit organization which will seek to avoid terminating a Membership Agreement solely because a Member is financially unable to pay the monthly payment and other charges. The Member will be permitted to remain at The Cypress at a reduced monthly payment based on the Member's ability to pay for a period of ninety (90) days after default in payment. The ninety (90) day period may be extended if: (a) The Club determines that the deferral of payment can be granted without impairing the ability of The Club to operate on a sound financial basis, (b) the Member can justify the deferral of the charges, and (c) the Member has the ability to secure repayment of the deferred charges. If charges are deferred, the Member will sign a promissory note for the amount deferred, which note will be secured by a deed of trust on the Cottage or Villa. Notwithstanding the foregoing, if a Member's ability to meet his or her financial obligations is impaired as a result of the Member making unapproved gifts or transfers, The Company may terminate the Member's Membership Agreement.

6. Member's Termination Rights. In accordance with Section 11 of the Membership Agreement, a Member may terminate the Membership Agreement at any time for any reason by giving the Company thirty (30) days prior written notice thereof. In such event, the Member's obligations under the Membership Agreement shall continue until the Cottage or Villa is transferred, sold or otherwise occupied by a successor Member, and the new Member assumes the obligation of the monthly payment. Transfer under the last will and testament of a deceased Member, other than to his/her estate, is a conveyance upon which a new Membership Fee must be paid if the devisee or beneficiary elects to become a Member of The Club. In the event of death, the estate of the Member will remain liable for all Membership obligations provided under the Membership Agreement until the deceased Member's Cottage or Villa is transferred, sold or otherwise occupied by a successor Member, and the new Member assumes the obligations of membership. If the Member is not also the owner of the Cottage or Villa, the owner of the Cottage or Villa and the deceased Member's estate shall be jointly and severally responsible for obligations under the Membership Agreement.

In addition, pursuant to Section 18 of the Membership Agreement, the Membership Agreement may be rescinded by the Member within thirty (30) days following the later of the execution of the Membership Agreement or the receipt of a Disclosure Statement prepared in accordance with North Carolina law; and the Member will not be required to close on the purchase of his/her Unit prior to the expiration of the thirty (30) day period. If a Member dies before closing on the purchase of a Unit or is unable to occupy a Unit due to illness, injury, or incapacity that renders him/her ineligible for Membership, then the Membership Agreement will automatically be terminated and all deposits returned to the Member or his/her estate. If there is more than one purchaser of the Unit, the Membership Agreement will continue to be binding on the surviving or eligible purchaser. The Membership Agreement will also be automatically terminated if a Member sells his/her Unit and does not reside in the Unit or the Health Care facility. If the Membership Agreement is rescinded or canceled pursuant to Section 18, the Member or his/her legal representative shall receive a refund of all money or property transferred to the Company, less (i) non-standard costs specifically incurred by the Company at the request of the Member, as described in any contract amendment signed by the Member or the Owner; (ii) any non-refundable fees or costs specified and described herein; and (iii) a reasonable service charge not to exceed the greater of one thousand dollars (\$1,000.00) or two percent (2%) of the Membership Fee.

7. The Company's Termination Rights. The Company may terminate a Membership Agreement only for the reasons set forth in Section 12 of the Membership Agreement. The Company shall not terminate the Membership Agreement without just cause. Just cause shall exist if: (a) the Member fails to pay any charges due under the Membership Agreement, (b) the Member creates a disturbance within The Cypress which is detrimental to the health, safety, comfort, or peaceful lodging of the Members, (c) the Health Center cannot, within the limits of its license, provide the health care services which the Member requires, or (d) the Member refuses medical treatment which is medically required. Before terminating the Membership Agreement, The Club will give the Member written notice of the reasons for termination, and the Member will have thirty (30) days after the notice to correct the problem. If the problem is corrected within the thirty (30) day period, the Membership Agreement shall remain in effect. If the problem is not corrected within the thirty (30) day period, the Membership Agreement will be terminated, and the Member must leave The Cypress. However, if it is determined that the thirty (30) day waiting period is detrimental to the Member, other Members, or the staff of The Cypress, this waiting period will be waived.

8. Electronic Signatures. To facilitate execution and delivery of the Membership Agreement, the parties may execute and exchange executed counterparts by facsimile or e-mail in a PDF file to the other party or to the other party's counsel. Electronic, facsimile or signatures in a PDF file shall have the same legal effect as original signatures.

## **LEASE**

The Company may lease any Cottage or Villa which it owns on a short or long-term basis. The owner of a Cottage or Villa may lease his/her Cottage or Villa only to a family member; and no timesharing or interval ownership will be permitted. Anyone who leases a Cottage or Villa must meet the residency requirements set forth in The Cypress' Membership Agreement, including payment of a new Membership Fee. In addition, the authorized tenant must sign a Cypress Membership Agreement and a guaranty agreement which evidences the joint responsibility of the owner and the tenant for the monthly payment. The tenant will be entitled to all rights and privileges with respect to use of the Cottage or Villa, except voting rights, which will remain with the owner of the Cottage or Villa. The Association shall have the right to terminate the lease and evict the tenant in the event of a default.

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## **IV. REGULATORY MATTERS**



## **CONTINUING CARE RETIREMENT COMMUNITY LICENSURE**

Continuing care retirement communities in the State of North Carolina are governed by the CCRC Act (North Carolina General Statutes Chapter 58, Article 64), which empowers the Commissioner of the Department of Insurance to regulate the Registration, Disclosure Contract and Financial Monitoring Requirements for continuing care facilities.

With respect to Phases I and II, the Phase III Cottages and the Building D Villas, The Cypress has obtained the following permits and approvals: (i) a Start-Up certificate which enabled it to enter into binding Reservation Agreements; (ii) a Preliminary Certificate which permitted construction of the condominium; and (iii) a Permanent License for continuous operation. With respect to the Building E Expansion, The Cypress has obtained a Start-Up Certificate which enabled it to enter into binding Reservation PSAs and Addendum Agreements. The Department of Insurance also has granted the Preliminary Certificate, and construction on the Building E Expansion is in process. The Company anticipates completing the Building E Expansion by November 2020.

In accordance with the CCRC Act, The Cypress will deliver a Disclosure Statement to each prospective Member upon the earlier of the execution of a Membership Agreement, or the transfer of any money to The Cypress. Further in accordance with the CCRC Act, The Cypress will file with the Department of Insurance, within one hundred fifty (150) days after the end of each fiscal year, a revised annual Disclosure Statement which will include updated financial information.

## **CONDOMINIUM ACT**

The Cypress, as a condominium community, is subject to the North Carolina Condominium Act (North Carolina General Statutes Chapter 47C) (the "Act"). Pursuant to the Act, the Association conducts the business and affairs of the condominium created by the Declaration which is recorded in the Office of the Register of Deeds for Wake County. The Declaration is the document by which the condominium aspects of The Cypress are governed and subjected to the provisions of the Act. The business and affairs of the condominium will be conducted by The Cypress of Raleigh Owners' Association. Issues pertinent to the Association will be disclosed in a public offering statement which will be provided to each prospective purchaser.

## **CONTROLLING LAW**

As stated above, the purchase, sale and ownership of a Unit at The Cypress and membership in The Club are subject to the provisions of the CCRC Act and the North Carolina Condominium Act. North Carolina also has a law prohibiting transfer fees (North Carolina General Statutes Chapter 39A). In the event of a conflict among these laws, a Member, by signing the Membership Agreement, evidences the Member's acknowledgement and agreement that the CCRC Act shall control, including specifically North Carolina General Statutes § 58-64-85(b) which provides:

(b) Facilities and providers licensed under this Article that also are subject to the provisions of the North Carolina Condominium Act under Chapter 47C of the General Statutes shall not be subject to the provisions of Chapter 39A of the General Statutes, provided that the facility's declaration of condominium does not require the payment of any fee or charge not otherwise provided for in a resident's contract for continuing care, or other separate contract for the provisions of membership or services.

### **HEALTH CENTER LICENSURE**

The Club has received a license from the North Carolina Department of Health and Human Services, Division of Facility Services, for thirty six (36) skilled nursing beds and four (4) adult care home beds. The Cypress of Raleigh has begun the process for enlarging the Health Center, and The Club has received a Certificate of Need to add up to twenty-one (21) skilled nursing beds. The Health Center expansion also will include additional common area and dining spaces. Construction on the Health Center expansion is anticipated to be complete in September 2020, if not earlier.

### **MEDICARE AND MEDICAID**

Certain beds in The Cypress' Health Center are certified by the federal government, and the facility is able to receive reimbursement from Medicare. It should be noted that the determination of a Member's Medicare eligibility is subject to Federal regulation; and, therefore, not all Health Center stays will be eligible for Medicare reimbursement.

The Cypress has chosen not to participate in the Medicaid program. In accordance with Paragraph 12(b) of the Membership Agreement (see Exhibit S), it will be The Cypress' policy to not terminate residency of a Member solely by reason of his/her inability to pay the monthly payment or other Health Center charges.

### **ESCROW ACCOUNT**

Upon a prospective Member signing a Re-Sale PSA or a Reservation PSA, all earnest money deposits will be placed in the Company's special escrow account with First Citizens Bank, 4300 Six Forks Road, FCC-16, Raleigh, North Carolina 27609. Upon proper notification to the Department of Insurance, the Company may open one or more earnest money deposit accounts at other financial institution in accordance with the requirements of the CCRC Act.

### **RESERVE ACCOUNTS**

A Replacement Reserve Account will be funded by non-refundable payments made by each Member at the closing on his/her Cottage or Villa (each a "Reserve Payment"). The Reserve Payment will be equal to two (2) months of the Member's pro rata share of Association common expenses. The Replacement Reserve Account is a restricted working capital account, and any

interest earned on funds held in the Replacement Reserve Account shall be included in The Cypress working capital fund. As of April 30, 2020, the balance of the Replacement Reserve Account was \$5,218,451.83. This is approximately \$1,550,000 less than the Replacement Reserve Account balance as of April 15, 2019. Since April 2019, The Cypress of Raleigh has used funds in the Replacement Reserve Account for the following improvements to the community: (i) refurbishment of carpet, furniture and art work in Buildings A, B and C; (ii) improvements to the Clubhouse kitchen including an improved layout and new equipment to account for the new Members who will be moving into Building E in the fall of 2020; (iii) replacement of the personal emergency response system; and (iv) refurbishment of the dining room and living room at the Rosewood Health Center.

Pursuant to the CCRC Act, The Cypress is required to maintain operating reserves in restricted accounts equal to twenty-five percent (25%) of the total operating costs forecasted for the twelve (12) month period following the period covered by its most recent Disclosure Statement filed with the Department of Insurance (the “Minimum Operating Reserve Balance”). Accordingly, The Club requires each purchaser to deposit an Operating Reserve Deposit when they purchase a Unit at The Cypress of Raleigh. Each purchaser who signed a Purchase Agreement prior to January 1, 2012 has deposited a \$9,000 Operating Reserve fund deposit which, if unused, may be refunded, with interest, upon the resale of the Unit. Each purchaser who signed a Purchase Agreement on or after January 1, 2012 has deposited a \$14,000 Operating Reserve fund deposit, which, if unused, may be refunded, without interest, upon the resale of the Unit. The State of North Carolina must give approval for the release of operating reserve funds. As of April 30, 2020, the current Operating Reserve Fund was \$3,327,635.62. All reserve funds will be invested in accordance with the requirements of the CCRC Act, with investment decisions made by Michael G. Sandman, Craig C. Huggins and/or Mark T. Andrews.

Currently, the funds in the Replacement Reserve Account and the Operating Reserve Fund are professionally managed by First Citizens Bank.

To ensure that the Minimum Operating Reserve Balance is maintained, such sums are and will be reserved and restricted from the Replacement Reserve Account as may be necessary from time to time to cause such restricted funds, when added to the funds on deposit in the Operating Reserve Account, to meet the Minimum Operating Reserve Balance. The beneficial ownership of the Replacement Reserve Account and the Operating Reserve Account are aligned and under the common management of The Club, and the reservation and restriction of funds from the Replacement Reserve Account as described herein is consistent with its purpose, which is to protect and benefit the property and assets of The Cypress of Raleigh.

## **TAX DEDUCTION**

Members of The Cypress may be allowed a tax benefit. A percentage of the monthly payment may be taken as a medical expense deduction each year. In February of each year, The Club will provide Members with the percentage of the prior year's monthly payment that has been determined to be attributable to the operations of the Health Center. This medical deduction is, of

course, subject to limitations imposed by the Internal Revenue Code. It is advisable that the Members seek the advice of tax counsel before taking this deduction. The percentage of the monthly payment that was permitted to be taken as a medical expense deduction for 2019 was 33.49%.

# **V. FINANCIAL**

## **FINANCING**

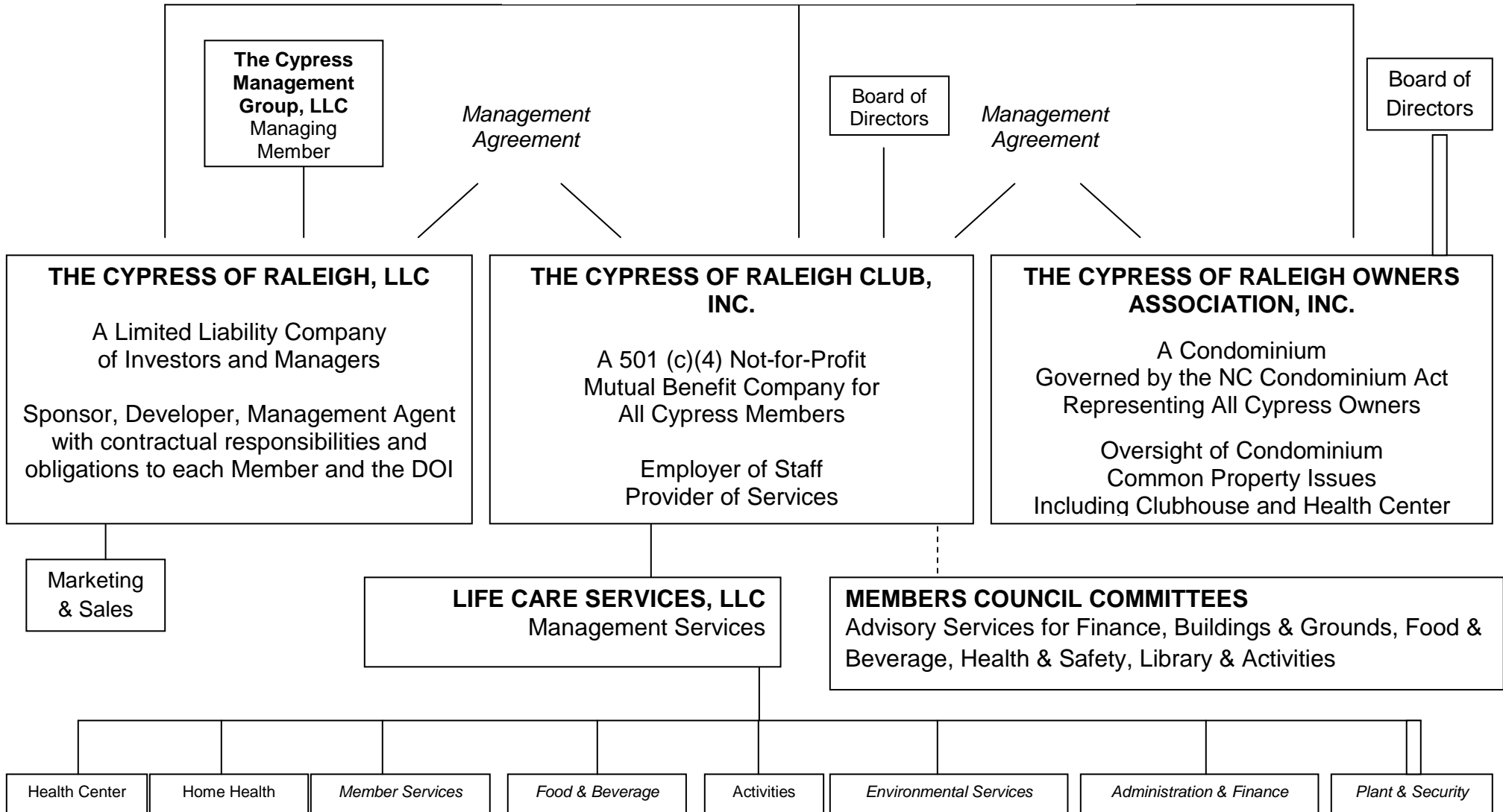
See the financial statements (with narrative assumptions and explanations) for the Company and The Club attached hereto as Exhibit B through Exhibit N.

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**EXHIBIT A**  
**ORGANIZATION CHART**

**{ATTACHED}**

**THE CYPRESS OF RALEIGH**  
 A Continuing Care Retirement Community  
*Entities Comprising The Cypress of Raleigh*



**The Cypress Management Group, LLC**  
Managing Member

*Management Agreement*

Board of Directors

*Management Agreement*

Board of Directors

**THE CYPRESS OF RALEIGH, LLC**  
 A Limited Liability Company of Investors and Managers  
 Sponsor, Developer, Management Agent with contractual responsibilities and obligations to each Member and the DOI

**THE CYPRESS OF RALEIGH CLUB, INC.**  
 A 501 (c)(4) Not-for-Profit Mutual Benefit Company for All Cypress Members  
 Employer of Staff  
 Provider of Services

**THE CYPRESS OF RALEIGH OWNERS ASSOCIATION, INC.**  
 A Condominium Governed by the NC Condominium Act Representing All Cypress Owners  
 Oversight of Condominium Common Property Issues Including Clubhouse and Health Center

Marketing & Sales

**LIFE CARE SERVICES, LLC**  
Management Services

**MEMBERS COUNCIL COMMITTEES**  
Advisory Services for Finance, Buildings & Grounds, Food & Beverage, Health & Safety, Library & Activities

- Health Center
- Home Health
- Member Services
- Food & Beverage
- Activities
- Environmental Services
- Administration & Finance
- Plant & Security

**EXHIBIT B**

**THE CYPRESS OF RALEIGH CLUB, INC.  
FINANCIAL REPORT (DECEMBER 31, 2019 and 2018)**

**{ATTACHED}**



**THE CYPRESS OF RALEIGH CLUB, INC.**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
The Cypress of Raleigh Club, Inc.  
Raleigh, NC

We have audited the accompanying statements of financial position of The Cypress of Raleigh Club, Inc. as of December 31, 2019 and 2018, and the related statements of activities, changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cypress of Raleigh Club, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Adoption of New Accounting Standard**

As discussed in Note 1, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and No. 2016-01, *Financial Statements – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* and subsequently issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10)*. Effective January 1, 2019, the Club adopted these standards. Our opinion is not modified with respect to these matters.

*Dreher Martin CPAs, P.A.*

March 31, 2020

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2019 AND 2018**

<b>ASSETS</b>		
	<u><b>2019</b></u>	<u><b>2018</b></u>
<b>Current Assets</b>		
Cash and cash Equivalents	\$ 297,715	\$ 411,342
Accounts Receivable	608,313	621,951
Inventory	119,213	103,761
Prepaid Expenses	159,024	151,688
<b>Total Current Assets</b>	<u><b>1,184,265</b></u>	<u><b>1,288,742</b></u>
<b>Assets Limited as to Use</b>		
Restricted Reserves Required by State Statute, cash equivalents	29,614	38,258
Renewal and Replacement Reserve, cash equivalents	970,319	-
	<u>999,933</u>	<u>38,258</u>
Restricted Reserves Required by State Statute, investments	3,501,170	3,025,978
Working Capital Reserve, investments	5,996,760	6,168,986
Renewal and Replacement Reserve, investments	3,828,984	5,718,754
	<u>13,326,914</u>	<u>14,913,718</u>
<b>Total Assets Limited as to Use</b>	<u><b>14,326,847</b></u>	<u><b>14,951,976</b></u>
Property and Equipment, Net	<u>3,242,705</u>	<u>1,023,266</u>
<b>Other Assets</b>		
Due (to) from Affiliates	(2,583,385)	(1,685,984)
Refundable Deposits	62,177	62,177
<b>Total Other Assets</b>	<u><b>(2,521,208)</b></u>	<u><b>(1,623,807)</b></u>
<b>Total Assets</b>	<u><u><b>\$ 16,232,609</b></u></u>	<u><u><b>\$ 15,640,177</b></u></u>

**LIABILITIES AND NET ASSETS**

<b>Current liabilities</b>		
Accounts Payable	\$ 806,782	\$ 810,647
Accrued Expenses	904,627	842,987
Due to Members	46,823	-
Line of Credit	-	36,521
Current Portion of Notes Payable	49,706	-
Current Portion of Capital Lease Payable	18,980	27,056
<b>Total Current Liabilities</b>	<u>1,826,918</u>	<u>1,717,211</u>
<b>Long-term Debt</b>		
Notes Payable, Net of Current Portion	43,518	-
Capital Lease Payable, Net of Current Portion	9,917	35,621
<b>Total Long-term Liabilities</b>	<u>53,435</u>	<u>35,621</u>
<b>Total Liabilities</b>	<u><b>1,880,353</b></u>	<u><b>1,752,832</b></u>
Net Assets, Without donor restrictions	<u>(972,820)</u>	<u>(1,235,575)</u>
Net Assets, Without donor restrictions - Designated for asset replacement	<u>5,996,760</u>	<u>6,168,986</u>
Net Assets, With donor restrictions	<u>9,328,316</u>	<u>8,953,934</u>
<b>Total Liabilities and Net Assets</b>	<u><u><b>\$ 16,232,609</b></u></u>	<u><u><b>\$ 15,640,177</b></u></u>

**See Accompanying Notes and Independent Auditors' Report.**

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

<b>Net Assets Without Donor Restrictions:</b>	<b>2019</b>	<b>2018</b>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>		
Member fees and Assessments	\$ 8,176,007	\$ 6,751,441
Health Center	3,980,929	3,812,940
Home Health	1,894,345	1,684,125
Miscellaneous	-	62,000
Net Investment Income	1,239,630	(496,303)
Total Revenue, Gains and Other Support	<u>15,290,911</u>	<u>11,814,203</u>
 <b>EXPENSES</b>		
Program Services		
Housekeeping	1,054,641	882,334
Food and Beverage	3,671,152	3,103,367
Health Center	3,410,239	3,144,461
Community Home Health	1,938,106	1,948,476
Resident Services	506,658	536,525
Plant	430,940	416,654
	<u>11,011,736</u>	<u>10,031,817</u>
Supporting Services		
General and Administrative	2,482,203	1,965,380
Management Fees	460,906	405,307
	<u>2,943,109</u>	<u>2,370,687</u>
Depreciation	150,201	118,024
Other Expenses	134,631	59
Gain/Loss on Sale of Assets	19,519	-
Total Operating Expenses	<u>14,259,196</u>	<u>12,520,587</u>
Change in net assets without donor restrictions	<u>1,031,715</u>	<u>(706,384)</u>
 <b>Net Assets With Donor Restrictions:</b>		
Reserves Required by State Statute Deposited	64,000	871,000
Developer Contribution	150,000	5,963,934
Net Investment Income	160,382	-
Change in net assets with donor restrictions	<u>374,382</u>	<u>6,834,934</u>
 <b>Change in Net Assets</b>	<u><u>\$ 1,406,097</u></u>	<u><u>\$ 6,128,550</u></u>

**See Accompanying Notes and Independent Auditors' Report.**

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<b>Total Net Assets</b>
<b>Net Assets Without Donor Restrictions</b>	
Net Assets Without Donor Restrictions, January 1, 2018	\$ (457,442)
Asset purchases transferred to Owners' Association	(499,456)
Change in net assets	<u>(278,677)</u>
Net Assets Without Donor Restrictions, December 31, 2018	\$ (1,235,575)
Asset purchases transferred to Owners' Association	(983,083)
Change in net assets	<u>1,245,838</u>
Net Assets Without Donor Restrictions, December 31, 2019	<u>\$ (972,820)</u>
 <b>Net Assets Without Donor Restrictions -Designated</b>	
Net Assets Without Donor Restrictions - Designated -January 1, 2018	\$ 6,415,077
Amounts transferred to Association for working capital reserve	181,616
Change in net assets without donor restriction - designated	<u>(427,707)</u>
Net Assets Without Donor Restrictions - Designated -December 31, 2018	\$ 6,168,986
Amounts transferred to Association for working capital reserve	41,897
Change in net assets without donor restriction - designated	<u>(214,123)</u>
Net Assets Without Donor Restrictions - Designated -December 31, 2019	<u>\$ 5,996,760</u>
 <b>Net Assets With Donor Restrictions</b>	
Net Assets With Donor Restrictions -January 1, 2018	\$ 2,119,000
Change in net assets with donor restrictions	<u>6,834,934</u>
Net Assets With Donor Restrictions -December 31, 2018	\$ 8,953,934
Change in net assets with donor restrictions	<u>374,382</u>
Net Assets With Donor Restrictions -December 31, 2019	<u>\$ 9,328,316</u>
Net Assets	<u><u>\$ 14,352,256</u></u>

**See Accompanying Notes and Independent Auditors' Report**

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Housekeeping	Food & Beverage	Health Center	Community Home Health	Resident Services	Plant	Total Program Service	General and Administrative	Total
Salaries and Wages	\$ 732,605	\$ 1,863,348	\$ 2,180,275	\$ 1,502,656	\$ 282,395	\$ 125,106	\$ 6,686,385	\$ 476,105	\$ 7,162,490
Pension Expense	5,517	8,028	11,522	7,391	2,561	484	35,503	3,219	38,722
Other Employee Benefits	172,966	330,119	302,030	207,673	30,761	15,568	1,059,117	110,333	1,169,450
Payroll Taxes	55,893	144,262	164,177	118,244	20,814	9,764	513,154	35,528	548,682
Accounting and Legal	-	-	-	-	-	-	-	129,840	129,840
Travel	866	2,411	4,085	842	1,287	-	9,491	7,809	17,300
Interest	-	-	-	-	-	-	-	6,032	6,032
Worker's Comp Insurance	9,542	15,823	41,731	22,308	3,281	1,437	94,122	1,357	95,479
Food Expense	-	1,097,546	-	-	-	-	1,097,546	-	1,097,546
Rent	-	39,322	2,607	-	2,478	41,953	86,360	1,440	87,800
Supplies	60,780	133,308	42,596	14,126	13,141	4,130	268,081	32,333	300,414
Licenses and Fees	-	11,042	12,394	19,325	11,115	811	54,687	12,415	67,102
Repairs and Maintenance	10,597	6,561	2,659	-	1,687	49,879	71,383	4,532	75,915
Vehicle Expense	-	-	-	-	-	23,416	23,416	-	23,416
Utilities	-	-	-	-	-	152,953	152,953	-	152,953
Activity Expenses	-	-	24,347	-	56,706	-	81,053	-	81,053
Other Employee Expense	4,825	10,992	8,472	(50)	8,032	439	32,710	61,063	93,773
Medical Supplies	-	-	120,496	342	-	-	120,838	-	120,838
Other Medical Expenses	-	-	384,862	30,000	-	-	414,862	-	414,862
Training	1,050	3,016	5,294	298	590	-	10,248	28,633	38,881
Professional Dues	-	5,374	224	2,667	785	-	9,050	4,590	13,640
IT Expense	-	-	-	-	-	-	-	117,664	117,664
Telephone	-	-	-	11,274	-	-	11,274	44,015	55,289
Other Expense	-	-	358	-	-	-	358	8,630	8,988
Printing and Postage	-	-	-	-	-	-	-	15,403	15,403
Expense Allocation	-	-	-	-	-	-	-	(30,000)	(30,000)
Management Fee	-	-	-	-	-	-	-	460,906	460,906
Insurance	-	-	-	-	-	-	-	56,832	56,832
Other Fees	-	-	102,110	1,010	71,025	5,000	179,145	266,587	445,732
Startup	-	-	-	-	-	-	-	1,087,843	1,087,843
Bad Debt	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 1,054,641</b>	<b>\$ 3,671,152</b>	<b>\$ 3,410,239</b>	<b>\$ 1,938,106</b>	<b>\$ 506,658</b>	<b>\$ 430,940</b>	<b>\$11,011,736</b>	<b>\$ 2,943,109</b>	<b>\$ 13,954,845</b>

See Accompanying Notes and Independent Auditors' Report



**THE CYPRESS OF RALEIGH CLUB, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Housekeeping	Food & Beverage	Health Center	Community Home Health	Resident Services	Plant	Total Program Service	General and Administrative	Total
Salaries and Wages	\$ 611,619	\$ 1,584,647	\$ 2,000,546	\$ 1,443,972	\$ 228,459	\$ 114,021	\$ 5,983,264	\$ 343,146	\$ 6,326,410
Pension Expense	4,785	7,189	9,126	6,808	2,165	427	30,500	1,580	32,080
Other Employee Benefits	133,742	246,050	253,525	173,525	23,616	12,018	842,476	75,154	917,630
Payroll Taxes	48,780	122,793	154,277	113,941	17,137	8,499	465,427	44,762	510,189
Accounting and Legal	-	-	-	-	-	-	-	75,978	75,978
Travel	2,486	1,179	5,775	337	437	2,032	12,246	9,635	21,881
Interest	-	-	-	-	-	-	-	5,342	5,342
Worker's Comp Insurance	7,824	11,571	39,837	18,624	2,919	1,937	82,712	(529)	82,183
Food Expense	-	937,432	-	-	-	-	937,432	-	937,432
Rent	-	36,720	-	-	239	61,678	98,637	735	99,372
Supplies	57,683	110,320	27,179	32,057	14,729	5,302	247,270	34,719	281,989
Licenses and Fees	-	11,744	28,036	5,358	1,478	435	47,051	5,273	52,324
Repairs and Maintenance	7,273	9,835	11,061	-	9,644	42,087	79,900	5,026	84,926
Vehicle Expense	-	-	-	-	-	21,470	21,470	-	21,470
Utilities	-	-	-	-	-	144,612	144,612	-	144,612
Activity Expenses	-	-	22,934	-	137,915	-	160,849	-	160,849
Other Employee Expense	5,457	15,281	15,287	566	8,231	506	45,328	42,363	87,691
Medical Supplies	-	-	124,751	-	-	-	124,751	-	124,751
Other Medical Expenses	-	-	350,334	143,552	-	-	493,886	-	493,886
Training	2,685	3,293	8,907	1,316	748	10	16,959	7,293	24,252
Professional Dues	-	5,313	500	3,043	315	-	9,171	2,270	11,441
IT Expense	-	-	-	-	-	-	-	94,760	94,760
Telephone	-	-	-	5,275	-	-	5,275	43,497	48,772
Other Expense	-	-	489	102	-	-	591	12,094	12,685
Printing and Postage	-	-	-	-	-	-	-	14,833	14,833
Expense Allocation	-	-	-	-	-	-	-	(143,336)	(143,336)
Management Fee	-	-	-	-	-	-	-	405,307	405,307
Insurance	-	-	-	-	-	-	-	79,562	79,562
Other Fees	-	-	91,897	-	88,493	1,620	182,010	248,617	430,627
Startup	-	-	-	-	-	-	-	959,853	959,853
Bad Debt	-	-	-	-	-	-	-	2,753	2,753
<b>TOTAL</b>	<b>\$ 882,334</b>	<b>\$ 3,103,367</b>	<b>\$ 3,144,461</b>	<b>\$ 1,948,476</b>	<b>\$ 536,525</b>	<b>\$ 416,654</b>	<b>\$10,031,817</b>	<b>\$ 2,370,687</b>	<b>\$ 12,402,504</b>

See Accompanying Notes and Independent Auditors' Report

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net change in net assets	\$ 1,406,097	\$ 6,128,550
Adjustments to Reconcile Increase in Net Assets		
To Cash Provided by Operating Activities		
Depreciation	150,201	118,024
Gain/Loss on sale of assets	19,519	-
Realized and Unrealized Gains/Losses	(1,135,925)	693,354
Changes in working capital components:		
(Increase)decrease in:		
Accounts and Other Receivables	13,638	66,632
Inventories	(15,452)	(11,532)
Prepaid Expenses	(7,336)	74,449
Due from affiliate	1,047,401	515,177
Increase (decrease)		
Accounts payable	(3,865)	599,684
Accrued Expenses	61,640	136,850
Due to Homeowners	46,823	(130,057)
	<u>1,582,741</u>	<u>8,191,131</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES</b>		
Developer Contribution	(150,000)	(5,961,284)
Purchase of Investments	(17,299,896)	(6,673,584)
Proceeds from Sales of Investments	20,022,625	5,565,294
Proceeds from Sales of Property and Equipment	7,022	-
Purchase of Property and Equipment	<u>(3,379,264)</u>	<u>(683,440)</u>
	<u>(799,513)</u>	<u>(7,753,014)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		
<b>FINANCING ACTIVITIES</b>		
Transfers (to) from Owners' Association	41,897	181,616
Payments on Line of Credit	(36,522)	(243,479)
Proceeds on notes payable	104,464	-
Payments on notes payable	(11,239)	-
Payments on Capital Lease Payable	<u>(33,780)</u>	<u>(22,550)</u>
	<u>64,820</u>	<u>(84,413)</u>
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>		
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>848,048</b>	<b>353,704</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>449,600</b>	<b>95,896</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 1,297,648</u></b>	<b><u>\$ 449,600</u></b>
<b>CASH CONSISTS OF:</b>		
Cash and cash equivalents - without donor restrictions	\$ 297,715	\$ 411,342
Cash-with donor restrictions	<u>999,933</u>	<u>38,258</u>
	<u>\$ 1,297,648</u>	<u>\$ 449,600</u>
<b>SUPPLEMENTAL DISCLOSURE</b>		
Schedule of Noncash Investing Transactions		
Transfer of property and equipment to Association	\$ 983,083	\$ 499,456
Transfer of property and equipment from the Company	<u>-</u>	<u>\$ 275,175</u>
Cash paid for interest	<u>\$ 6,032</u>	<u>\$ 5,342</u>

**See Accompanying Notes and Independent Auditors' Report.**

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

The Cypress of Raleigh Club, Inc. ("Club") was organized as a not-for-profit corporation under the laws of the State of North Carolina to manage the operations and membership services provided to owners of units in The Cypress of Raleigh ("Cypress" or "community"), a condominium continuing care retirement community organized under the North Carolina General Statutes.

**Affiliates**

The Cypress of Raleigh Owners' Association, Inc. ("Association") was created in accordance with the North Carolina Condominium Act to comply with North Carolina law regarding the ownership of commonly owned property of The Cypress. The Association serves as the governing body for all issues related to the real estate aspects of the units and the common areas of The Cypress. The Association has delegated to the Club all of the Association's responsibilities with respect to investment management and the maintenance of the common areas of The Cypress, including the clubhouse and health center.

The Cypress of Raleigh, LLC (the "Company") is the entity that originally planned, designed and built The Cypress. Phase I of The Cypress opened in Fall 2008 and included a Clubhouse, Health Center, 34 cottages with garages and 168 single-story villas in 3 mid-rise buildings. In 2010, Phase II of the development was completed, and the community added three cottages bringing the total number of cottages to 37 and the total number of units to 205. The Company has the right (but not the obligation) to construct Phase III of The Cypress, which may consist of up to 128 villas in 2 mid-rise buildings and up to 5 cottages. The maximum number of units in Phase I, Phase II and Phase III will not exceed 335. However, the Company has reserved the right (but not the obligation) to develop an additional phase of the community consisting of up to 111 units. In September 2018, the Company completed construction on the first Villa building of Phase III (the "Villa D Building"), which contains fifty-seven units ("Villa D") and was ready for occupancy in 2018. Construction on the second Villa Building of Phase III (the "Villa E Building"), which will contain fifty-seven units ("Villa E"), began in 2019, and the Company estimates that Villa E will be ready for occupancy in late 2020. The Club and Association engage in various transactions with the Company, which is an affiliated entity.

A summary of the Club's significant accounting policies follows:

**Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, other liabilities and prepaid expenses.

**Contributions and Net Assets**

Funds received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of the funding restrictions. When a restriction expires (that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

All restrictions on long-lived assets are released from restriction when the asset is placed in service, unless there are explicit donor restrictions indicating otherwise.

The Club follows the recommendations of the Financial Accounting Standards Board in its FASB ASC 958, "Not-for-Profit Entities." Under FASB ASC 958, the Club is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Accordingly, net assets of the Club and changes therein are classified and reported as follows:

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

**Net Assets With Donor Restrictions** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Club and/or the passage of time or net assets subject to donor imposed stipulations that must be maintained in perpetuity by the Club.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Club considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Money market funds are considered to be cash equivalents except for money market accounts held for long-term purposes.

**Investments**

Investments consist of mutual fund investments, exchange traded funds and bonds. Consistent with FASB ASC 958-320, FASB 820-10 and FASB ASC 825-10, these investments are stated at fair value based on market quoted from identical investments or similar instruments in active markets.

**Accounts Receivable**

The Club records accounts receivable at total unpaid balance, which approximates fair value as of December 31, 2019 and 2018. The Club determines past-due status of individual accounts receivable based on terms of the original contract (or based on how recently payments have been made, for example). The Club estimates an allowance for doubtful accounts based on a combination of factors, including the Club's historical loss experience and any anticipated effects related to current economic conditions, as well as management knowledge of the current accounts receivable. Delinquent accounts are written off when deemed uncollectible. The Club's management considers all accounts currently collectible and does not establish an allowance for uncollectible accounts at this time.

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

**Assets Limited as to Use**

Assets limited as to use include assets set aside by the Board of Directors in two reserve accounts. One account is for capital replacement of common property and working capital for new assets. The other account, consisting of cash and investments, is designated for North Carolina General Statute reserve requirements, which can only be requested by the submission of a detailed request from the Club and must be approved by the Insurance Commissioner. Assets limited to use also include assets restricted by the donor, and maintained in a separate reserve account, to be used for the Rosewood Health Center expansion.

**Inventory**

The Club values its inventories at the lower of cost (average cost method) or market.

**Prepaid Expenses**

Prepaid expenses consist of prepaid insurance, which is amortized over the periods to which it applies.

**Property and Equipment**

Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Property and equipment are depreciated over estimated useful lives of seven to thirty-nine years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. The Club's policy is to capitalize property and equipment over \$1,000. Expenditures for maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. Club equipment is capitalized at cost.

**Revenue Recognition**

Member fees represent amounts charged to residents under the terms of the Membership Agreement. Services are provided to members on an ongoing basis throughout the year and as a result revenue is recognized monthly at the time of billing.

Health Center and home health revenue is reported at the estimated net realizable amounts from residents, third-party payors and others for room and board and services/supplies received. Revenue is recognized monthly at the time of billing.

Revenues under third-party payor agreements are subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

**Functional Allocation of Expenses**

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Individual expenses are reviewed and charged directly to each program based on time and effort and actual usage.

**Income Taxes**

The Club is a not-for-profit organization that applied for exemption from income taxes under Section 501(c) 4 of the Internal Revenue Code. The Club received its tax-exempt status on April 28, 2005.

**Obligation to Provide Future Services**

The Club annually calculates the present value of the net cost of providing certain future services to current members. If the present value of the cost of providing these services exceeds the present value of the anticipated revenues, a liability is recorded (obligation to provide future services) with a corresponding charge to income. The obligation is discounted at 2.43%, based on the expected long-term rate of return on government obligations. For December 31, 2019 and 2018, this net present value computation is expected to yield a surplus and, accordingly, no liability has been recorded.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**New Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenues from Contracts with Customers (Topic 606)*, which amends the guidance in ASC 605, *Revenue Recognition*. The core principle of this new standard is to recognize revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. ASC 606 also requires additional disclosures around the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Statements- Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities*, and subsequently issued related ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10)*. These standards amend certain aspects of accounting and disclosure requirements for financial instruments. The standard also changed the accounting for non-marketable equity securities. In April 2019, the FASB issued ASU 2019-04 which clarified certain aspects of ASU 2016-01, specifically stating that the measurement alternative is a nonrecurring fair value measurement.

**THE CYPRESS OF RALEIGH CLUB, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(concluded)**

The adoption of these new standards had no impact on the Club’s financial statements for the year ended December 31, 2019.

**NOTE 2 - CONCENTRATIONS OF CREDIT RISK**

The Club maintained its cash balances in one financial institution located in Raleigh, North Carolina in 2019 and 2018.

The account balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2019 and 2018, the Club had uninsured cash balances of \$473,623 and \$479,122, respectively. The Club also maintained investments in four brokerage accounts that are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 per customer. At December 31, 2019, the Club had total investments amounting to \$14,297,234, resulting in deposits of \$13,797,234 in excess of the SIPC insured amount. At December 31, 2018, the Club had total investments amounting to \$14,913,717, resulting in deposits of \$14,413,717 in excess of the SIPC insured amount.

The Club grants credit without collateral to its residents, some of whom are insured under third-party payer agreements. At December 31, the Club had the following concentrations of receivables from members:

	<u><b>2019</b></u>	<u><b>2018</b></u>
Self-pay	81%	77%
Medicare	17%	16%
Other third-party payers	<u>2%</u>	<u>7%</u>
	<u><b>100%</b></u>	<u><b>100%</b></u>

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 3 - LIQUIDITY AND AVAILABILITY**

The table below represents financial assets available for general expenditures within one year at December 31:

Financial assets at year-end:	2019	2018
Cash and cash equivalents	\$ 297,715	\$ 411,342
Accounts receivable	608,313	621,951
Assets limited to use:		
Restricted reserves required by state statute, cash equivalents	29,614	38,258
Restricted reserves required by state statute, investments	3,501,170	3,025,978
Working capital reserve, investments	5,996,760	6,168,986
Renewal and replacement reserve, cash equivalents	970,319	-
Renewal and replacement reserve, investments	3,828,984	5,718,754
Total financial assets	15,232,875	15,985,269
Less amounts not available to be used within one year:		
Restricted reserves required by state statute, cash equivalents	(29,614)	(38,258)
Restricted reserves required by state statute, investments	(3,501,170)	(3,025,978)
Working capital reserve, investments	(5,996,760)	(6,168,986)
Renewal and replacement reserve, cash equivalents	(970,319)	-
Renewal and replacement reserve, investments	(3,828,984)	(5,718,754)
Financial assets not available to be used within one year	(14,326,847)	(14,951,976)
Financial assets available to meet general and program expenditures within one year	\$ 906,028	\$ 1,033,293

The Club has certain board-designated and donor-restricted assets limited to use which are designated for future capital expenditures and an operating reserve. These assets limited to use are more fully described in Notes 9 and 14 and are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

Additionally, the Club has a \$500,000 line of credit, as discussed in Note 12, to meet cash flow needs.



**THE CYPRESS OF RALEIGH CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 4 - FINANCIAL RESULTS AND MANAGEMENT'S OPERATIONAL PLAN**

As shown in the forgoing statements of activities, the Club showed an increase of net assets of \$1,406,097 and \$6,128,550 from operations for the years ending December 31, 2019 and 2018, respectively.

**NOTE 5 - INVESTMENTS**

The Club's investments as of December 31, 2019, consist of stocks, mutual funds and bonds recorded at market value and are summarized as follows:

	<u>Cost</u>	<u>Fair Market Value</u>
Mutual Funds	\$ 7,790,448	\$8,147,652
ETFs	355,680	367,864
Corporate Bonds	<u>4,805,738</u>	<u>4,811,398</u>
	<u>\$12,951,866</u>	<u>\$13,326,914</u>

The Club's investments as of December 31, 2018, consist of stocks, mutual funds and bonds recorded at market value and are summarized as follows:

	<u>Cost</u>	<u>Fair Market Value</u>
Mutual Funds	\$ 9,786,808	\$ 9,222,673
Corporate Bonds	5,409,299	5,441,042
Government Bonds	<u>249,126</u>	<u>250,003</u>
	<u>\$ 15,445,233</u>	<u>\$ 14,913,718</u>

The Club adopted FASB ASC 820-10 on July 1, 2009, for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis.

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1- measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3- measurements). The three levels of the fair value hierarchy are as follows:

**THE CYPRESS OF RALEIGH CLUB, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 5 - INVESTMENTS (concluded)**

Level 1 inputs are quoted prices (unadjusted) for identical investments in active markets.

Level 2 inputs are quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 inputs are model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

In certain cases, the inputs to measure fair value may result in an asset or liability falling into more than one level of the fair value hierarchy. In such cases, the determination of the classification of an asset or liability within the fair value hierarchy is based on the least determinate input that is significant to the fair value measurement.

The following table represents investments that are measured at fair value on a recurring basis at December 31, 2019:

**Fair Value Measurements at December 31, 2019**

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual Funds	\$ 8,147,652	\$ -	\$ 8,147,652
ETFs	367,864	-	367,864
Corporate Bonds	-	4,811,398	4,811,398
	<u>\$ 8,515,516</u>	<u>\$ 4,811,398</u>	<u>\$ 13,326,914</u>

The following table represents investments that are measured at fair value on a recurring basis at December 31, 2018:

**Fair Value Measurements at December 31, 2018**

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual Funds	\$ 9,222,673	\$ -	\$ 9,222,673
Corporate Bonds	-	5,441,042	5,441,042
Government Bonds	-	250,003	250,003
	<u>\$ 9,222,673</u>	<u>\$ 5,691,045</u>	<u>\$ 14,913,718</u>

**THE CYPRESS OF RALEIGH CLUB, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 6 - INVENTORIES**

Inventories at December 31, 2019 and 2018, are as follows:	<b><u>2019</u></b>	<b><u>2018</u></b>
Food and Beverage	\$ 60,665	\$ 54,024
Housekeeping supplies	20,434	21,322
Plant supplies	<u>38,114</u>	<u>28,415</u>
	<u>\$119,213</u>	<u>\$103,761</u>

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	<b><u>2019</u></b>	<b><u>2018</u></b>
Building and Improvements	\$ 125,780	\$129,381
Furniture & Fixtures	25,353	25,353
Housekeeping Equipment	58,042	54,338
Healthcare Equipment	163,735	128,521
Clinic Equipment	34,614	46,575
Office Equipment	41,817	41,817
IT Equipment	339,223	303,411
Communications Equipment	460,338	16,167
Kitchen Equipment	473,546	159,569
Maintenance Equipment	151,486	151,486
Laundry Equipment	39,529	39,529
Vehicle	267,035	162,571
Construction in Process - Rosewood	<u>1,699,852</u>	<u>286,931</u>
	3,880,350	1,545,649
Less accumulated depreciation	<u>637,645</u>	<u>522,383</u>
	<u>\$3,242,705</u>	<u>\$1,023,266</u>

Depreciation related to property and equipment totaled \$150,201 and \$118,024 for the years ended December 31, 2019 and 2018, respectively.

**NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions for the year ended December 31 are as follows:

	<b><u>2019</u></b>	<b><u>2018</u></b>
Resident deposits	\$ 3,054,000	\$ 2,990,000
Rosewood expansion	<u>6,274,316</u>	<u>5,963,934</u>
	<u>\$ 9,328,316</u>	<u>\$ 8,953,934</u>

**THE CYPRESS OF RALEIGH CLUB, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 9 - TRANSACTIONS WITH AFFILIATE**

The Company also receives a management fee of 10% of the operating costs from the Club and Association. During 2019 and 2018, a total of \$1,087,843 and \$959,853 was paid as management fees to the LLC, respectively. The amount due to the Company was \$0 and \$0 at December 31, 2019 and 2018, respectively.

In 2019 and 2018, the Company contributed \$0 and \$62,000, respectively, to the Club for general operating expenses and is included in revenue as miscellaneous revenue. In 2019 and 2018, the Company contributed \$150,000 and \$5,963,934, respectively, for the Rosewood Health Center expansion and is included in revenue as developer contribution. The amount due from the Company was \$176,167 and \$75,941 at December 31, 2019 and 2018, respectively.

In December 2018, the Company transferred investments of \$5,686,110 to the Club for the Rosewood Health Center expansion. The Club will oversee construction of the Rosewood Health Center renovation and expansion. All expenses related to the renovation and expansion of the Rosewood will be paid using these investments and the assets transferred to The Cypress of Raleigh Owners' Association once construction is completed. The balance in the Renewal and Replacement Reserve fund was \$4,799,303 and \$5,718,754 at December 31, 2019 and 2018, respectively.

During 2019 and 2018, the Club paid Michael G. Sandman \$16,085 and \$0, respectively, for legal services. At December 31, 2019 and 2018, the amount due was \$6,003 and \$0, respectively.

**NOTE 10 - LEASES**

The Club rents various equipment and vehicles under operating leases, which expire through February 2023. Rent expense on all operating leases during 2019 and 2018 was \$90,067 and \$81,929, respectively.

Future minimum lease payments under operating leases at December 31, 2019, are as follows:

	<u>Amount</u>
2020	\$ 57,715
2021	35,635
2022	16,810
2023	<u>210</u>
	<u>\$110,370</u>

**THE CYPRESS OF RALEIGH CLUB, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 11 - CAPITAL LEASES**

The Club leases golf carts under a capital lease. The economic substance of the lease is that the Club is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Club's assets and liabilities.

The following is an analysis of the leased assets included in property and equipment:

	<u>2019</u>	<u>2018</u>
Vehicles	\$ 116,000	\$ 116,000
Less accumulated amortization	<u>95,955</u>	<u>82,592</u>
	<u>\$ 20,045</u>	<u>\$ 33,408</u>

The following is a schedule by years of future minimum payments required under the lease together with their present value as of December 31, 2019:

	<u>Amount</u>
2020	\$ 20,188
2021	<u>10,093</u>
	30,281
Less amount representing interest	<u>1,384</u>
Present value of minimum lease payments	<u>\$ 28,897</u>

Interest expense was \$3,099 and \$4,505 for the years ended December 31, 2019 and 2018, respectively.

**NOTE 12 - LINE OF CREDIT**

The Club has a line of credit with a credit limit of \$500,000 to fund upgrades and enhancements to the Club. The interest rate is LIBOR + 1.5%, with all principal and accrued interest due January 15, 2021. The line is secured by the working capital investment account. At December 31, 2019 and 2018, the balance due was \$0 and \$36,521, respectively

**THE CYPRESS OF RALEIGH CLUB, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 13 - NOTES PAYABLE**

Notes payable at December 31, 2019 consisted of the following:

Note payable to First Citizens Bank, with 18 monthly principal and interest payments of \$1,267, beginning April 15, 2019 and one final payment of remaining amounts on September 15, 2020. The note is secured by a vehicle and carries an interest rates of 4.75%. 40,182

Note payable to First Citizens Bank, with 60 monthly payments of principal and interest of \$1,085 beginning November 1, 2019 and one final payment due on October 1, 2024. The note is secured by a vehicle and carries an interest rate of 7.04% . 53,042

93,224

Less current portion (49,706)

\$ 43,518

Future maturities of long-term debt are as follows:

2020	\$ 49,706
2021	10,230
2022	10,987
2023	11,801
2024	10,500
	<u>\$ 93,224</u>

**NOTE 14 - REGULATORY MATTERS**

Continuing care retirement communities located in North Carolina are licensed and monitored by the State Department of Insurance under Article 64 of Chapter 58 of the North Carolina General Statutes. The Commissioner of Insurance has the authority to revoke or restrict the license of, or impose additional requirements on any continuing care facility under certain circumstances specified in General Statute 58-64-10.

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 14 - REGULATORY MATTERS (concluded)**

North Carolina General Statute 58-64-33 requires after the opening of a facility an operating reserve equal to 50% of the total operating costs of the facility forecasted for the 12 month period following the period covered by the most recent disclosure statement filed with the Department of Insurance. The forecast statements, as required by GS 58-64-20(a) (12), shall serve as a basis for the reserve. Continuing care retirement communities with occupancy levels in excess of 90% are required to maintain an operating reserve equal to 25% of total operating costs projected for the twelve month period following the most recent annual statement filed with the Department of Insurance, upon approval of the Commissioner. Continuing care retirement communities with less than 90% occupancy are required to maintain an operating reserve equal to 50% of projected total operating costs.

Total operating costs shall include budgeted operating expenses plus debt service less depreciation and amortization expense and revenue associated with non-contractual expenses. These reserves are to be used for the benefit of the Club in the event of emergencies or unexpected shortfalls.

To meet this obligation, at closing, each purchaser was responsible for paying a reserve deposit of \$9,000 to the Club through December 31, 2011. So long as it has not been necessary for the Club to use proceeds or assets from the reserve account, interest and/or dividends have been paid to each purchaser on a prorata basis in February of each year. For the year ended December 31, 2019 and 2018, the Club did not use proceeds or assets from the reserve account and the balance of interest and dividends is shown as due to homeowners. Each subsequent purchaser shall be obligated to pay \$14,000 into the reserve account, so that upon resale of the unit, any unused portion of the deposit shall be returned to the original purchaser.

Notwithstanding the foregoing, the amount of the reserve deposit may be increased as reasonably necessary to remain consistent with the purposes of the reserve account, provided that such increase would be subject to approval by the Department of Insurance.

The balance held by the Club in the related restricted investment account was \$3,501,170 at December 31, 2019, and \$3,025,978 at December 31, 2018. The balance held by the Club in the related restricted cash account was \$29,614 at December 31, 2019, and \$38,258 at December 31, 2018.

The Cypress of Raleigh, LLC reserves the right, if necessary or appropriate, to loan funds for the reserve account and to be reimbursed as funding occurs through future sales. The Association has also adopted a resolution to designate funds from the working capital reserve account to meet the statutory reserve requirement if necessary. This fund was transferred from the Association to the Club in 2015.

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 15 - LIFE CARE SERVICES**

On December 1, 2004 the Club entered into an agreement with Life Care Services LLC (LCS) to provide management services for the Club. LCS receives a management fee of the greater of \$28,000 per month (the Initial Base Fee) or 4% of the current month's total gross operating revenue, provided that the initial base fee shall be increased each January 1 by the same percentage increase as the United States Consumer Price index for All Urban Consumers published by the U.S. Bureau of Labor Statistics for the immediately preceding December as compared to the CPI-U for December of the prior year. No reduction shall be made in the Monthly Management fee in the event of a decrease in the CPI-U. In May 2019, a new agreement was entered into requiring monthly payments of the greater of \$45,000 or 3.6% of the total gross operating revenue. All other terms of the agreement remain unchanged.

The Club is responsible for all operating expenses related to LCS's activities involving the Club.

At December 31, 2019 and 2018, the Club had paid \$460,906 and \$405,307 in management fees to LCS, respectively.

**NOTE 16 - FUTURE REPAIRS AND REPLACEMENTS**

In March 2015, the Association transferred the Working Capital Reserve Fund assets to the Club. As of December 31, 2019 and 2018, there were funds of \$5,996,760 and \$6,168,986, respectively, designated for this Fund. Management of the Association conducted a study in 2009 to estimate the remaining useful lives of the components of common properties and to estimate the costs of future major repairs and replacements. This study was most recently updated in 2019 for a 20-year budget period beginning in 2019. The current policy is that these expenses will be paid from current amounts on hand or from assets maintained by the Club in designated and undesignated accounts, special assessments may be levied, as required, after utilizing these designated funds or funds may be borrowed. Capital expenditures of \$1,085,000 and \$0 were paid from the working capital reserve investments account for capital expenditures in 2019 and 2018, respectively.

**NOTE 17 - RETIREMENT PLAN**

The Club began a 401(k) retirement plan for all eligible employees on January 1, 2009. Employees are eligible to participate in the plan upon attaining the age of 21 years, completing one year of active service and having worked at least 1,000 hours in a given year. Employees may invest up to 20% of wages, tips and other compensation on form W-2 into the plan. The Club will match up to 50 cents on the dollar up to 3% of an employee's compensation. Employees are 100% vested in the portion they contribute to the plan. The Club matching funds are vested over a six-year period. In March 2018, the plan was amended to add The Cypress of Raleigh, LLC as a participating employer.



**THE CYPRESS OF RALEIGH CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 17 - RETIREMENT PLAN (concluded)**

Retirement expense for the plan was \$38,722 and \$32,080 for the years ended December 31, 2019 and 2018, respectively.

**NOTE 18 - COMMITMENTS AND CONTINGENCIES**

Full-time employees accrue 18 days PTO per year during their first year of employment and an additional day each year up to 22 days in their fifth year of employment. Part-time employees earn PTO on a pro-rated basis per hours worked. The maximum carryover from one year to the next is 460 hours. At December 31, 2019 and 2018, the Club's total liability for PTO days was \$345,125 and \$341,740, respectively, and is included as accrued expense.

In February 2018, the North Carolina Department of Revenue completed an examination of sales & use tax for the period February 1, 2015 to November 30, 2017. The examining agent proposed adjustments related to additional sales tax of approximately \$193,000 plus penalties and interest of approximately \$48,000 and \$16,000, respectively. The Club does not agree with the adjustments proposed by the examining agent and requested departmental review. The department sustained the assessment in its entirety, after which the Club filed a petition for a contested case hearing. No provision has been made in the accompanying financial statements for the proposed additional sales tax, penalties and interest since the ultimate liability cannot be reasonably estimated.

In May 2018, the Club entered into an agreement with a firm to provide architectural services for the Rosewood Health Center expansion. The Club will compensate the firm \$449,000 for basic services and additional amounts as needed.

In May 2018, the North Carolina Nursing Home Licensure and Certification Section of the Division of Health Service Regulation (NCNHLC) conducted a survey at the Rosewood Health Center to investigate an occurrence earlier that year. As a result, the Centers for Medicare and Medicaid Services' imposed, and the Club paid, a civil penalty of \$20,965. The Club contested the certification deficiencies and is currently awaiting the hearing decision. Due to the uncertainty of the outcome of this case, no provision has been made in the accompanying financial statements.

**NOTE 19 - MANAGEMENT'S REVIEW AND SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 31, 2020, which is the date the financial statements were available to be issued.

**EXHIBIT C**

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION,  
INC. FINANCIAL REPORT (DECEMBER 31, 2019 and 2018)**

**{ATTACHED}**

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
The Cypress of Raleigh Owners' Association, Inc.  
Raleigh, NC

We have audited the accompanying balance sheets of The Cypress of Raleigh Owners' Association, Inc. as of December 31, 2019 and 2018 and the related statements of revenue and expense, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cypress of Raleigh Owners' Association, Inc. as of December 31, 2019 and 2018 and the results of its operations, changes in members' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Report on Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information on future repairs and replacements on page 12 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 13 and 14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## **Adoption of New Accounting Standard**

As discussed in Note 1, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Effective January 1, 2019, the Association changed its method for accounting for revenue as a result of the adoption. Our opinion is not modified with respect to this matter.

*Dreher Martin CPAs, P.A.*

March 31, 2020

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2019 AND 2018**

<b>ASSETS</b>		<b>2019</b>	<b>2018</b>
Current assets		<u>100,000</u>	<u>100,000</u>
Cash		\$ 100,000	\$ 100,000
Total current assets		<u>100,000</u>	<u>100,000</u>
Property & Equipment		5,314,050	4,330,967
Less Accumulated Depreciation		<u>2,176,442</u>	<u>1,846,440</u>
Net Property & Equipment		3,137,608	2,484,527
Other Assets			
Due from Affiliate		<u>2,759,880</u>	<u>1,772,591</u>
Total Assets		<u>\$ 5,997,488</u>	<u>\$ 4,357,118</u>

**LIABILITIES AND MEMBERS' EQUITY**

Members' Equity			
Members' equity-undesignated		<u>\$ 5,997,488</u>	<u>\$ 4,357,118</u>
Total Members' Equity		<u>\$ 5,997,488</u>	<u>\$ 4,357,118</u>

**See Accompanying Notes and Independent Auditors' Report**

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**STATEMENTS OF REVENUE AND EXPENSE**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>		
Member fees and assessments	\$ 5,011,493	\$ 4,107,162
Working capital	32,134	139,903
Insurance	9,763	41,713
Developer contribution	-	98,789
Total revenues, gains, and other support	5,053,390	4,387,567
<b>EXPENSE</b>		
Program Services		
Housekeeping	367,939	308,871
Plant	2,246,138	2,027,961
Total program services	2,614,077	2,336,832
Supportive Services		
General and Administrative	1,183,113	1,038,909
Management fees	227,014	199,629
Total supportive services	1,410,127	1,238,538
Depreciation	330,002	274,372
Total operating expenses	4,354,206	3,849,742
Excess of Revenue Over (Under) Expense	\$ 699,184	\$ 537,825

**See Accompanying Notes and Independent Auditors' Report**



**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

<b>Members' Equity</b>	<b><u>Undesignated</u></b>
Members' Equity, January 1, 2018	\$ 3,501,453
Excess of revenue, gains and other support over expense	537,825
Asset purchases transferred from Club	499,456
Amounts allocated to working capital reserve	<u>(181,616)</u>
Members' Equity, December 31, 2018	\$ 4,357,118
Excess of revenue, gains and other support over expense	699,184
Asset purchases transferred from Club	983,083
Amounts allocated to working capital reserve	<u>(41,897)</u>
Members' Equity, December 31, 2019	<u><u>\$ 5,997,488</u></u>

**See Accompanying Notes and Independent Auditors' Report**

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of Revenue Over Expense	\$ 699,184	\$ 537,825
Adjustments to Reconcile Increase in Net Assets To Cash Provided by Operating Activities		
Depreciation	330,002	274,372
Increase (Decrease) in due to affiliate	(987,289)	(533,719)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	41,897	278,478
<b>INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	-	(96,862)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	-	(96,862)
<b>FINANCING ACTIVITIES</b>		
Transfers (to) from Club	(41,897)	(181,616)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	(41,897)	(181,616)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	-	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	100,000	100,000
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 100,000	\$ 100,000
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Schedule of Noncash Investing Transactions		
Transfer of property and equipment from Club	\$ 983,083	\$ 499,456
Transfer of property and equipment from the Company	\$ -	\$ 96,862

**See Accompanying Notes and Independent Auditors' Report**

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

The Cypress of Raleigh Owners' Association, Inc. (the "Association") was created in accordance with the North Carolina Condominium Act to comply with North Carolina law regarding the ownership of the commonly owned property of The Cypress of Raleigh, a condominium continuing care retirement community ("The Cypress" or "community"). Pursuant to the Bylaws, the Association is governed by a Board of Directors comprised of 5 (five) persons. The Association has delegated to The Cypress of Raleigh Club, Inc., a not-for-profit corporation (the "Club"), all of the Association's responsibilities with respect to investment management and maintenance of the common areas of The Cypress, including the clubhouse and health center. Should the Club fail to act upon its duties, the Board has the authority to act on behalf of the Association. The Association began its operations in 2008.

**Affiliates**

The Club was organized as a not-for-profit corporation under the laws of the State of North Carolina to manage the operations and membership services provided to owners of units in The Cypress.

The Cypress of Raleigh, LLC (the "Company") is the entity that originally planned, designed and built The Cypress. Phase I of The Cypress opened in Fall 2008 and included a Clubhouse, Health Center, 34 cottages with garages and 168 single-story villas in 3 mid-rise buildings. In 2010, Phase II of the development was completed, and the community added three cottages bringing the total number of cottages to 37 and the total number of units to 205. The Company has the right (but not the obligation) to construct Phase III of The Cypress, which may consist of up to 128 villas in 2 mid-rise buildings and up to 5 cottages. The maximum number of units in Phase I, Phase II and Phase III will not exceed 335. However, the Company has reserved the right (but not the obligation) to develop an additional phase of the community consisting of up to 111 units. In September 2018, the Company completed construction on the first Villa building of Phase III (the "Villa D Building"), which contains fifty-seven units ("Villa D") and was ready for occupancy in 2018. Construction on the second Villa Building of Phase III (the "Villa E Building"), which will contain fifty-seven units ("Villa E"), began in 2019, and the Company estimates that Villa E will be ready for occupancy in late 2020. The Club and Association engage in various transactions with the Company, which is an affiliated entity.

A summary of the Association's significant accounting policies follows:

**Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting and, accordingly reflect all significant receivables, payables, other liabilities and prepaid expenses.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Association considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

**Property and Equipment**

Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Property and equipment are depreciated over estimated useful lives of seven to thirty-nine years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred.

The Association capitalizes all property and equipment to which it has title or other evidence of ownership over \$1,000. The Association does not recognize as assets real property directly associated with the members' units. Capitalized assets acquired by the Association are recorded at cost, while assets contributed by the developer are recorded at estimated fair value at the date of the contribution.

The Association assesses long-lived assets for impairment when events or circumstances exist that indicates the carrying amounts of these assets may not be recoverable.

**Revenue Recognition**

The Association's revenue is generated primarily through association fees from condominium owners in The Cypress and represent amounts charged to residents under the terms of the Membership Agreement. Services are provided to members on an ongoing basis throughout the year and as a result revenue is recognized monthly at the time of billing.

**Income Taxes**

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the years ended December 31, 2019 and 2018, the Association was taxed as a homeowners association. As a homeowners association, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates.

The IRS and North Carolina Department of Revenue may examine the returns of the Association for a three year period after they are filed. The Association has open tax years from December 31, 2016 through December 31, 2019 which can be reviewed.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**  
**(concluded)**

**New Accounting Pronouncement**

In May 2014, the FASB issued ASU 2014-09, "Revenues from Contracts with Customers (Topic 606)", which amends the guidance in ASC 605, "Revenue Recognition." The core principle of this new standard is to recognize revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. ASC 606 also requires additional disclosures around the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of this new standard had no impact on the Association's recognition of revenues for the year ended December 31, 2019.

**NOTE 2 - CONCENTRATIONS OF CREDIT RISK**

The Association maintained its cash balances in one financial institution located in Raleigh, North Carolina in 2019 and 2018. The balances were insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2019 and 2018, the Association had no uninsured cash balances.

**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:	<u>2019</u>	<u>2018</u>
Building and Improvements	\$1,916,014	\$1,124,196
Land Improvements	375,427	296,885
Furniture & Fixtures	2,804,618	2,691,895
Office Equipment	2,675	2,675
IT Equipment	43,520	43,520
Communications Equipment	1,932	1,932
Kitchen Equipment	50,151	50,151
Independent Living Furniture	23,718	23,718
Maintenance Equipment	22,333	22,333
Health Center Furniture	<u>73,662</u>	<u>73,662</u>
	5,134,050	4,330,967
Less accumulated depreciation	<u>2,176,442</u>	<u>1,846,440</u>
	<u>\$3,137,608</u>	<u>\$2,484,527</u>

Depreciation related to property and equipment totaled \$330,002 and \$274,372 for the years ended December 31, 2019 and 2018, respectively.

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 4 - TRANSACTIONS WITH AFFILIATES**

At December 31, 2009, the Cypress of Raleigh, LLC transferred ownership of common area property to the Association per the agreement between the Association members and the Company. The assets were transferred at market value and consisted of furniture and fixtures of \$2,511,861.

The Company also receives a management fee of 10% of the operating costs from the Club. The Club allocates a portion of these expenses to the Association. During 2019 and 2018, the Association's portion of the allocated costs were \$535,803 and \$472,764, respectively.

In 2018, the Company contributed furniture and fixtures, valued at \$96,862, for the common area of Villa D and related non-capital expenses of \$1,927. These contributions are included in revenue as developer contribution.

The Club will oversee construction of the Rosewood Health Center renovation and expansion. All expenses related to the renovation and expansion will be paid using investments held by the Club and the assets will be transferred to the Association once construction is completed.

**NOTE 5 - LIFE CARE SERVICES**

On December 1, 2004 the Club entered into an agreement with Life Care Services LLC (LCS) to provide management services for the Club. LCS receives a management fee of the greater of \$28,000 per month (the Initial Base Fee) or 4% of the current month's total gross operating revenue, provided that the initial base fee shall be increased each January 1 by the same percentage increase as the United States Consumer Price index for All Urban Consumers published by the U.S. Bureau of Labor Statistics for the immediately preceding December as compared to the CPI-U for December of the prior year. No reduction shall be made in the Monthly Management fee in the event of a decrease in the CPI-U. In May 2019, a new agreement was entered into requiring monthly payments of the greater of \$45,000 or 3.6% of the total gross operating revenue. All other terms of the agreement remain unchanged.

The Club is responsible for all operating expenses related to LCS's activities involving the Club. The Club allocates a portion of these expenses to the Association.

At December 31, 2019 and 2018, the Association's portion of the allocated costs were \$227,014 and \$199,629, respectively.

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 6 – WORKING CAPITAL RESERVE**

A Working Capital Reserve account is funded by payments made by each Member at the closing on his/her Cottage or Villa. The payment will be equal to two months of the Member's prorata share of Association common expenses. The Working Capital Reserve Account will only be used for purposes related to The Cypress' property, and any interest earned on funds held in the account shall be included in the working capital reserve fund. During 2019 and 2018, funds were transferred by the Club to a cash account for Working Capital Reserve totaling \$32,134 and \$139,903, respectively.

**NOTE 7 - FUTURE REPAIRS AND REPLACEMENTS**

As of December 31, 2015, all funds designated for a Working Capital Reserve account were transferred to the Club. Management of the Association conducted a study in 2009 to estimate the remaining useful lives of the components of common properties and to estimate the costs of future major repairs and replacements. This study was most recently updated in 2019 for a 20-year budget period beginning in 2019. The current policy is that these expenses will be paid from current amounts on hand or from assets maintained by the Club in designated and undesignated accounts, special assessments may be levied, as required, after utilizing these designated funds or funds may be borrowed.

**NOTE 8 - RESERVE FOR INSURANCE**

At closing, the member also pays a share of the condominium insurance premium for the year of closing. The amount of this fee is determined in accordance with each unit's statutory percentage interest in the condominium. During 2019 and 2018, \$9,763 and \$41,713, respectively, was transferred into a cash account by the Club for this purpose.

**NOTE 9 - MANAGEMENT'S REVIEW**

Subsequent events were evaluated through March 31, 2020, which is the date the financial statements were available to be issued.

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS**  
**(UNAUDITED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Management engaged a consultant to perform a study in 2009 to estimate the remaining useful lives and the replacement costs of the components of common property over a 20 year period. This study was most recently updated in 2019 for a 20 year period, beginning in 2019. The estimates were based on estimated current replacement costs. Funding requirements include an annual rate of inflation and interest on amounts funded for future major repairs and replacements.

The following table is based on the 2019 study (unless otherwise noted) and presents significant information about the components of common property.

<b>Component</b>	<b>Estimated Remaining Useful Life (Years)</b>	<b>Estimated Current Replacement Costs</b>	<b>2019 Funding Requirements (2019 Study)</b>
Site Improvements 2.0	1-31	\$ 2,614,849	
Building Structures & Systems 3.0	0-51	7,112,617	
Building Mechanical Equipment (MEP) 4.0	0-41	8,181,087	
Common Area Interior & Finishes 5.0	0-36	3,479,063	
Unit Improvements 6.0	1-24	9,863,394	
Furniture, Fixtures & Equipment (FFE) 7.0	0-18	8,107,753	
Capital Projects 8.0	0-20	<u>3,179,752</u>	
<b>TOTALS</b>		<u>\$ 42,538,515</u>	<u>\$ 2,208,697</u>



**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Housekeeping	Plant	Total Program Service	General and Administrative	Total
Salaries and Wages	\$ 244,201	\$ 768,508	\$ 1,012,709	\$ 158,701	\$ 1,171,410
Pension Expense	1,839	2,740	4,579	962	5,541
Other Employee Benefits	57,655	88,221	145,876	32,957	178,833
Payroll Taxes	18,632	59,978	78,610	11,843	90,453
Accounting and Legal	-	-	-	62,760	62,760
Worker's Comp Insurance	3,181	8,830	12,011	452	12,463
Rent	-	27,969	27,969	1,441	29,410
Supplies	20,260	78,481	98,741	13,857	112,598
Licenses and Fees	-	7,304	7,304	-	7,304
Repairs and Maintenance	20,212	544,968	565,180	4,533	569,713
Vehicle Expense	-	2,602	2,602	-	2,602
Utilities	-	654,051	654,051	-	654,051
Other Employee Expense	1,609	2,486	4,095	18,239	22,334
Training	350	-	350	8,553	8,903
Professional Dues	-	-	-	1,530	1,530
IT Expense	-	-	-	9,937	9,937
Telephone	-	-	-	44,016	44,016
Other Expense	-	-	-	10,825	10,825
Printing and Postage	-	-	-	6,705	6,705
Management Fee	-	-	-	227,014	227,014
Insurance	-	-	-	132,607	132,607
Other Fees	-	-	-	127,392	127,392
Startup	-	-	-	535,803	535,803
<b>TOTAL</b>	<b>\$ 367,939</b>	<b>\$ 2,246,138</b>	<b>\$ 2,614,077</b>	<b>\$ 1,410,127</b>	<b>\$ 4,024,204</b>

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Housekeeping	Plant	Total Program Service	General and Administrative	Total
Salaries and Wages	\$ 203,873	\$ 700,415	\$ 904,288	\$ 117,007	\$ 1,021,295
Pension Expense	1,595	2,422	4,017	472	4,489
Other Employee Benefits	44,581	68,098	112,679	22,449	135,128
Payroll Taxes	16,260	52,209	68,469	14,921	83,390
Accounting and Legal	-	-	-	75,979	75,979
Worker's Comp Insurance	2,608	11,899	14,507	(180)	14,327
Rent	-	41,119	41,119	736	41,855
Supplies	19,228	100,747	119,975	16,806	136,781
Licenses and Fees	-	3,911	3,911	-	3,911
Repairs and Maintenance	18,012	479,156	497,168	5,027	502,195
Vehicle Expense	-	2,386	2,386	-	2,386
Utilities	-	562,679	562,679	-	562,679
Other Employee Expense	1,819	2,867	4,686	12,654	17,340
Training	895	53	948	2,179	3,127
Professional Dues	-	-	-	757	757
IT Expense	-	-	-	23,688	23,688
Telephone	-	-	-	43,498	43,498
Other Expense	-	-	-	14,941	14,941
Printing and Postage	-	-	-	6,143	6,143
Management Fee	-	-	-	199,629	199,629
Insurance	-	-	-	91,388	91,388
Other Fees	-	-	-	117,680	117,680
Startup	-	-	-	472,764	472,764
<b>TOTAL</b>	<b>\$ 308,871</b>	<b>\$ 2,027,961</b>	<b>\$ 2,336,832</b>	<b>\$ 1,238,538</b>	<b>\$ 3,575,370</b>

**EXHIBIT D**

**THE CYPRESS OF RALEIGH CLUB, INC. AND  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION,  
INC. FINANCIAL REPORT (DECEMBER 31, 2019 and 2018)**

**{ATTACHED}**

**THE CYPRESS OF RALEIGH CLUB, INC.  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**

**AUDITED COMBINED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
The Cypress of Raleigh Club, Inc.  
The Cypress of Raleigh Owners' Association, Inc.  
Raleigh, NC

We have audited the accompanying combined balance sheets of The Cypress of Raleigh Club, Inc. and the Cypress of Raleigh Owners' Association, Inc. as of December 31, 2019 and 2018 and the related combined statements of operations, changes in net assets and members' equity, statements of functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

## **Opinion**

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Cypress of Raleigh Club, Inc. and The Cypress of Raleigh Owners' Association, Inc. as of December 31, 2019 and 2018 and the results of their operations, changes in their net assets and members' equity and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Adoption of New Accounting Standard**

As discussed in Note 1, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and No. 2016-01, *Financial Statements – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* and subsequently issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10)*. Effective January 1, 2019, the Club and Association adopted these standards. Our opinion is not modified with respect to these matters.

*Dreher Martin CPAs, P.A.*

March 31, 2020

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**COMBINED BALANCE SHEETS**  
**DECEMBER 31, 2019 AND 2018**

<b>ASSETS</b>		
	<b>2019</b>	<b>2018</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 397,715	\$ 511,342
Accounts Receivable	608,312	621,951
Inventory	119,214	103,761
Prepaid Expenses	159,024	151,688
Total Current Assets	1,284,265	1,388,742
<b>Assets Limited as to Use</b>		
Restricted Reserves Required by State Statute, cash equivalents	29,614	38,258
Renewal and Replacement Reserve, cash equivalents	970,319	-
	999,933	38,258
Restricted Reserves Required by State Statute, investments	3,501,170	3,025,978
Working Capital Reserve, Investments	5,996,760	6,168,986
Renewal and Replacement Reserve, investments	3,828,984	5,718,754
	13,326,914	14,913,718
Total Assets Limited to Use	14,326,847	14,951,976
Property and Equipment, Net	6,380,313	3,507,793
<b>Other Assets</b>		
Due from Affiliates	176,495	86,607
Refundable Deposits	62,177	62,177
Total Other Assets	238,672	148,784
	\$ 22,230,097	\$ 19,997,295
<b>LIABILITIES, NET ASSETS AND MEMBERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts Payable	\$ 806,782	\$ 810,647
Accrued Expenses	904,627	842,987
Due to Members	46,823	-
Line of Credit	-	36,521
Current Portion of Notes Payable	49,706	-
Current Portion of Capital Lease Payable	18,980	27,056
Total Current Liabilities	1,826,918	1,717,211
<b>Long-term Liabilities</b>		
Notes Payable, Net of Current Portion	43,518	-
Capital Lease Payable, Net of Current Portion	9,917	35,621
Total Long-term Liabilities	53,435	35,621
Total Liabilities	1,880,353	1,752,832
Net Assets, Without donor restrictions	(972,820)	(1,235,575)
Net Assets, Without donor restrictions - Designated for asset replacement	5,996,760	6,168,986
Net Assets, With donor restrictions	9,328,316	8,953,934
<b>Members' Equity</b>		
Members' Equity, undesignated	5,997,488	4,357,118
Total Members' Equity	5,997,488	4,357,118
	\$ 22,230,097	\$ 19,997,295

**See Accompanying Notes and Independent Auditors' Report**



**THE CYPRESS OF RALEIGH CLUB, INC.**  
**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**COMBINED STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

<b>Net Assets Without Donor Restrictions:</b>	<u>2019</u>	<u>2018</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>		
Member fees and assessments	\$ 13,187,500	\$ 10,858,603
Health Center	3,980,929	3,812,940
Home Health	1,894,345	1,684,125
Working Capital	32,134	139,903
Insurance	9,763	41,713
Miscellaneous	-	62,000
Developer Contribution	-	98,789
Net Investment Income	1,239,630	(496,303)
Total Revenue, Gains and Other Support	<u>20,344,301</u>	<u>16,201,770</u>
<b>EXPENSES</b>		
Program Services		
Housekeeping	1,422,580	1,191,205
Food and beverage	3,671,152	3,103,367
Health Center	3,410,239	3,144,461
Community Home Health	1,938,106	1,948,476
Resident services	506,658	536,525
Plant	2,677,078	2,444,615
	<u>13,625,813</u>	<u>12,368,649</u>
Supporting Services		
General and Administrative	3,665,316	3,004,289
Management fees	687,920	604,936
	<u>4,353,236</u>	<u>3,609,225</u>
Depreciation	480,203	392,396
Other expenses	134,631	59
Gain/Loss on sale of assets	19,519	-
Total operating expenses	<u>18,613,402</u>	<u>16,370,329</u>
Change in net assets without donor restrictions and members' equity	<u>1,730,899</u>	<u>(168,559)</u>
<b>Net Assets With Donor Restrictions:</b>		
Reserves Required By State Statute Deposited	64,000	871,000
Developer Contribution	150,000	5,963,934
Net Investment Income	160,382	-
Change net assets with donor restrictions	<u>374,382</u>	<u>6,834,934</u>
<b>Change in net assets and members' equity</b>	<u>\$ 2,105,281</u>	<u>\$ 6,666,375</u>

**See Accompanying Notes and Independent Auditors' Report**

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**THE CYPRESS OF RALEIGH HOMEOWNERS' ASSOCIATION, INC.**  
**COMBINED STATEMENTS OF CHANGES IN NET ASSETS AND MEMBERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<b>Total Net Assets 2019</b>	<b>Total Net Assets 2018</b>
<b>Net Assets Without Donor Restrictions</b>		
Net assets Without Donor Restrictions-Beginning	\$ (1,235,575)	\$ (457,442)
Asset purchases transferred to Owners' Association	(983,083)	(499,456)
Change in net assets	<u>1,245,838</u>	<u>(278,677)</u>
Net Assets Without Donor Restrictons	<u>\$ (972,820)</u>	<u>\$ (1,235,575)</u>
<b>Net Assets Without Donor Restrictions - Designated</b>		
Net Assets Without Donor Restrictions - Designated -Beginning	\$ 6,168,986	\$ 6,415,077
Working capital and insurance from Owners' Association	41,897	181,616
Change in net assets without donor restrictions - designated	<u>(214,123)</u>	<u>(427,707)</u>
Net Assets Without Donor Restrictons - Designated	<u>\$ 5,996,760</u>	<u>\$ 6,168,986</u>
<b>Net Assets With Donor Restrictions</b>		
Net Assets With Donor Restrictions - Beginning	\$ 8,953,934	\$ 2,119,000
Change in net assets with donor restrictions	<u>374,382</u>	<u>6,834,934</u>
Net Assets With Donor Restrictions	<u>\$ 9,328,316</u>	<u>\$ 8,953,934</u>
<b>Members' Equity</b>	<b><u>Undesignated</u></b>	
Members' Equity, January 1, 2018	\$ 3,501,453	
Excess of revenue, gains and other support over expense	537,825	
Asset purchases transferred from Club	499,456	
Amounts allocated to working capital reserve	<u>(181,616)</u>	
Members' Equity, December 31, 2018	\$ 4,357,118	
Excess of revenue, gains and other support over expense	699,184	
Asset purchases transferred from Club	983,083	
Amounts allocated to working capital reserve	<u>(41,897)</u>	
Members' Equity, December 31, 2019	<u>\$ 5,997,488</u>	

See Accompanying Notes and Independent Auditors' Report

**THE CYPRESS OF RALEIGH CLUB, INC.  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION INC.  
COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Housekeeping	Food & Beverage	Health Center	Community Home Health	Resident Services	Plant	Total Program Service	General and Administrative	Total
Salaries and Wages	\$ 976,806	\$ 1,863,348	\$ 2,180,275	\$ 1,502,656	\$ 282,395	\$ 893,614	\$ 7,699,094	\$ 634,806	\$ 8,333,900
Pension Expense	7,356	8,028	11,522	7,391	2,561	3,224	40,082	4,181	44,263
Other Employee Benefits	230,621	330,119	302,030	207,673	30,761	103,789	1,204,993	143,290	1,348,283
Payroll Taxes	74,525	144,262	164,177	118,244	20,814	69,742	591,764	47,371	639,135
Accounting and Legal	-	-	-	-	-	-	-	192,600	192,600
Travel	866	2,411	4,085	842	1,287	-	9,491	7,809	17,300
Interest	-	-	-	-	-	-	-	6,032	6,032
Worker's Comp Insurance	12,723	15,823	41,731	22,308	3,281	10,267	106,133	1,809	107,942
Food Expense	-	1,097,546	-	-	-	-	1,097,546	-	1,097,546
Rent	-	39,322	2,607	-	2,478	69,922	114,329	2,881	117,210
Supplies	81,040	133,308	42,596	14,126	13,141	82,611	366,822	46,190	413,012
Licenses and Fees	-	11,042	12,394	19,325	11,115	8,115	61,991	12,415	74,406
Repairs and Maintenance	30,809	6,561	2,659	-	1,687	594,847	636,563	9,065	645,628
Vehicle Expense	-	-	-	-	-	26,018	26,018	-	26,018
Utilities	-	-	-	-	-	807,004	807,004	-	807,004
Activity Expenses	-	-	24,347	-	56,706	-	81,053	-	81,053
Other Employee Expense	6,434	10,992	8,472	(50)	8,032	2,925	36,805	79,302	116,107
Medical Supplies	-	-	120,496	342	-	-	120,838	-	120,838
Other Medical Expenses	-	-	384,862	30,000	-	-	414,862	-	414,862
Training	1,400	3,016	5,294	298	590	-	10,598	37,186	47,784
Professional Dues	-	5,374	224	2,667	785	-	9,050	6,120	15,170
IT Expense	-	-	-	-	-	-	-	127,601	127,601
Telephone	-	-	-	11,274	-	-	11,274	88,031	99,305
Other Expense	-	-	358	-	-	-	358	19,455	19,813
Printing and Postage	-	-	-	-	-	-	-	22,108	22,108
Expense Allocation	-	-	-	-	-	-	-	(30,000)	(30,000)
Management Fee	-	-	-	-	-	-	-	687,920	687,920
Insurance	-	-	-	-	-	-	-	189,439	189,439
Other Fees	-	-	102,110	1,010	71,025	5,000	179,145	393,979	573,124
Startup	-	-	-	-	-	-	-	1,623,646	1,623,646
Bad Debt	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 1,422,580</b>	<b>\$ 3,671,152</b>	<b>\$ 3,410,239</b>	<b>\$ 1,938,106</b>	<b>\$ 506,658</b>	<b>\$ 2,677,078</b>	<b>\$ 13,625,813</b>	<b>\$ 4,353,236</b>	<b>\$ 17,979,049</b>

See Accompanying Notes and Independent Auditors' Report

**THE CYPRESS OF RALEIGH CLUB, INC.  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION INC.  
COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Housekeeping	Food & Beverage	Health Center	Community Home Health	Resident Services	Plant	Total Program Service	General and Administrative	Total
Salaries and Wages	\$ 815,492	\$ 1,584,647	\$ 2,000,546	\$ 1,443,972	\$ 228,459	\$ 814,436	\$ 6,887,552	\$ 460,153	\$ 7,347,705
Pension Expense	6,380	7,189	9,126	6,808	2,165	2,849	34,517	2,052	36,569
Other Employee Benefits	178,323	246,050	253,525	173,525	23,616	80,116	955,155	97,603	1,052,758
Payroll Taxes	65,040	122,793	154,277	113,941	17,137	60,708	533,896	59,683	593,579
Accounting and Legal	-	-	-	-	-	-	-	151,957	151,957
Travel	2,486	1,179	5,775	337	437	2,032	12,246	9,635	21,881
Interest	-	-	-	-	-	-	-	5,342	5,342
Worker's Comp Insurance	10,432	11,571	39,837	18,624	2,919	13,836	97,219	(709)	96,510
Food Expense	-	937,432	-	-	-	-	937,432	-	937,432
Rent	-	36,720	-	-	239	102,797	139,756	1,471	141,227
Supplies	76,911	110,320	27,179	32,057	14,729	106,049	367,245	51,525	418,770
Licenses and Fees	-	11,744	28,036	5,358	1,478	4,346	50,962	5,273	56,235
Repairs and Maintenance	25,285	9,835	11,061	-	9,644	521,243	577,068	10,053	587,121
Vehicle Expense	-	-	-	-	-	23,856	23,856	-	23,856
Utilities	-	-	-	-	-	707,291	707,291	-	707,291
Activity Expenses	-	-	22,934	-	137,915	-	160,849	-	160,849
Other Employee Expense	7,276	15,281	15,287	566	8,231	3,373	50,014	55,017	105,031
Medical Supplies	-	-	124,751	-	-	-	124,751	-	124,751
Other Medical Expenses	-	-	350,334	143,552	-	-	493,886	-	493,886
Training	3,580	3,293	8,907	1,316	748	63	17,907	9,472	27,379
Professional Dues	-	5,313	500	3,043	315	-	9,171	3,027	12,198
IT Expense	-	-	-	-	-	-	-	118,448	118,448
Telephone	-	-	-	5,275	-	-	5,275	86,995	92,270
Other Expense	-	-	489	102	-	-	591	27,035	27,626
Printing and Postage	-	-	-	-	-	-	-	20,976	20,976
Expense Allocation	-	-	-	-	-	-	-	(143,336)	(143,336)
Management Fee	-	-	-	-	-	-	-	604,936	604,936
Insurance	-	-	-	-	-	-	-	170,950	170,950
Other Fees	-	-	91,897	-	88,493	1,620	182,010	366,297	548,307
Startup	-	-	-	-	-	-	-	1,432,617	1,432,617
Bad Debt	-	-	-	-	-	-	-	2,753	2,753
<b>TOTAL</b>	<b>\$ 1,191,205</b>	<b>\$ 3,103,367</b>	<b>\$ 3,144,461</b>	<b>\$ 1,948,476</b>	<b>\$ 536,525</b>	<b>\$ 2,444,615</b>	<b>\$ 12,368,649</b>	<b>\$ 3,609,225</b>	<b>\$ 15,977,874</b>

See Accompanying Notes and Independent Auditors' Report

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net change in net assets and members' equity	\$ 2,105,281	\$ 6,666,375
Adjustments to Reconcile Increase in Net Assets		
To Cash Provided by Operating Activities		
Depreciation	480,203	392,396
Gain/Loss on sale of assets	19,519	-
Realized and Unrealized Gains/Losses	(1,135,925)	693,354
Changes in working capital components:		
(Increase)decrease in:		
Accounts and Other Receivables	13,639	66,631
Inventories	(15,453)	(11,532)
Prepaid Expenses	(7,336)	74,449
Due From Affiliate	60,112	(18,541)
Increase (decrease)		
Accounts payable	(3,865)	599,684
Accrued Expenses	61,640	136,850
Due to Homeowners	46,823	(130,057)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,624,638</u>	<u>8,469,609</u>
<b>INVESTING ACTIVITIES</b>		
Developer Contribution	(150,000)	(5,961,284)
Purchase of Investments	(17,299,896)	(6,673,584)
Proceeds from Sales of Investments	20,022,625	5,565,294
Proceeds from Sales of Property and Equipment	7,022	-
Purchase of Property and Equipment	(3,379,264)	(780,302)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(799,513)</u>	<u>(7,849,876)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds (Payments) on Line of Credit	(36,522)	(243,479)
Proceeds on notes payable	104,464	-
Payments on notes payable	(11,239)	-
Payments on Capital Lease Payable	(33,780)	(22,550)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<u>22,923</u>	<u>(266,029)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	848,048	353,704
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>549,600</u>	<u>195,896</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,397,648</u>	<u>\$ 549,600</u>
<b>CASH CONSISTS OF:</b>		
Cash and cash equivalents - without donor restrictions	\$ 397,715	\$ 511,342
Cash-with donor restrictions	999,933	38,258
	<u>\$ 1,397,648</u>	<u>\$ 549,600</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Schedule of Noncash Investing Transactions		
Transfer of property and equipment from the Company	\$ -	\$ 372,037
Cash paid for interest	<u>\$ 6,032</u>	<u>\$ 5,342</u>

**See Accompanying Notes and Independent Auditors' Report.**

**THE CYPRESS OF RALEIGH CLUB, INC.  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

The Cypress of Raleigh Club, Inc. ("Club") was organized as a not-for-profit corporation under the laws of the State of North Carolina to manage the operations and membership services provided to owners of units in The Cypress of Raleigh ("Cypress" or "community"), a condominium continuing care retirement community organized under the North Carolina General Statutes.

The Cypress of Raleigh Owners' Association, Inc. ("Association") was created in accordance with the North Carolina Condominium Act to comply with North Carolina law regarding the ownership of commonly owned property of The Cypress. Pursuant to the Bylaws, the Association is governed by a Board of Directors comprised of five (5) persons. The Association has delegated to the Club all of the Association's responsibilities with respect to investment management and the maintenance of the common areas of The Cypress, including the clubhouse and health center. The Association began its operations in 2008.

The Cypress of Raleigh, LLC (the "Company") is the entity that originally planned, designed and built The Cypress. Phase I of The Cypress opened in Fall 2008 and included a Clubhouse, Health Center, 34 cottages with garages and 168 single-story villas in 3 mid-rise buildings. In 2010, Phase II of the development was completed, and the community added three cottages bringing the total number of cottages to 37 and the total number of units to 205. The Company has the right (but not the obligation) to construct Phase III of The Cypress, which may consist of up to 128 villas in 2 mid-rise buildings and up to 5 cottages. The maximum number of units in Phase I, Phase II and Phase III will not exceed 335. However, the Company has reserved the right (but not the obligation) to develop an additional phase of the community consisting of up to 111 units. In September 2018, the Company completed construction on the first Villa building of Phase III (the "Villa D Building"), which contains fifty-seven units ("Villa D") and was ready for occupancy in 2018. Construction on the second Villa Building of Phase III (the "Villa E Building"), which will contain fifty-seven units ("Villa E"), began in 2019, and the Company estimates that Villa E will be ready for occupancy in late 2020. The Club and Association engage in various transactions with the Company, which is an affiliated entity.

**Principles of Combination**

The accompanying combined financial statements include the accounts of the above named businesses. All material related-party balances and transactions have been eliminated in combination.

A summary of the Club and Association's significant accounting policies follows:

**Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, other liabilities and prepaid expenses.

**THE CYPRESS OF RALEIGH CLUB, INC.  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

**Contributions and Net Assets**

Funds received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of the funding restrictions. When a restriction expires (that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

All restrictions on long-lived assets are released from restriction when the asset is placed in service, unless there are explicit donor restrictions indicating otherwise.

The Club follows the recommendations of the Financial Accounting Standards Board in its FASB ASC 958, "Not-for-Profit Entities." Under FASB ASC 958, the Club is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Accordingly, net assets of the Club and changes therein are classified and reported as follows:

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

**Net Assets With Donor Restrictions** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Club and/or the passage of time or net assets subject to donor imposed stipulations that must be maintained in perpetuity by the Club.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the entities consider all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Money market funds are considered to be cash equivalents except for money market accounts held for long-term purposes.

**Investments**

Investments consist of mutual fund investments, exchange traded funds and bonds. Consistent with FASB ASC 958-320, FASB 820-10 and FASB ASC 825-10, these investments are stated at fair value based on market quoted from identical investments or similar instruments in active markets.

**THE CYPRESS OF RALEIGH CLUB, INC.  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

**Accounts Receivable**

The Club records accounts receivable at total unpaid balance, which approximates fair value as of December 31, 2019 and 2018. The Club determines past-due status of individual accounts receivable based on terms of the original contract (or based on how recently payments have been made, for example). The Club estimates an allowance for doubtful accounts based on a combination of factors, including the Club's historical loss experience and any anticipated effects related to current economic conditions, as well as management knowledge of the current accounts receivable. Delinquent accounts are written off when deemed uncollectible. The Club's management considers all accounts currently collectible and does not establish an allowance for uncollectible accounts at this time.

**Assets Limited as to Use**

Assets limited as to use include assets set aside by the Board of Directors in two reserve accounts. One account is for capital replacement of common property and working capital for new assets. The other account, consisting of cash and investments, is designated for North Carolina General Statute reserve requirements, which can only be requested by the submission of a detailed request from the Club and must be approved by the Insurance Commissioner. Assets limited to use also include assets restricted by the donor, and maintained in a separate reserve account, to be used for the Rosewood Health Center expansion.

**Inventory**

The Club values its inventories at the lower of cost (average cost method) or market.

**Prepaid Expenses**

Prepaid expenses consist of prepaid insurance, which is amortized over the periods to which it applies.

**Property and Equipment**

Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Property and equipment are depreciated over estimated useful lives of seven to thirty-nine years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. The Club's policy is to capitalize property and equipment over \$1,000. Expenditures for maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. Club equipment is capitalized at cost.



**THE CYPRESS OF RALEIGH CLUB, INC.  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

The Association capitalizes all property and equipment to which it has title or other evidence of ownership over \$1,000. The Association does not recognize as assets real property directly associated with the members' units. Capitalized assets acquired by the Association are recorded at cost, while assets contributed by the developer are recorded at estimated fair value at the date of the contribution.

The Association assesses long-lived assets for impairment when events or circumstances exist that indicates the carrying amounts of these assets may not be recoverable.

**Revenue Recognition**

Member fees represent amounts charged to residents under the terms of the Membership Agreement. Services are provided to members on an ongoing basis throughout the year and as a result revenue is recognized monthly at the time of billing.

Health Center and home health revenue is reported at the estimated net realizable amounts from residents, third-party payors and others for room and board and services/supplies received. Revenue is recognized monthly at the time of billing.

Revenues under third-party payor agreements are subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

The Association's revenue is generated primarily through association fees from condominium owners in The Cypress and represent amounts charged to residents under the terms of the Membership Agreement. Services are provided to members on an ongoing basis throughout the year and as a result revenue is recognized monthly at the time of billing.

**Functional Allocation of Expenses**

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Individual expenses are reviewed and charged directly to each program based on time and effort and actual usage.

**Income Taxes**

The Club is a not-for-profit organization that applied for exemption from income taxes under Section 501(c) 4 of the Internal Revenue Code. The Club received its tax-exempt status on April 28, 2005.

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the years ended December 31, 2019 and 2018, the Association was taxed as a homeowners association. As a homeowners association, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates.

The IRS and North Carolina Department of Revenue may examine the returns of the Club and Association for a three year period after they are filed. The Association has open tax years from December 31, 2016 through December 31, 2019 which can be reviewed.

**Obligation to Provide Future Services**

The Club annually calculates the present value of the net cost of providing certain future services to current members. If the present value of the cost of providing these services exceeds the present value of the anticipated revenues, a liability is recorded (obligation to provide future services) with a corresponding charge to income. The obligation is discounted at 2.43%, based on the expected long-term rate of return on government obligations. For December 31, 2019 and 2018, this net present value computation is expected to yield a surplus and, accordingly, no liability has been recorded.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**New Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenues from Contracts with Customers (Topic 606)*, which amends the guidance in ASC 605, *Revenue Recognition*. The core principle of this new standard is to recognize revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. ASC 606 also requires additional disclosures around the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Statements- Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities*, and subsequently issued related ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10)*. These standards amend certain aspects of accounting and disclosure requirements for financial instruments. The standard also changed the accounting for non-marketable equity securities. In April 2019, the FASB issued ASU 2019-04 which clarified certain aspects of ASU 2016-01, specifically stating that the measurement alternative is a nonrecurring fair value measurement.

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**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(concluded)**

The adoption of these new standards had no impact on the Club's or Association's financial statements for the year ended December 31, 2019.

**NOTE 2 - CONCENTRATIONS OF CREDIT RISK**

The Club and Association maintained their cash balances in financial institutions located in Raleigh, North Carolina in 2019 and 2018.

The account balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2019 and 2018, the Club had uninsured cash balances of \$473,623 and \$479,122, respectively. At December 31, 2019 and 2018, the Association had no uninsured cash balances. The Entities also maintain investments in four brokerage accounts that are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 per customer. At December 31, 2019, the Club's total investments amounted to \$14,397,234, resulting in deposits of \$13,797,234 in excess of the SIPC insured amount. At December 31, 2018, the Club's total investments amounted to \$14,913,717, resulting in deposits of \$14,413,717 in excess of the SIPC insured amount.

The Club grants credit without collateral to its residents, some of whom are insured under third-party payer agreements. At December 31, the Club had the following concentrations of receivables from members:

	<u><b>2019</b></u>	<u><b>2018</b></u>
Self-pay	81%	77%
Medicare	17%	16%
Other third-party payers	<u>2%</u>	<u>7%</u>
	<u><b>100%</b></u>	<u><b>100%</b></u>

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**NOTE 3 - LIQUIDITY AND AVAILABILITY**

The table below represents financial assets available for general expenditures within one year at December 31:

Financial assets at year-end:	2019	2018
Cash and cash equivalents	\$ 397,715	\$ 511,342
Accounts receivable	608,313	621,951
Assets limited to use:		
Restricted reserves required by state statute, cash equivalents	29,614	38,258
Restricted reserves required by state statute, investments	3,501,170	3,025,978
Working capital reserve, investments	5,996,760	6,168,986
Renewal and replacement reserve, cash equivalents	970,319	-
Renewal and replacement reserve, investments	3,828,984	5,718,754
Total financial assets	15,332,875	16,985,269
Less amounts not available to be used within one year:		
Restricted reserves required by state statute, cash equivalents	(29,614)	(38,258)
Restricted reserves required by state statute, investments	(3,501,170)	(3,025,978)
Working capital reserve, investments	(5,996,760)	(6,168,986)
Renewal and replacement reserve, cash equivalents	(970,319)	-
Renewal and replacement reserve, investments	(3,828,984)	(5,718,754)
Financial assets not available to be used within one year	(14,326,847)	(14,951,976)
Financial assets available to meet general and program expenditures within one year	\$ 1,006,028	\$ 1,133,293

The Club has certain board-designated and donor-restricted assets limited to use which are designated for future capital expenditures and an operating reserve. These assets limited to use are more fully described in Notes 9 and 14 and are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

Additionally, the Club has a \$500,000 line of credit, as discussed in Note 12, to meet cash flow needs.

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**NOTE 4 - FINANCIAL RESULTS AND MANAGEMENT'S OPERATIONAL PLAN**

As shown in the forgoing combined statements of operations, the entities showed an increase of net assets and members' equity of \$2,105,281 and \$6,666,375 from operations for the years ending December 31, 2019 and 2018, respectively.

**NOTE 5 - INVESTMENTS**

The Club's investments as of December 31, 2019, consist of stocks, mutual funds and bonds recorded at market value and are summarized as follows:

	<u>Cost</u>	<u>Fair Market Value</u>
Mutual Funds	\$ 7,790,448	\$8,147,652
ETFs	355,680	367,864
Corporate Bonds	<u>4,805,738</u>	<u>4,811,398</u>
	<u>\$12,951,866</u>	<u>\$13,326,914</u>

The entities investments as of December 31, 2018, consist of stocks, mutual funds and bonds recorded at market value and are summarized as follows:

	<u>Cost</u>	<u>Fair Market Value</u>
Mutual Funds	\$ 9,786,808	\$ 9,222,673
Corporate Bonds	5,409,299	5,441,042
Government Bonds	<u>249,126</u>	<u>250,003</u>
	<u>\$ 15,445,233</u>	<u>\$ 14,913,718</u>

The entities adopted FASB ASC 820-10 on July 1, 2009, for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis.

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1- measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3- measurements). The three levels of the fair value hierarchy are as follows:

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**NOTE 5 - INVESTMENTS (concluded)**

Level 1 inputs are quoted prices (unadjusted) for identical investments in active markets.

Level 2 inputs are quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 inputs are model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

In certain cases, the inputs to measure fair value may result in an asset or liability falling into more than one level of the fair value hierarchy. In such cases, the determination of the classification of an asset or liability within the fair value hierarchy is based on the least determinate input that is significant to the fair value measurement.

The following table represents investments that are measured at fair value on a recurring basis at December 31, 2019:

**Fair Value Measurements at December 31, 2019**

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual Funds	\$ 8,147,652	\$ -	\$ 8,147,652
ETFs	367,864	-	367,864
Corporate Bonds	-	4,811,398	4,811,398
	<u>\$ 8,515,516</u>	<u>\$ 4,811,398</u>	<u>\$ 13,326,914</u>

The following table represents investments that are measured at fair value on a recurring basis at December 31, 2018:

**Fair Value Measurements at December 31, 2018**

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual Funds	\$ 9,222,673	\$ -	\$ 9,222,673
Corporate Bonds	-	5,441,042	5,441,042
Government Bonds	-	250,003	250,003
	<u>\$ 9,222,673</u>	<u>\$ 5,691,045</u>	<u>\$ 14,913,718</u>

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**NOTE 6 - INVENTORIES**

Inventories at December 31, 2019 and 2018, are as follows:	<b><u>2019</u></b>	<b><u>2018</u></b>
Food and Beverage	\$ 60,665	\$ 54,024
Housekeeping supplies	20,434	21,322
Plant supplies	<u>38,114</u>	<u>28,415</u>
	<u>\$119,213</u>	<u>\$103,761</u>

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:	<b><u>2019</u></b>	<b><u>2018</u></b>
Building and Improvements	\$2,041,796	\$ 1,253,577
Land Improvements	375,427	296,885
Furniture & Fixtures	2,829,971	2,717,248
Housekeeping Equipment	58,042	54,338
Healthcare Equipment	163,735	128,521
Clinic Equipment	34,614	46,575
Office Equipment	44,492	44,492
IT Equipment	382,742	346,931
Communications Equipment	462,270	18,099
Independent Living Furniture	23,718	23,718
Kitchen Equipment	523,697	209,720
Maintenance Equipment	173,819	173,819
Laundry Equipment	39,529	39,529
Health Center Furniture	73,662	73,662
Vehicle	267,035	162,571
Construction in Process - Rosewood	<u>1,699,852</u>	<u>286,931</u>
	9,194,401	5,876,616
Less accumulated depreciation	<u>2,814,088</u>	<u>2,368,823</u>
	<u>\$ 6,380,313</u>	<u>\$ 3,507,793</u>

Depreciation related to property and equipment totaled \$480,203 and \$392,396 for the years ended December 31, 2019 and 2018, respectively.

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**NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions for the year ended December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Resident deposits	\$ 3,054,000	\$ 2,990,000
Rosewood expansion	<u>6,274,316</u>	<u>5,963,934</u>
	<u>\$ 9,328,316</u>	<u>\$ 8,953,934</u>

**NOTE 9 - TRANSACTIONS WITH AFFILIATE**

At December 31, 2009, the Cypress of Raleigh, LLC transferred ownership of common area property to the Association per the agreement between the Association members and the LLC. The assets were transferred at market value and consisted of the furniture and fixtures of \$2,511,861.

The Company also receives a management fee of 10% of the operating costs from the Club and Association. During 2019 and 2018 a total of \$1,623,646 and \$1,432,617 was paid as management fees to the LLC, respectively. The amount due to the Company was \$0 and \$0 at December 31, 2019 and 2018, respectively.

In 2019 and 2018, the Company contributed \$0 and \$62,000, respectively, to the Club for general operating expenses and is included in revenue as miscellaneous revenue. In 2019 and 2018, the Company contributed \$150,000 and \$5,963,934, respectively, for the Rosewood Health Center expansion and is included in revenue as developer contribution. The amount due from the Company was \$176,167 and \$75,941 at December 31, 2019 and 2018, respectively.

In 2018, the Company contributed furniture and fixtures, valued at \$96,862, for the common area of Villa D and related non-capital expenses of \$1,927 to the Association. The contribution is included in revenue as developer contribution.

In December 2018, the Company transferred investments of \$5,686,110 to the Club for the Rosewood Health Center expansion. The Club will oversee construction of the Rosewood Health Center renovation and expansion. All expenses related to the renovation and expansion of the Rosewood will be paid using these investments and the assets transferred to The Cypress of Raleigh Owners' Association once construction is completed. The balance in the Renewal and Replacement Reserve fund was \$4,799,303 and \$5,718,754 at December 31, 2019 and 2018, respectively.

During 2019 and 2018, the Club paid Michael G. Sandman \$16,085 and \$0, respectively, for legal services. At December 31, 2019 and 2018, the amount due was \$6,003 and \$0, respectively.



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**NOTE 10 - LEASES**

The Club rents various equipment and vehicles under operating leases, which expire through February 2023. Rent expense on all operating leases during 2019 and 2018 was \$90,067 and \$81,929, respectively.

Future minimum lease payments under operating leases at December 31, 2019, are as follows:

	<u>Amount</u>
2020	\$ 57,715
2021	35,635
2022	16,810
2023	<u>210</u>
	<u>\$110,370</u>

**NOTE 11 - CAPITAL LEASES**

The Club leases golf carts under a capital lease. The economic substance of the lease is that the Club is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Club's assets and liabilities.

The following is an analysis of the leased assets included in property and equipment:

	<u>2019</u>	<u>2018</u>
Vehicles	\$ 116,000	\$ 116,000
Less accumulated amortization	<u>95,955</u>	<u>82,592</u>
	<u>\$ 20,045</u>	<u>\$ 33,408</u>

The following is a schedule by years of future minimum payments required under the lease together with their present value as of December 31, 2019:

	<u>Amount</u>
2020	\$ 20,188
2021	<u>10,093</u>
	30,281
Less amount representing interest	<u>1,384</u>
Present value of minimum lease payments	<u>\$ 28,897</u>

Interest expense was \$3,099 and \$4,505 for the years ended December 31, 2019 and 2018, respectively.

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**NOTE 12 - LINE OF CREDIT**

The Club has a line of credit with a credit limit of \$500,000 to fund upgrades and enhancements to the Club. The interest rate is LIBOR + 1.5%, with all principal and accrued interest due January 15, 2021. The line is secured by the working capital investment account. At December 31, 2019 and 2018, the balance due was \$0 and \$36,521, respectively.

**NOTE 13 - NOTES PAYABLE**

Notes payable at December 31, 2019 consisted of the following:

Note payable to First Citizens Bank, with 18 monthly principal and interest payments of \$1,267, beginning April 15, 2019 and one final payment of remaining amounts on September 15, 2020. The note is secured by a vehicle and carries an interest rate of 4.75%.	40,182
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Note payable to First Citizens Bank, with 60 monthly payments of principal and interest of \$1,085 beginning November 1, 2019 and one final payment due on October 1, 2024. The note is secured by a vehicle and carries an interest rate of 7.04%	53,042
	93,224

Less current portion	(49,706)
	\$ 43,518

Future maturities of long-term debt are as follows:

2020	\$ 49,706	
2021	10,230	
2022	10,987	
2023	11,801	
2024	10,500	
	\$ 93,224	

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**NOTE 14 - REGULATORY MATTERS**

Continuing care retirement communities located in North Carolina are licensed and monitored by the State Department of Insurance under Article 64 of Chapter 58 of the North Carolina General Statutes. The Commissioner of Insurance has the authority to revoke or restrict the license of, or impose additional requirements on any continuing care facility under certain circumstances specified in General Statute 58-64-10.

North Carolina General Statute 58-64-33 requires after the opening of a facility an operating reserve equal to 50% of the total operating costs of the facility forecasted for the 12 month period following the period covered by the most recent disclosure statement filed with the Department of Insurance. The forecast statements, as required by GS 58-64-20(a) (12), shall serve as a basis for the reserve. Continuing care retirement communities with occupancy levels in excess of 90% are required to maintain an operating reserve equal to 25% of total operating costs projected for the twelve month period following the most recent annual statement filed with the Department of Insurance, upon approval of the Commissioner. Continuing care retirement communities with less than 90% occupancy are required to maintain an operating reserve equal to 50% of projected total operating costs. Total operating costs shall include budgeted operating expenses plus debt service less depreciation and amortization expense and revenue associated with non-contractual expenses. These reserves are to be used for the benefit of the Club in the event of emergencies or unexpected shortfalls.

To meet this obligation, at closing, each purchaser was responsible for paying a reserve deposit of \$9,000 to the Club through December 31, 2011. So long as it has not been necessary for the Club to use proceeds or assets from the reserve account, interest and/or dividends have been paid to each purchaser on a prorata basis in February of each year. For the year ended December 31, 2019 and 2018, the Club did not use proceeds or assets from the reserve account and the balance of interest and dividends is shown as due to homeowners. Each subsequent purchaser shall be obligated to pay \$14,000 into the reserve account, so that upon resale of the unit, any unused portion of the deposit shall be returned to the original purchaser.

Notwithstanding the foregoing, the amount of the reserve deposit may be increased as reasonably necessary to remain consistent with the purposes of the reserve account, provided that such increase would be subject to approval by the Department of Insurance.

The balance held by the Club in the related restricted investment account was \$3,501,170 at December 31, 2019, and \$3,025,978 at December 31, 2018. The balance held by the Club in the related restricted cash account was \$29,614 at December 31, 2019, and \$38,258 at December 31, 2018.

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**NOTE 14 - REGULATORY MATTERS (concluded)**

The Cypress of Raleigh, LLC reserves the right, if necessary or appropriate, to loan funds for the reserve account and to be reimbursed as funding occurs through future sales. The Association has also adopted a resolution to designate funds from the working capital reserve account to meet the statutory reserve requirement if necessary. This fund was transferred from the Association to the Club in 2015.

**NOTE 15 - LIFE CARE SERVICES**

On December 1, 2004 the Club and Association entered into an agreement with Life Care Services LLC (LCS) to provide management services for the Club. LCS receives a management fee of the greater of \$28,000 per month (the Initial Base Fee) or 4% of the current month's total gross operating revenue, provided that the initial base fee shall be increased each January 1 by the same percentage increase as the United States Consumer Price index for All Urban Consumers published by the U.S. Bureau of Labor Statistics for the immediately preceding December as compared to the CPI-U for December of the prior year. No reduction shall be made in the Monthly Management fee in the event of a decrease in the CPI-U. In May 2019, a new agreement was entered into requiring monthly payments of the greater of \$45,000 or 3.6% of the total gross operating revenue. All other terms of the agreement remain unchanged.

The Club and Association are responsible for all operating expenses related to LCS's activities involving the Club and Association. At December 31, 2019 and 2018 the Club and Association had paid \$687,920 and \$604,936 in management fees to LCS, respectively.

**NOTE 16 – WORKING CAPITAL RESERVE**

A Working Capital Reserve account is funded by payments made by each Member at the closing on his/her Cottage or Villa. The payment will be equal to two months of the Member's prorata share of Association common expenses. The Working Capital Reserve Account will only be used for purposes related to The Cypress' property, and any interest earned on funds held in the account shall be included in the working capital reserve fund. During 2019 and 2018, funds were transferred by the Club to a cash account for the Working Capital Reserve totaling \$32,134 and \$139,903, respectively.

**NOTE 17 - FUTURE REPAIRS AND REPLACEMENTS**

As of December 31, 2019 and 2018, there were funds of \$5,996,760 and \$6,168,986, respectively, designated for a Working Capital Reserve fund.

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**NOTE 17 - FUTURE REPAIRS AND REPLACEMENTS (concluded)**

Management of the Association conducted a study in 2009 to estimate the remaining useful lives of the components of common properties and to estimate the costs of future major repairs and replacements. This study was most recently updated in 2019 for a 20-year budget period beginning in 2019. The current policy is that these expenses will be paid from current amounts on hand or from assets maintained by the Club in designated and undesignated accounts, special assessments may be levied, as required, after utilizing these designated funds or funds may be borrowed. Capital expenditures of \$1,085,000 and \$0 were paid from the working capital reserve investments account for capital expenditures in 2019 and 2018, respectively.

**NOTE 18 - RESERVE FOR INSURANCE**

At closing, the member also pays a share of the condominium insurance premium for the year of closing. The amount of this fee is determined in accordance with each unit's statutory percentage interest in the condominium. During 2019 and 2018, \$9,763 and \$41,713, respectively, was transferred into a cash account by the Club for this purpose.

**NOTE 19 - RETIREMENT PLAN**

The Club began a 401(k) retirement plan for all eligible employees on January 1, 2009. Employees are eligible to participate in the plan upon attaining the age of 21 years, completing one year of active service and having worked at least 1,000 hours in a given year. Employees may invest up to 20% of wages, tips and other compensation on form W-2 into the plan. The Club will match up to 50 cents on the dollar up to 3% of an employee's compensation. Employees are 100% vested in the portion they contribute to the plan. The Club matching funds are vested over a six-year period. In March 2018, the plan was amended to add The Cypress of Raleigh, LLC as a participating employer.

Retirement expense for the plan was \$38,722 and \$32,080 for the years ended December 31, 2019 and 2018, respectively.

**NOTE 20 - COMMITMENTS AND CONTINGENCIES**

Full-time employees accrue 18 days PTO per year during their first year of employment and an additional day each year up to 22 days in their fifth year of employment. Part-time employees earn PTO on a pro-rated basis per hours worked. The maximum carryover from one year to the next is 460 hours. At December 31, 2019 and 2018, the Club's total liability for PTO days was \$345,125 and \$341,740, respectively, and is included as accrued expense.

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**NOTE 20 - COMMITMENTS AND CONTINGENCIES (concluded)**

In February 2018, the North Carolina Department of Revenue completed an examination of sales & use tax for the period February 1, 2015 to November 30, 2017. The examining agent proposed adjustments related to additional sales tax of approximately \$193,000 plus penalties and interest of approximately \$48,000 and \$16,000, respectively. The Club does not agree with the adjustments proposed by the examining agent and requested departmental review. The department sustained the assessment in its entirety, after which the Club filed a petition for a contested case hearing. No provision has been made in the accompanying financial statements for the proposed additional sales tax, penalties and interest since the ultimate liability cannot be reasonably estimated.

In May 2018, the Club entered into an agreement with a firm to provide architectural services for the Rosewood Health Center expansion. The Club will compensate the firm \$449,000 for basic services and additional amounts as needed.

In May 2018, the North Carolina Nursing Home Licensure and Certification Section of the Division of Health Service Regulation (NCNHLC) conducted a survey at the Rosewood Health Center to investigate an occurrence earlier that year. As a result, the Centers for Medicare and Medicaid Services' imposed, and the Club paid, a civil penalty of \$20,965. The Club contested the certification deficiencies and is currently awaiting the hearing decision. Due to the uncertainty of the outcome of this case, no provision has been made in the accompanying financial statements.

**NOTE 21 – MANAGEMENT'S REVIEW AND SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 31, 2020, which is the date the financial statements were available to be issued.

**EXHIBIT E**

**MATERIAL VARIANCE STATEMENTS -- NARRATIVES REGARDING ANNUAL  
DISCLOSURE STATEMENT REVISION PURSUANT TO NORTH CAROLINA  
GENERAL STATUTES SECTION 58-64-30(A) FOR THE CYPRESS OF RALEIGH  
CLUB, INC. AND THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
(COMBINED) AND FOR THE CYPRESS OF RALEIGH, LLC**

**{ATTACHED}**

## **THE CYPRESS OF RALEIGH CLUB, INC.**

**AND**

## **THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC. - COMBINED**

### **MATERIAL VARIANCE STATEMENTS**

Narrative describing any material differences between the forecasted balance sheets, statements of operations, and the actual results of operations during the prior fiscal year (2019).

Scope for variance explanation-management considers \$100,000 to be significant to the financial statement reader.

#### **Balance Sheet & Cash flows:**

- 1 – Cash is lower than expected due to the timing of expenditures at year end.
- 2 – Capital assets purchases, accumulated depreciation and depreciation expense were all lower than forecasted due to purchases based on the needs of the Organization and the timing of construction for the Rosewood Health Center.
- 3 – Fair value of investments higher than expected due to market performance. Increase from contribution of investments from the Developer for Rosewood expansion was not forecasted. Realized and unrealized gain/loss activity is not forecasted. Investments in cash equivalents not forecasted.
- 4 – Payables lower than expected due to timing of disbursements.
- 5 – Based on the market performance of the investment account.
- 6 – Notes payable for bus and van not forecasted.

#### **Statement of Operations & Cash flows:**

- 7 – Health Center revenue higher than expected due to more residents moving to the Rosewood. Community Home Health revenue decreased in response to the movement of residents from independent living to assisted living.
- 8 – Health Center expenses lower than expected due to fewer therapy sessions. Plant expenses lower than forecasted due to lower cost of living increase and less demand for utilities.
- 9 – General and administrative expenses higher than forecasted due to higher legal expenses and software fees.
- 10 – Other expenses higher than forecasted due to expenses for renovations to member units that were not forecasted.
- 11 – Forecasted purchase of investments is limited to increases in available cash for investments, whereas, the actual investment purchases include portfolio turnover. Therefore, actual is higher than forecasted amount.

Actual sales of investments are higher than forecasted sales of investments due to management investment decisions. These items are not forecasted.



**THE CYPRESS OF RALEIGH CLUB, INC.  
AND THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED FORECAST TO ACTUAL - BALANCE SHEET  
Schedule of 2019 Forecast Versus Actual Comparison - Material Variance Statement**

	<u>Forecast</u>	<u>Actual</u>	<u>Over/(Under) Variance \$</u>	<u>Over/(Under) Variance %</u>	
<u>Assets</u>					
Current Assets:					
Cash	\$ 728,321	\$ 397,715	(330,606)	-45.39%	(1)
Accounts Receivable	699,768	608,312	(91,456)	-13.07%	
Inventory	103,761	119,214	15,453	14.89%	
Prepaid Expenses	156,998	159,024	2,026	1.29%	
Total Current Assets	<u>1,688,848</u>	<u>1,284,265</u>			
Property, Plant & Equipment:					
Furniture, Fixtures, & Equipment	11,414,513	9,194,401	(2,220,112)	-19.45%	(2)
	11,414,513	9,194,401			
Less Accumulated Depreciation	<u>(3,061,373)</u>	<u>(2,814,088)</u>	247,285	-8.08%	(2)
Net Property, Plant & Equipment	<u>8,353,140</u>	<u>6,380,313</u>			
Assets Limited as to Use					
Cash & Investments Whose Use is Limited:					
Reserves Required by State Statute, cash	39,023	29,614	(9,409)	-24.11%	
Renewal and Replacement Reserve, cash equivalent	-	970,319	970,319	100.00%	(3)
Reserves Required by State Statute-Investments	3,249,978	3,501,170	251,192	7.73%	(3)
Reserve for Replacements	4,575,456	5,996,760	1,421,304	31.06%	(3)
Renewal and Replacement Reserve	<u>2,859,377</u>	<u>3,828,984</u>	969,607	33.91%	(3)
Total Assets Limited as to Use	<u>10,723,834</u>	<u>14,326,847</u>			
Other Assets					
Due from Affiliate	86,608	176,495	89,887	100.00%	
Refundable Deposits	62,177	62,177	-	0.00%	
Total Other Assets	<u>148,785</u>	<u>238,672</u>			
Total Assets	<u>\$ 20,914,607</u>	<u>\$ 22,230,097</u>			
<u>Liabilities &amp; Net Assets</u>					
Current Liabilities:					
Accounts Payable	\$ 907,147	\$ 806,782	(100,365)	-11.06%	(4)
Accrued Expenses	943,337	904,627	(38,710)	-4.10%	
Due to Members	192,600	46,823	(145,777)	-75.69%	(5)
Line of Credit	-	-	-	0.00%	
Current Portion of Capital Lease Payable	23,941	18,980	(4,961)	-20.72%	
Current Portion of Notes Payable	-	49,706	49,706	100.00%	
Total Current Liabilities	<u>2,067,025</u>	<u>1,826,918</u>			
Long-term Liabilities:					
Note Payable, Net of Current Portion	-	43,518	43,518	100.00%	
Capital Lease Payable, Net of Current Portion	<u>11,681</u>	<u>9,917</u>	(1,764)	-15.10%	
Total Long-term Liabilities	<u>11,681</u>	<u>53,435</u>			
Net Assets:					
Without donor restrictions	3,035,678	(972,820)			
Without donor restrictions, Designated for asset replacer	4,575,456	5,996,760			
With donor restrictions	6,195,967	9,328,316			
Member's Equity, Undesignated	<u>5,028,800</u>	<u>5,997,488</u>			
Total Net Assets	<u>18,835,901</u>	<u>20,349,744</u>			
Total Liabilities & Net Assets	<u>\$ 20,914,607</u>	<u>\$ 22,230,097</u>			

Scope for variance explanation-management considers \$100,000 to be significant to the financial statement reader.

**THE CYPRESS OF RALEIGH CLUB, INC.  
AND THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED FORECAST TO ACTUAL - OPERATIONS  
Schedule of 2019 Forecast Versus Actual Comparison - Material Variance Statement**

	<u>Forecast</u>	<u>Actual</u>	<u>Over/(Under) Variance \$</u>	<u>Over/(Under) Variance %</u>	
<b>Revenue:</b>					
Service Fees	\$ 13,284,886	\$ 13,187,500	\$ (97,386)	-0.73%	
Health Center	3,853,724	3,980,929	127,205	3.30%	(7)
Working Capital	33,600	32,134	(1,466)	-4.36%	
Insurance	9,961	9,763	(198)	-1.99%	
Home Health Revenue	2,042,802	1,894,345	(148,457)	-7.27%	(7)
Net Investment Income	2,000	1,239,630	1,237,630	61881.50%	(3)
Other income	6,883	-	(6,883)	-100.00%	
<b>Total Revenue</b>	<u>19,233,856</u>	<u>20,344,301</u>			
<b>Expenses:</b>					
<b>Program Services</b>					
Housekeeping	1,405,389	1,422,580	17,191	1.22%	
Food and Beverage	3,612,636	3,671,152	58,516	1.62%	
Health Center	3,528,193	3,410,239	(117,954)	-3.34%	(8)
Community Home Health	2,021,980	1,938,106	(83,874)	-4.15%	
Resident Services	534,133	506,658	(27,475)	-5.14%	
Plant	2,842,434	2,677,078	(165,356)	-5.82%	(8)
<b>Sub Total</b>	<u>13,944,765</u>	<u>13,625,813</u>			
<b>Supportive Services</b>					
General & Administrative	1,867,473	2,041,670	174,197	9.33%	(9)
Management Fee - Life Care Services	685,820	687,920	2,100	0.31%	
Management Fee - The Cypress of Raleigh, LLC	1,648,809	1,623,646	(25,163)	-1.53%	
<b>Sub Total</b>	<u>4,202,102</u>	<u>4,353,236</u>			
Depreciation	692,551	480,203	(212,348)	-30.66%	(2)
Other expenses	27,000	134,631	107,631	100.00%	(10)
Gain/Loss on sale of assets	-	19,519	19,519	0.00%	
Income Taxes	-	-	-	0.00%	
<b>Total Expenses</b>	<u>18,866,418</u>	<u>18,613,402</u>			
Net Assets Released from Restriction	2,981,967	-	(2,981,967)	0.00%	(2)
<b>Increase (Decrease) in Net Assets</b>	<u>\$ 3,349,405</u>	<u>\$ 1,730,899</u>			

Scope for variance explanation-management considers \$100,000 to be significant to the financial statement reader.

**THE CYPRESS OF RALEIGH CLUB, INC.  
AND THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED FORECAST TO ACTUAL - CASH FLOWS  
Schedule of 2019 Forecast Versus Actual Comparison - Material Variance Statement**

	<u>Forecast</u>	<u>Actual</u>	<u>Over/(Under) Variance \$</u>	<u>Over/(Under) Variance %</u>	
<u>Cash Flows from Operating Activities</u>					
Change in Net Assets	\$ 2,218,568	\$ 2,105,281	(113,287)	-5.11%	(3), (4), (7), (8), (9), (10), (11)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:					
Depreciation	692,551	480,203	(212,348)	-30.66%	(2)
Gain/Loss on sale of assets	-	19,519	19,519	100.00%	
Realized and Unrealized Gains/Losses	-	(1,135,925)	(1,135,925)	100.00%	(3)
(Increase) Decrease in:					
Accounts Receivable	(77,817)	13,639	91,456	-117.53%	
Inventory	-	(15,453)	(15,453)	100.00%	
Due from Affiliate	-	(7,336)	(7,336)	100.00%	
Prepaid Expenses	(5,310)	60,112	65,422	-1232.05%	
Increase (Decrease) in:					
Accounts Payable	96,500	(3,865)	(100,365)	-104.01%	(4)
Due to Members	192,599	61,640	(130,959)	-68.00%	(5)
Accrued Expense	100,350	46,823	(53,527)	-53.34%	
Net Cash Provided by Operating Activities	<u>3,217,441</u>	<u>1,624,638</u>			
<u>Cash Flow from Investing Activities</u>					
Developer Contribution	-	(150,000)	(150,000)	100.00%	(3)
Purchase of Investments	(257,600)	(17,299,896)	(17,042,296)	6615.80%	(11)
Proceeds from Sales of Investments	-	20,022,625	20,022,625	100.00%	(11)
Proceeds from Sales of Property and Equipment	-	7,022	7,022	100.00%	
Purchase of Property & Equipment	(2,678,520)	(3,379,264)	(700,744)	100.00%	(2)
Net Cash Used by Investing Activities	<u>(2,936,120)</u>	<u>(799,513)</u>			
<u>Cash Flow from Financing Activities</u>					
Proceeds (Payments on Line of Credit)	(36,521)	(36,522)	(1)	100.00%	
Proceeds on notes payable	-	104,464	104,464	100.00%	(6)
Payments on notes payable	-	(11,239)	(11,239)	100.00%	
Payments on Capital Lease Payable	(27,056)	(33,780)	(6,724)	100.00%	
Net Cash Used by Financing Activities	<u>(63,577)</u>	<u>22,923</u>			
Net Increase (Decrease) in Cash	217,744	848,048			
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>549,600</u>	<u>549,600</u>			
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 767,344</u>	<u>\$ 1,397,648</u>			
<u>CASH CONSISTS OF:</u>					
Cash and cash equivalents	\$ 728,321	\$ 397,715			
Cash - with donor restriction	39,023	999,933			
	<u>\$ 767,344</u>	<u>\$ 1,397,648</u>			

Scope for variance explanation-management considers \$100,000 to be significant to the financial statement reader.

**THE CYPRESS OF RALEIGH, LLC**  
**MATERIAL VARIANCE STATEMENTS**

Narrative describing any material differences between the forecasted balance sheets, statements of operations and cash flows and the actual results of operations during the prior fiscal year (2019).

Scope for variance explanation - management considers \$100,000 to be significant to the financial statement reader.

**Balance Sheet and Cash Flows:**

- 1 - Cash was lower than expected due to higher marketing costs and the pay off of Phase I remaining loan balance.
- 2 - Accounts receivable was higher than forecasted due to the timing of deposits from the Club.
- 3 - Units in Inventory is lower than forecasted due to the sale of the remaining Villa D unit in 2019. One unit that reverted to the Company upon the death of the resident remains in inventory.
- 4 - Land and development costs had a higher percentage of costs forecasted to be incurred in 2019. Actual costs have shifted to a higher percentage that will occur in 2020.
- 5 - Notes receivable are higher due to a change in terms of repayment which is now expected to be at the time the unit sells.
- 6 - Accounts payable was higher than forecasted due to the timing of payments related to Phase III construction.
- 7 - Notes payable lower due to timing of construction draws beginning after related party proceeds received and Phase I note paid off.
- 8 - Reservation deposits was higher than forecasted due to average sales price being higher than amounts used for assumptions.
- 9 - Net loss was not forecasted but resulted from higher professional fees and marketing costs.

**Statement of Operations:**

- 10 - Sales proceeds were higher than forecasted due to remaining Villa D unit that was sold in 2019.
- 11 - Cost of Sales was higher than expected due to remaining Villa D unit that was sold in 2019 and additional funds transferred to the Club for Rosewood expansion.
- 12 - Professional fees and marketing expense was higher than forecasted due to increased activity related to Villa E.

**THE CYPRESS OF RALEIGH, LLC - BALANCE SHEET**  
**Schedule of 2019 Forecast Versus Actual Comparison - Material Variance Statement**

	<u>Forecast</u>	<u>Actual</u>	<u>Over/(Under) Variance \$</u>	<u>Over/(Under) Variance %</u>	
<u>Assets</u>					
Current Assets:					
Cash	\$ 5,939,298	\$ 1,559,440	\$ (4,379,858)	-73.74%	(1)
Accounts Receivable and Notes Receivable, current	152,000	308,667	156,667	103.07%	(2)
Units in Inventory	874,000	460,000	(414,000)	-47.37%	(3)
Total Current Assets	<u>6,965,298</u>	<u>2,328,107</u>	<u>(4,637,191)</u>		
Property & Equipment					
Furniture, Fixtures, & Equipment	57,471	72,562	15,091	26.26%	
Less Accumulated Depreciation	<u>(53,347)</u>	<u>(54,157)</u>	<u>(810)</u>	1.52%	
	4,124	18,405	14,281		
Land & Development Costs:	11,824,800	7,665,948	(4,158,852)	-35.17%	(4)
Restricted Assets					
Cash From Reservation Deposits and Escrow	3,190,600	3,624,149	433,549	13.59%	(8)
Other Assets					
Notes Receivable, net of current portion	-	159,480	159,480	100.00%	(5)
Deposits	9,000	9,000	-	0.00%	
Accrued interest receivable	7,074	33,536	26,462	374.07%	
Total Other Assets	<u>16,074</u>	<u>202,016</u>	<u>185,942</u>		
Total Assets	<u>\$ 22,000,896</u>	<u>\$ 13,838,625</u>	<u>\$ (8,162,271)</u>		
<u>Liabilities &amp; Members' Equity</u>					
Current Liabilities					
Accounts Payable & Other Accrued Expenses	\$ 500,000	\$ 1,424,737	\$ 924,737	184.95%	(6)
Accounts Payable-Related Parties	2,000	-	(2,000)	-100.00%	
Deferred Revenue	-	-	-	0.00%	
Line of credit	-	-	-	0.00%	
Note payable, Related Party	268,388	268,388	-	0.00%	
Note payable, current portion	975,000	-	(975,000)	-100.00%	(7)
Reservation Deposits	<u>3,190,600</u>	<u>3,624,000</u>	<u>433,400</u>	13.58%	(8)
Total Current Liabilities	4,935,988	5,317,125	381,137		
Long-Term Liabilities					
Deferred Revenue	-	-	-	0.00%	
Long Term Debt	9,032,800	1,143,812	(7,888,988)	-87.34%	(7)
Long Term Debt - Related Party	<u>12,119,948</u>	<u>12,119,935</u>	<u>(13)</u>	0.00%	
Total Long-term Liabilities	21,152,748	13,263,747	(7,889,001)		
Total Liabilities	26,088,736	18,580,872	(7,507,864)		
Members' Equity (Deficit)					
Unrestricted	(4,087,840)	(4,742,247)	(654,407)	16.01%	(9)
Restricted	-	-	-		
Total Members' Equity (Deficit)	<u>(4,087,840)</u>	<u>(4,742,247)</u>	<u>(654,407)</u>		
Total Liabilities & Members' Equity	<u>\$ 22,000,896</u>	<u>\$ 13,838,625</u>	<u>\$ (8,162,271)</u>		

Scope for variance explanation-management considers \$100,000 to be significant to the financial statement reader.

**THE CYPRESS OF RALEIGH, LLC - OPERATIONS**

**Schedule of 2019 Forecast Versus Actual Comparison - Material Variance Statement**

	<u>Forecast</u>	<u>Actual</u>	<u>Over/(Under) Variance \$</u>	<u>Over/(Under) Variance %</u>	
<u>Revenue:</u>					
Sale of Units	\$ -	\$ 553,500	\$ 553,500	100.00%	(10)
New Membership Fees	-	61,500	61,500	100.00%	
Resale Membership Fees	1,080,000	928,700	(151,300)	-14.01%	(10)
Resale Commissions	486,000	462,079	(23,921)	-4.92%	
Management Fee	1,648,809	1,630,363	(18,446)	-1.12%	
Interest Income	5,000	89,128	84,128	1682.56%	
Miscellaneous Income	-	11,137	11,137	100.00%	
Total Revenue	<u>3,219,809</u>	<u>3,736,407</u>	<u>516,598</u>		
Cost of Units Sold	<u>-</u>	<u>564,000</u>	<u>564,000</u>	100.00%	(11)
Gross Profit	3,219,809	3,172,407	(47,402)		
<u>Operating Expenses</u>					
Legal and Accounting	64,896	121,393	56,497	87.06%	
Management and Other Expense	360,000	360,000	-	0.00%	
Interest Expense, Not Capitalized	465,982	437,708	(28,274)	-6.07%	
Contribution	-	600	600	100.00%	
Depreciation and Amortization	2,478	32,790	30,312	1223.24%	
Marketing Expense	<u>1,500,000</u>	<u>2,308,399</u>	<u>808,399</u>	53.89%	(12)
Total Operating Expenses	<u>2,393,356</u>	<u>3,260,890</u>	<u>867,534</u>		
<u>Other Income/(Expense)</u>					
Miscellaneous expense	<u>(500)</u>	<u>(70,352)</u>	<u>(69,852)</u>	13970.40%	
Net Income (Loss)	<u>\$ 825,953</u>	<u>\$ (158,835)</u>	<u>\$ (984,788)</u>		

Scope for variance explanation-management considers \$100,000 to be significant to the financial statement reader.

**THE CYPRESS OF RALEIGH, LLC - CASH FLOWS**  
**Schedule of 2019 Forecast Versus Actual Comparison - Material Variance Statement**

	<u>Forecast</u>	<u>Actual</u>	<u>Over/(Under) Variance \$</u>	<u>Over/(Under) Variance %</u>	
Cash Provided (Used) by Operating Activities:					
Net Income	\$ 825,953	\$ (158,835)	\$ (984,788)	-119.23%	(10)
Adjustments					
Depreciation and amortization	2,478	32,790	30,312	1223.24%	
Adjustments to Reconcile Change in Operating Activities to Net Cash Provided:					
(Increase)/Decrease in:					
Accounts receivable and notes receivable	142,125	(174,021)	(316,146)	-222.44%	(2)
Units in Inventory	-	414,000	414,000	100.00%	(3)
Accrued interest receivable	-	(26,462)	(26,462)	-100.00%	
Increase/(Decrease) in:					
Reservation Deposits Due	3,039,600	3,473,000	433,400	14.26%	(8)
Accounts Payable & Other Accrued Expenses	363,317	1,209,897	846,580	233.01%	(6)
Accounts Payable - Related Party	(76,158)	-	76,158	-100.00%	
Net Cash Provided (Used) by Operating Activities	<u>4,297,315</u>	<u>4,770,369</u>	<u>473,054</u>		
Cash Used by Investing Activities					
Land and Development Costs	(11,242,491)	(7,113,143)	4,129,348	-36.73%	(4)
Purchase of Furniture, Fixtures and Equipment	-	(15,091)	(15,091)	-100.00%	
Net Cash (Used) by Investing Activities	<u>(11,242,491)</u>	<u>(7,128,234)</u>	<u>4,114,257</u>		
Cash Provided (Used) by Financing Activities					
Activities:					
Proceeds from Notes Payable, Related Party	6,000,000	6,000,000	-	0.00%	
Payments on Notes Payable, Related Party	(257,916)	(257,929)	(13)	0.01%	
Proceeds from Notes Payable	9,032,800	1,143,812	(7,888,988)	-87.34%	(7)
Payments on Notes Payable	(450,000)	(1,425,000)	(975,000)	216.67%	(7)
Members' Capital Distribution	(330,381)	-	330,381	-100.00%	(9)
Net Cash (Used) by Financing Activities	<u>13,994,503</u>	<u>5,460,883</u>	<u>(8,533,620)</u>		
Net Increase (Decrease) In Cash	7,049,327	3,103,018	(3,946,309)	-55.98%	
Beginning Cash	<u>2,080,571</u>	<u>2,080,571</u>	<u>-</u>		
Ending Cash	<u>\$ 9,129,898</u>	<u>\$ 5,183,589</u>	<u>\$ (3,946,309)</u>		
Cash Consists of:					
Cash		\$ 1,559,440			
Restricted Cash		<u>3,624,149</u>			
		<u>\$ 5,183,589</u>			

Scope for variance explanation-management considers \$100,000 to be significant to the financial statement reader.

**EXHIBIT F**

**THE CYPRESS OF RALEIGH CLUB, INC. AND THE CYPRESS OF RALEIGH  
OWNERS' ASSOCIATION, INC. – INTERIM FINANCIAL STATEMENTS  
FOR THREE MONTHS ENDED MARCH 2020**

**(CONSOLIDATED BALANCE SHEET)**

**{ATTACHED}**



**THE CYPRESS OF RALEIGH CLUB, INC.**  
**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**COMBINED BALANCE SHEET**  
**MARCH 31, 2020**

**ASSETS**

Current Assets	
Cash and cash equivalents	\$ 1,039,353
Accounts Receivable	667,044
Inventory	131,256
Prepaid Expenses	209,639
Total Current Assets	<u>2,047,292</u>
Assets Limited as to Use	
Restricted Reserves Required by State Statute, cash equivalents	20,505
Renewal and Replacement Reserve, cash equivalents	1,310,902
	<u>1,331,407</u>
Restricted Reserves Required by State Statute, investments	3,147,109
Working Capital, investments	4,887,424
Renewal and Replacement Reserve, investments	1,897,618
	<u>11,263,558</u>
Total Assets Limited to Use	<u>11,263,558</u>
Property and Equipment, Net	<u>8,033,182</u>
Other Assets	
Due from Affiliate	38,707
Refundable Deposits	62,177
Total Other Assets	<u>100,884</u>
	<u>\$ 21,444,916</u>

**LIABILITIES, NET ASSETS AND MEMBERS' EQUITY**

Current liabilities	
Accounts Payable	\$ 789,319
Accrued Expenses	882,297
Due to members	5,531
Line of Credit	25,000
Current Portion of Notes Payable	49,058
Current Portion of Capital Lease Payable	20,188
Total Current Liabilities	<u>1,771,393</u>
Long-term Liabilities	
Notes Payable, Net of Current Portion	54,758
Capital Lease Payable, Net of Current Portion	4,070
Total Long-term Liabilities	<u>58,828</u>
Total Liabilities	<u>1,830,221</u>
Net Assets, Without Donor Restrictions	<u>(1,122,065)</u>
Net Assets, Without Donor Restrictions - designated for asset replacement	<u>4,887,424</u>
Net Assets, With Donor Restrictions	<u>9,390,691</u>
Members' Equity	
Members' Equity, undesignated	6,458,645
Total Members' Equity	<u>6,458,645</u>
	<u>\$ 21,444,916</u>

**See Independent Accountants' Compilation Report**

**EXHIBIT G**

**THE CYPRESS OF RALEIGH CLUB, INC. AND THE CYPRESS OF RALEIGH  
OWNERS' ASSOCIATION, INC. – INTERIM FINANCIAL STATEMENTS  
FOR THREE MONTHS ENDED MARCH 2020**

**(CONSOLIDATED OPERATING STATEMENT)**

**{ATTACHED}**

**THE CYPRESS OF RALEIGH CLUB, INC.  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED STATEMENT OF OPERATIONS  
THREE MONTHS ENDED MARCH 31, 2020**

**Unrestricted Net Assets:**

REVENUES, GAINS, AND OTHER SUPPORT

Member fees and assessments	\$ 3,423,073
Health Center	974,143
Home Health	583,973
Working Capital	11,541
Net Investment Income	(945,767)
Total Revenue, Gains and Other Support	4,046,963

EXPENSES

Program Services	
Food and beverage	924,989
Health Center	866,402
Community Home Health	573,664
Plant	674,500
Resident services	144,891
Housekeeping	364,225
	3,548,671

Supporting Services

General and Administrative	914,687
Management fees	181,118
	1,095,805

Depreciation	153,927
Other expenses	45,984
Total operating expenses	4,844,387
Change in net assets without donor restrictions and members' equity	(797,424)

**Net Assets With Donor Restrictions:**

Reserves Required By State Statute Deposited	33,000
Net Investment Income	29,375
Change in net assets with donor restrictions	62,375

<b>Change in net assets and members' equity</b>	<b>\$ (735,049)</b>
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**EXHIBIT H**

**THE CYPRESS OF RALEIGH CLUB, INC. AND THE CYPRESS OF RALEIGH  
OWNERS' ASSOCIATION, INC. – INTERIM FINANCIAL STATEMENTS  
FOR THREE MONTHS ENDED MARCH 2020**

**(CONSOLIDATED STATEMENT OF CASH FLOW)**

**{ATTACHED}**

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**COMBINED STATEMENT OF CASH FLOWS**  
**THREE MONTHS ENDED MARCH 31, 2020**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net change in net assets and members' equity	\$ (735,049)
Adjustments to Reconcile Increase in Net Assets To Cash Provided (Used) by Operating Activities	
Depreciation	153,927
Realized and Unrealized Gains/Losses	988,931
Accrued Interest and Dividend income	17,952
Changes in working capital components:	
(Increase)decrease in:	
Accounts and Other Receivables	(58,730)
Prepaid Expenses	(50,615)
Due From Affiliate	137,790
Increase (decrease)	
Accounts payable	(17,463)
Accrued Expenses	(22,330)
Due to Members	(41,292)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>373,121</u>
<b>INVESTING ACTIVITIES</b>	
Purchase of Investments	(7,630,758)
Proceeds from Sales of Investments	10,006,596
Purchase of Property and Equipment	(1,790,083)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>585,755</u>
<b>FINANCING ACTIVITIES</b>	
Proceeds (Payments) from Line of Credit	25,000
Payments on Notes Payable	(6,125)
Payments on Capital Lease Payable	(4,639)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>14,236</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	973,112
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,397,648</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 2,370,760</u>
<b>CASH CONSISTS OF:</b>	
Cash and cash equivalents - without donor restrictions	\$ 1,039,353
Cash-with donor restrictions	<u>1,331,407</u>
	<u>\$ 2,370,760</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>	
Interest paid	<u>\$ 2,932</u>
Schedule of Noncash Financing Transaction	
Note payable for the purchase of golf carts	<u>\$ 16,717</u>

**See Independent Accountants' Compilation Report**

**EXHIBIT I**

**THE CYPRESS OF RALEIGH CLUB, INC.  
FORECASTED FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 2020 THROUGH 2024**

**{ATTACHED}**

**THE CYPRESS OF RALEIGH CLUB, INC.**

**FORECASTED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDING DECEMBER 31, 2020 THROUGH 2024**

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## INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Directors  
The Cypress of Raleigh Club, Inc.

Management is responsible for the accompanying forecasted statements of financial position, statements of activities, changes in net assets and cash flows for The Cypress of Raleigh Club, Inc., as of December 31, 2020 through 2024 and for the years ending, including the related summaries of significant accounting policies and forecasted assumptions in accordance with guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants (AICPA). We have performed the compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the forecast or were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on this forecast.

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

The accompanying forecast and this report were prepared pursuant to the North Carolina Statute 58-64-20(a) (12) and should not be used for any other purpose.

*Dreher Martin CPAs, P.A.*

Raleigh, North Carolina  
March 27, 2020

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**Forecasted Statements of Financial Position for the Years Ending December 31, 2020 Through 2024**

**See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions and Independent Accountants' Compilation Report**

	2020	2021	2022	2023	2024
<u>Assets</u>					
Current Assets:					
Cash	\$ 46,852	\$ 353,176	\$ 893,778	\$ 316,280	\$ 897,482
Accounts Receivable	686,305	759,873	823,688	866,682	885,966
Inventory	145,149	145,149	145,149	145,149	145,149
Prepaid Expenses	164,590	170,350	176,313	182,484	188,871
Total Current Assets	<u>1,042,896</u>	<u>1,428,548</u>	<u>2,038,928</u>	<u>1,510,595</u>	<u>2,117,468</u>
Property, Plant & Equipment:					
Furniture, Fixtures, & Equipment	2,515,916	2,796,795	2,993,064	3,382,211	3,540,134
	<u>2,515,916</u>	<u>2,796,795</u>	<u>2,993,064</u>	<u>3,382,211</u>	<u>3,540,134</u>
Less Accumulated Depreciation	(758,212)	(1,030,875)	(1,312,515)	(1,621,996)	(1,930,096)
Net Property, Plant & Equipment	<u>1,757,704</u>	<u>1,765,920</u>	<u>1,680,549</u>	<u>1,760,214</u>	<u>1,610,038</u>
Assets Limited as to Use					
Cash & Investments Whose Use is Limited:					
Reserves Required by State Statute-Cash	30,206	30,810	31,427	32,055	32,696
Reserves Required by State Statute-Investments	4,428,145	4,560,989	4,697,819	4,838,754	4,983,916
Reserve for Replacements	5,162,360	4,699,160	4,738,260	4,779,660	5,183,360
Total Assets Limited as to Use	<u>9,620,711</u>	<u>9,290,959</u>	<u>9,467,506</u>	<u>9,650,469</u>	<u>10,199,972</u>
Other Assets					
Due from Association	(1,735,104)	(1,554,860)	(1,073,071)	(2,163,767)	(851,205)
Refundable Deposits	62,177	62,177	62,177	62,177	62,177
Total Other Assets	<u>(1,672,927)</u>	<u>(1,492,683)</u>	<u>(1,010,894)</u>	<u>(2,101,590)</u>	<u>(789,028)</u>
Total Assets	<u>\$ 10,748,385</u>	<u>\$ 10,992,744</u>	<u>\$ 12,176,089</u>	<u>\$ 10,819,689</u>	<u>\$ 13,138,452</u>
<u>Liabilities &amp; Net Assets</u>					
Current Liabilities:					
Accounts Payable	\$ 855,367	\$ 950,401	\$ 996,807	\$ 1,029,249	\$ 1,060,528
Accrued Expenses	959,104	1,065,664	1,117,698	1,154,075	1,189,147
Due to Members	35,429	36,492	37,587	38,714	39,876
Current Portion of Notes Payable	10,230	10,987	11,801	10,500	-
Current Portion of Capital Lease Payable	9,917	-	-	-	-
Deferred Revenue - Refundable	-	-	-	-	-
Deferred Revenue - Non-Refundable	-	-	-	-	-
Total Current Liabilities	<u>1,870,047</u>	<u>2,063,544</u>	<u>2,163,893</u>	<u>2,232,538</u>	<u>2,289,551</u>
Notes Payable, Net of Current Portion	33,288	22,301	10,500	-	-
Total Long-term Liabilities	<u>33,288</u>	<u>22,301</u>	<u>10,500</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,903,335</u>	<u>2,085,845</u>	<u>2,174,393</u>	<u>2,232,538</u>	<u>2,289,551</u>
Net Assets:					
Without donor restrictions					
Undesignated	(169,310)	355,739	1,411,436	(44,509)	1,813,542
Designated	5,162,360	4,699,160	4,738,260	4,779,660	5,183,360
With donor restrictions	3,852,000	3,852,000	3,852,000	3,852,000	3,852,000
Total Net Assets	<u>8,845,050</u>	<u>8,906,899</u>	<u>10,001,696</u>	<u>8,587,151</u>	<u>10,848,902</u>
Total Liabilities & Net Assets	<u>\$ 10,748,385</u>	<u>\$ 10,992,744</u>	<u>\$ 12,176,089</u>	<u>\$ 10,819,689</u>	<u>\$ 13,138,452</u>

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**Forecasted Statements of Activities for the Years Ending December 31, 2020 Through 2024**

See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions and Independent Accountants' Compilation Report

	2020	2021	2022	2023	2024
<b>Net Assets Without Donor Restrictions</b>					
<u>Revenue:</u>					
Service Fees	\$ 9,714,965	\$ 11,698,796	\$ 12,213,208	\$ 12,579,235	\$ 12,956,679
Health Center	4,093,739	4,524,054	5,091,942	5,449,734	5,537,918
Home Health Revenue	1,955,877	2,014,553	2,074,990	2,137,240	2,201,357
Other Income	3,000	7,302	7,521	7,747	7,979
Total Revenue	<u>15,767,581</u>	<u>18,244,706</u>	<u>19,387,661</u>	<u>20,173,956</u>	<u>20,703,932</u>
 Expenses:					
Program Services					
Housekeeping	1,127,964	1,281,504	1,322,252	1,364,314	1,407,734
Food and beverage	4,027,529	4,387,449	4,550,729	4,704,942	4,851,142
Health Center	3,444,802	4,044,462	4,548,342	4,720,165	4,867,829
Community Home Health	1,947,650	2,152,399	2,224,615	2,299,380	2,376,789
Resident Services	564,601	647,935	668,744	690,246	712,465
Plant	500,315	595,888	614,516	633,740	653,581
Sub Total	<u>11,612,861</u>	<u>13,109,636</u>	<u>13,929,197</u>	<u>14,412,788</u>	<u>14,869,539</u>
 Supportive Services					
General & Administrative	1,416,444	1,415,496	1,429,951	1,470,035	1,515,439
Management Fee - Life Care Services	481,737	569,337	604,257	627,865	644,686
Management Fee - Cypress of Raleigh, LLC	1,165,260	1,310,907	1,378,201	1,424,565	1,469,214
Sub Total	<u>3,063,440</u>	<u>3,295,739</u>	<u>3,412,408</u>	<u>3,522,465</u>	<u>3,629,339</u>
Depreciation	120,566	272,662	281,639	309,480	308,099
Other expenses	-	27,000	27,000	27,000	27,000
Total Expenses	<u>14,796,866</u>	<u>16,705,038</u>	<u>17,650,245</u>	<u>18,271,733</u>	<u>18,833,977</u>
Net Assets Released from Restriction	7,474,316	-	-	-	-
Increase (Decrease) in Net Assets without Donor Restrictions	<u>8,445,031</u>	<u>1,539,667</u>	<u>1,737,416</u>	<u>1,902,223</u>	<u>1,869,955</u>
 <b>Net Assets With Donor Restrictions</b>					
Reserves Required by State Statute Deposited	798,000	-	-	-	-
Developer Contribution	1,200,000	-	-	-	-
Net Assets Released from Restriction	(7,474,316)	-	-	-	-
Increase (Decrease) in Net Assets with Donor Restrictions	<u>(5,476,316)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets	<u>\$ 2,968,715</u>	<u>\$ 1,539,667</u>	<u>\$ 1,737,416</u>	<u>\$ 1,902,223</u>	<u>\$ 1,869,955</u>

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**Forecasted Statements of Changes in Net Assets for the Years Ending December 31, 2020 Through 2024**

**See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions and Independent Accountants' Compilation Report**

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Net Assets without Donor Restrictions:					
Undesignated Net Assets without Donor Restrictions:					
Undesignated Net Assets without Donor Restrictions-beginning of year	\$ (972,820)	\$ (169,310)	\$ 355,739	\$ 1,411,436	\$ (44,509)
Increase (Decrease) in Undesignated Net Assets without Donor Restrictions	8,445,031	1,539,667	1,737,416	1,902,223	1,869,955
Transfer from (to) net assets designated for asset replacement	1,000,000	500,000	-	-	(360,000)
Transfer from (to) Association	733,500	77,041	430,451	(1,153,000)	1,243,000
Transfer of Rosewood to Owner's Association	(7,474,316)	-	-	-	-
Asset purchases transferred to Owners' Association	(1,900,704)	(1,591,660)	(1,112,171)	(2,205,167)	(894,905)
Increase (Decrease) in Undesignated Net Assets without Donor Restrictions-end of year	(169,310)	355,739	1,411,436	(44,509)	1,813,542
Designated Net Assets without Donor Restrictions:					
Designated Net Assets without Donor Restrictions-beginning of year	5,996,760	5,162,360	4,699,160	4,738,260	4,779,660
Transfer to Undesignated Net Assets without Donor Restrictions	(1,000,000)	(500,000)	-	-	360,000
Transfer from (to) Association	-	-	-	-	-
Reserves for replacements and insurance to Owners' Association	165,600	36,800	39,100	41,400	43,700
Increase (Decrease) in Designated Net Assets without Donor Restrictions -end of year	5,162,360	4,699,160	4,738,260	4,779,660	5,183,360
Net Assets with Donor Restrictions:					
Net assets with Donor Restrictions -beginning of year	9,328,316	3,852,000	3,852,000	3,852,000	3,852,000
Developer contribution	1,200,000	-	-	-	-
Rosewood expansion (expense)	(7,474,316)	-	-	-	-
Additions from new units	798,000	-	-	-	-
Net assets with Donor Restrictions -end of year	3,852,000	3,852,000	3,852,000	3,852,000	3,852,000
Net Assets-end of year	<u>\$ 8,845,050</u>	<u>\$ 8,906,899</u>	<u>\$ 10,001,696</u>	<u>\$ 8,587,151</u>	<u>\$ 10,848,902</u>

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**Forecasted Statements of Cash Flows From Operations for the Years Ending December 31, 2020 Through 2024**

**See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions  
and Independent Accountants' Compilation Report**

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
<u>Cash Flows from Operating Activities</u>					
Change in Net Assets	\$ 2,968,715	\$ 1,539,667	\$ 1,737,416	\$ 1,902,223	\$ 1,869,955
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:					
Depreciation	120,566	272,662	281,639	309,480	308,099
(Increase) Decrease in:					
Accounts Receivable	(77,992)	(73,568)	(63,814)	(42,995)	(19,284)
Inventory	(25,936)	-	-	-	-
Due from Association	(848,281)	(180,244)	(481,789)	1,090,696	(1,312,562)
Prepaid Expenses	(5,566)	(5,761)	(5,962)	(6,171)	(6,387)
Increase (Decrease) in:					
Accounts Payable	48,585	95,035	46,406	32,442	31,279
Due to Members	(11,394)	1,063	1,095	1,127	1,162
Accrued Expense	54,477	106,560	52,033	36,377	35,072
Net Cash Provided by Operating Activities	<u>2,223,173</u>	<u>1,755,414</u>	<u>1,567,022</u>	<u>3,323,179</u>	<u>907,334</u>
Cash Flow from Investing Activities					
Developer contribution	(1,200,000)	-	-	-	-
Sale (Purchase) of Investments	4,936,409	330,360	(175,932)	(182,334)	(548,862)
Purchase of Property & Equipment	(8,010,586)	(1,872,541)	(1,308,436)	(2,594,314)	(1,052,829)
Net Cash Used by Investing Activities	<u>(4,274,177)</u>	<u>(1,542,181)</u>	<u>(1,484,368)</u>	<u>(2,776,648)</u>	<u>(1,601,691)</u>
Cash Flow from Financing Activities					
Transfers from (to) Association	899,100	113,841	469,551	(1,111,600)	1,286,700
Payments on notes payable	(49,706)	(10,230)	(10,987)	(11,801)	(10,500)
Payments on Capital Lease Payable	(18,980)	(9,917)	-	-	-
Net Cash Provided (Used) by Financing Activities	<u>830,414</u>	<u>93,694</u>	<u>458,564</u>	<u>(1,123,401)</u>	<u>1,276,200</u>
Net Increase (Decrease) in Cash	(1,220,590)	306,927	541,219	(576,870)	581,844
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,297,648</u>	<u>77,058</u>	<u>383,985</u>	<u>925,204</u>	<u>348,335</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 77,058</u>	<u>\$ 383,985</u>	<u>\$ 925,204</u>	<u>\$ 348,335</u>	<u>\$ 930,178</u>
CASH AND CASH EQUIVALENTS RECONCILIATION					
Cash	\$ 46,852	\$ 353,176	\$ 893,778	\$ 316,280	\$ 897,482
Reserves Required by State Statute-Cash	30,206	30,810	31,427	32,055	32,696
	<u>\$ 77,058</u>	<u>\$ 383,985</u>	<u>\$ 925,204</u>	<u>\$ 348,335</u>	<u>\$ 930,178</u>

**THE CYPRESS OF RALEIGH CLUB, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

These financial forecasts present, to the best of management's knowledge and belief, the expected financial position, results of operations and cash flows for the forecast periods. Accordingly, the forecasts reflect management's judgment as of March 27, 2020, the date of these forecasts, of the expected conditions and management's expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecasts. There will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying forecasted financial statements include the accounts of The Cypress of Raleigh Club, Inc. ("Club"). The Club was organized as a not-for-profit corporation under the laws of the State of North Carolina to manage operations of The Cypress of Raleigh, a condominium continuing care retirement community located in Raleigh ("The Cypress" or "community"). The Cypress of Raleigh Owners' Association, Inc. ("Association") was created in accordance with the North Carolina Condominium Act to manage The Cypress.

The Club was organized to manage the various membership functions of the Cypress that are included in each owner's membership agreement. The Association has delegated to the Club all of the Association's responsibilities with respect to investment management and maintenance of the community's common areas, including the clubhouse and health center. Life Care Services, LLC, a specialist in continuing care, has been retained to manage the daily operations of the Club.

**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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**THE CYPRESS OF RALEIGH CLUB, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies (continued)**

**Membership Fees**

At the time of signing a Purchase and Sale Agreement, a designated resident must also sign a Membership Agreement, which governs the Member's membership interest in The Club. Membership in The Club is a contractual right and is not incidental to the ownership of a real property interest in a villa or cottage. The cost of Membership is a separate, non-refundable Membership Fee, which is calculated as ten percent (10%) of the condominium unit's gross purchase price. The Membership Fee is paid to The Cypress of Raleigh, LLC ("Company"), the developer of the community. Therefore, the Club does not record these fees as revenue.

**Reserves**

At closing, the purchaser will also pay, to the Club, two months of common area expenses for the purpose of establishing a working capital fund; one year's hazard insurance premium; and a deposit to the Club for an operating reserve fund which, if unused, may be refunded, upon the earlier waiver of this reserve requirement by the State of North Carolina or resale of the unit. The amount of the reserve requirement, per unit, is \$14,000. The State of North Carolina must give approval for the release of the operating reserve funds.

Reserves paid by a resident upon entering into a continuing care contract, net of the portion thereof that is refundable to the resident, are recorded as net assets with donor restrictions. The refundable portion of the reserve is recorded as a liability.

**Cash Equivalents**

All liquid investments with a maturity of three months or less are considered to be cash equivalents.

**Property, Plant and Equipment**

Purchased property, plant and equipment are recorded at cost. Donated property, plant and equipment are recorded as an addition to fund balance when received from the developer based on the fair market value of the assets on the date of contribution. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Expenditures that materially increase values, change capacities or extend useful lives are capitalized.

**THE CYPRESS OF RALEIGH CLUB, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies (continued)**

**Cash and Investments Whose Use is Limited**

Cash and investments whose use is limited include funds held pursuant to the requirement of the membership agreement.

The Cypress is required to maintain reserve funds equal to 50% of the total annual operating expenses for 2019 if the occupancy is below 90%. Since the occupancy exceeds 90%, the reserve requirement is required to be 25%. The Company reserves the right, if necessary or appropriate, to loan funds for the reserve account and to be reimbursed as funding occurs through future sales. The Association has also adopted a resolution to designate funds from the asset replacement reserve account to meet the statutory reserve requirement if necessary. This fund was transferred from the Association to the Club in 2015.

The Association's Declaration requires that each member, at closing, be assessed an amount equal to at least two months' estimated common expenses for the purpose of establishing a working capital fund for the Association. While there is no restriction on these funds by the Declaration, the Association's Board of Directors may declare that these funds be designated for future major repairs and replacements.

Asset replacement reserves are funded by a portion of budgeted monthly condominium fees and year-end surplus, if any.

**Accounts Receivable**

Accounts receivable have been calculated at 5% of revenue. This is based on the current history of collections by the Club.

Due to the contractual agreements with the Members and the health care manager, it is anticipated that there will be no bad debt or a need for a reserve, thereof.



**THE CYPRESS OF RALEIGH CLUB, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies (continued)**

**Accounts Payable**

Accounts payable are estimated to be approximately 15 days worth of operating expenses. This is based on the current history of payments and aging of accounts payable by the Club.

**Due to Association and Affiliate**

Cash funds are maintained in the Club where all income is collected, and all expenses are paid. The Club holds these cash funds for the Association.

**Transactions with Affiliates**

The Club engages in various transactions with affiliates, the Company and the Association. The Company is the developer of The Cypress. The Association is comprised of the owners of units in The Cypress and serves as the governing body for all issues related to the real estate aspects of the units and common areas of the community.

The Club provides the Association with all the services related to the common property of the Association. Accordingly, the Club allocates income and expenses incurred in performance of these functions to the Association.

**Net Assets with Donor Restrictions**

Net assets with donor restrictions are estimated to be available for North Carolina Department of Insurance reserves:

Operating Reserve

2020	\$3,852,000
2021	\$3,852,000
2022	\$3,852,000
2023	\$3,852,000
2024	\$3,852,000

**THE CYPRESS OF RALEIGH CLUB, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies (concluded)**

**Income Taxes**

The Club, a not-for-profit entity, will file its own tax return as a tax-exempt organization. The Club is exempt from income taxes under IRC Sec 501(c) (4).

**Obligation to Provide Future Services**

The Club will annually calculate the present value of the net cost of providing certain future services to current members and associate members. If the present value of the cost of providing these services exceeds the present value of the anticipated revenues, a liability is recorded (obligation to provide future services) with a corresponding charge to income. The obligation is discounted at 2.43%, based on the expected long-term rate of return on government obligations. For December 31, 2020 through 2024, this net present value computation is expected to yield a surplus and, accordingly, no liability has been recorded.

**2. Summary of Significant Forecasted Assumptions**

**Cash and Investment Whose Use is Limited**

Operating reserves are forecast to meet the minimum operating reserve requirements which will be required by the North Carolina Department of Insurance. The Cypress is required to maintain reserve funds equal to 50% of the total annual operating expenses if the occupancy is below 90%. Since the occupancy exceeds 90%, the reserve requirement is required to be 25%. The Company reserves the right, if necessary or appropriate, to loan funds for the reserve account and to be reimbursed as funding occurs through future sales. The Association has also adopted a resolution to designate funds from the asset replacement reserve account to meet the statutory reserve requirement, if necessary. This fund was transferred from the Association to the Club in 2015.

A reserve for asset replacement has also been established, funded through monthly condominium fees budgeted annually. This fund was transferred from the Association to the Club in 2015.

**THE CYPRESS OF RALEIGH CLUB, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**2. Summary of Significant Forecasted Assumptions (continued)**

**Property, Plant and Equipment**

The Company has contributed the furniture and fixtures to the Association per the Membership Agreement. The Company sells the units and expenses all costs associated with the construction as a cost of sales. Therefore, the Company will contribute assets with a tax basis of zero.

Each homeowner purchases an inseparable fractional interest in the common areas of The Cypress, along with the purchase of a unit. For financial statement purposes and for the purpose of estimated reserves, the Association elects to record the common area facilities at their estimated fair market value.

The Club began the twenty-one-bed expansion of the Rosewood Health Center at The Cypress in 2019. Once construction is completed, the assets will be transferred to the Association in 2020.

**Revenue**

The revenue and expense estimates have been calculated based upon full occupancy of Phases I and II. In September 2018, the Company completed the construction of the Villa D building of Phase III, which contains fifty-seven units. Construction of the Villa E building of Phase III, which will contain fifty-seven units, began in 2019, and the Company estimates that Villa E will be ready for occupancy in late 2020. The Company began the twenty-one-bed expansion of the Rosewood Health Center at The Cypress in 2019, which is scheduled to be completed in August 2020.

Monthly payments from residents of The Cypress include a service fee component and a condominium fee component. These monthly payments vary by unit, and the amounts included herein are the weighted average monthly payments for the villas and cottages. The monthly payments, second person fees and health center fees are based upon expected fill up budget. Revenues on the monthly payments and second person fees are calculated based upon the occupancy numbers and the weighted average service fees/second person fees.

Health Center revenues are based on historic occupancy rates; prices for services are adjusted for an average inflation rate of 3%.

**THE CYPRESS OF RALEIGH CLUB, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**2. Summary of Significant Forecasted Assumptions (concluded)**

**Revenue (concluded)**

Community Home Health revenues are based on growth rates achieved by comparable services provided by continuing care retirement communities similar to The Cypress of Raleigh.

**Operating Expenses**

Expenses for program services are based on historic data and adjusted for estimated inflation of 3%. Additional expenses are forecasted for the new units that will be added in 2021.

General and administrative expenses have been estimated based on historic data of the Club and adjusted for estimated inflation over the term of the forecast. Management fees consist of the overhead fee paid to The Company, which is 10% of the operating expense of the Club before depreciation, income taxes and overhead fee.

**Interest Income**

Interest income has been forecasted based on the balance of the reserve for replacements at a rate of 3% over the period 2020 through 2024.

**Depreciation**

Depreciation expense in the forecast period reflects straight-line depreciation of asset balances at December 31 of each year, computed over the estimated useful lives of the assets.

Buildings and Improvements	40 years
Furniture, fixtures & equipment	7 years

**Income Taxes**

The Cypress of Raleigh Club, Inc. is a non-profit organization under Section 501 (c) (4) of the Internal Revenue Code and, accordingly, no provision for income taxes has been recorded.

**EXHIBIT J**

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
FORECASTED FINANCIAL STATEMENTS FOR THE YEARS  
ENDED DECEMBER 31, 2020 THROUGH 2024**

**{ATTACHED}**

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**

**FORECASTED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDING DECEMBER 31, 2020 THROUGH 2024**

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## INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Directors  
The Cypress of Raleigh Owners' Association, Inc.

Management is responsible for the accompanying forecasted statements of financial position, statements of activities, changes in members' equity and cash flows for The Cypress of Raleigh Owners' Association, Inc. as of December 31, 2020 through 2024 and for the years ending, including the related summaries of significant accounting policies and forecasted assumptions in accordance with guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants (AICPA). We have performed the compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the forecast or were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on this forecast.

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

The accompanying forecast and this report were prepared pursuant to the North Carolina Statute 58-64-20(a) (12) and should not be used for any other purpose.

*Dreher Martin CPAs, P.A.*

Raleigh, North Carolina  
March 27, 2020



**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**Forecasted Statements of Financial Position for the Years Ending December 31, 2020 Through 2024**

**See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions  
and Independent Accountants' Compilation Report**

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Current Assets					
Cash	\$ 100,001	\$ 100,001	\$ 100,002	\$ 100,277	\$ 100,157
Total current assets	<u>100,001</u>	<u>100,001</u>	<u>100,002</u>	<u>100,277</u>	<u>100,157</u>
Property, Plant & Equipment:					
Furniture & Fixtures	14,689,070	16,280,730	17,392,901	19,598,068	20,492,973
	<u>14,689,070</u>	<u>16,280,730</u>	<u>17,392,901</u>	<u>19,598,068</u>	<u>20,492,973</u>
Less Accumulated Depreciation	(2,859,648)	(3,757,658)	(4,762,850)	(5,972,697)	(7,264,318)
Net Property, Plant & Equipment	<u>11,829,422</u>	<u>12,523,072</u>	<u>12,630,050</u>	<u>13,625,371</u>	<u>13,228,655</u>
Due from Club	<u>1,735,104</u>	<u>1,554,860</u>	<u>1,073,071</u>	<u>2,163,767</u>	<u>851,205</u>
Total Assets	<u>\$ 13,664,527</u>	<u>\$ 14,177,933</u>	<u>\$ 13,803,123</u>	<u>\$ 15,889,415</u>	<u>\$ 14,180,016</u>
Members' Equity					
Undesignated	\$ 13,664,527	\$ 14,177,933	\$ 13,803,123	\$ 15,889,415	\$ 14,180,016
Total Members' Equity	<u>13,664,527</u>	<u>14,177,933</u>	<u>13,803,123</u>	<u>15,889,415</u>	<u>14,180,016</u>
Total Liabilities & Members' Equity	<u>\$ 13,664,527</u>	<u>\$ 14,177,933</u>	<u>\$ 13,803,123</u>	<u>\$ 15,889,415</u>	<u>\$ 14,180,016</u>

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**Forecasted Statements of Activities for the Years Ending December 31, 2020 Through 2024**

**See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions  
and Independent Accountants' Compilation Report**

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
<b>Revenue:</b>					
Service Fees	\$ 4,163,556	\$ 5,013,770	\$ 5,234,232	\$ 5,391,101	\$ 5,552,862
Working Capital	165,600	36,800	39,100	41,400	43,700
Insurance	50,210	11,158	11,855	12,552	13,250
Total Revenue	<u>4,379,366</u>	<u>5,061,728</u>	<u>5,285,187</u>	<u>5,445,053</u>	<u>5,609,812</u>
<b>Expenses:</b>					
Program Services					
Housekeeping	537,277	610,411	629,820	649,856	670,538
Plant	2,484,181	2,958,722	3,051,215	3,146,669	3,245,183
Sub Total	<u>3,021,458</u>	<u>3,569,134</u>	<u>3,681,036</u>	<u>3,796,524</u>	<u>3,915,722</u>
Supportive Services					
General & Administrative	672,376	632,907	639,954	658,258	678,899
Management Fee - Life Care Services	237,273	280,420	297,619	309,247	317,532
Management Fee - Cypress of Raleigh, LLC	573,934	645,670	678,815	701,651	723,643
Sub Total	<u>1,483,583</u>	<u>1,558,997</u>	<u>1,616,389</u>	<u>1,669,157</u>	<u>1,720,073</u>
Depreciation	683,206	898,010	1,005,192	1,209,847	1,291,621
Amortization of Entrance Fees	-	-	-	-	-
Total Expenses	<u>5,188,247</u>	<u>6,026,141</u>	<u>6,302,617</u>	<u>6,675,528</u>	<u>6,927,417</u>
Increase (Decrease) in					
Net Assets without Donor Restriction	<u>\$ (808,881)</u>	<u>\$ (964,413)</u>	<u>\$ (1,017,430)</u>	<u>\$ (1,230,475)</u>	<u>\$ (1,317,604)</u>

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**Forecasted Statements of Changes in Members' Equity for the Years Ending December 31, 2020 Through 2024**

**See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions  
and Independent Accountants' Compilation Report**

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Members' Equity - undesignated					
Beginning balance	\$ 5,997,488	\$ 13,664,527	\$ 14,177,933	\$ 13,803,123	\$ 15,889,415
Excess of revenue, gains and other support over expense	(808,881)	(964,413)	(1,017,430)	(1,230,475)	(1,317,604)
Assets purchases transferred from Club	1,900,704	1,591,660	1,112,171	2,205,167	894,905
Transfer of Rosewood from Club	7,474,316	-	-	-	-
Transfers (to) from Club	(733,500)	(77,041)	(430,451)	1,153,000	(1,243,000)
Amounts transferred to Club for designated asset replacement and repair	(165,600)	(36,800)	(39,100)	(41,400)	(43,700)
Members' Equity - undesignated - end of year	<u>\$ 13,664,527</u>	<u>\$ 14,177,933</u>	<u>\$ 13,803,123</u>	<u>\$ 15,889,415</u>	<u>\$ 14,180,016</u>

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**Forecasted Statements of Cash Flows From Operations for the Years Ending December 31, 2020 Through 2024**

**See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions  
and Independent Accountants' Compilation Report**

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
<u>Cash Flows from Operating Activities</u>					
Change in Net Assets	\$ (808,881)	\$ (964,413)	\$ (1,017,430)	\$ (1,230,475)	\$ (1,317,604)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:					
Depreciation	683,206	898,010	1,005,192	1,209,847	1,291,621
(Increase)Decrease in:					
Due (to) from Club	1,024,776	180,244	481,789	(1,090,696)	1,312,562
Net Cash Provided (Used) by Operating Activities	899,100	113,841	469,551	(1,111,325)	1,286,579
Cash Flow from Financing Activities					
Transfers to Club	(899,100)	(113,841)	(469,551)	1,111,600	(1,286,700)
Cash used by Financing Activities	(899,100)	(113,841)	(469,551)	1,111,600	(1,286,700)
Net Increase (Decrease) in Cash	0	0	0	275	(121)
Beginning Cash	\$ 100,000	\$ 100,001	\$ 100,001	\$ 100,002	\$ 100,277
Ending Cash	<u>\$ 100,001</u>	<u>\$ 100,001</u>	<u>\$ 100,002</u>	<u>\$ 100,277</u>	<u>\$ 100,157</u>

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

These financial forecasts present, to the best of management's knowledge and belief, the expected financial position, results of operations and cash flows for the forecast periods. Accordingly, the forecasts reflect management's judgment as of March 27, 2020, the date of these forecasts, of the expected conditions and management's expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecasts. There will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying forecasted financial statements include the accounts of The Cypress of Raleigh Owners' Association, Inc. (the "Association") (a not-for-profit entity) organized under the laws of the State of North Carolina in connection with the development of The Cypress of Raleigh, a condominium continuing care retirement community located in Raleigh ("The Cypress" or "community"). The Association, which is comprised of the owners of units in The Cypress, in accordance with the North Carolina Condominium Act, serves as the governing body for all issues related to the real estate aspects of the units and the common areas of the community.

**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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies (continued)**

**Reserves**

At closing, the purchaser of a unit will pay The Cypress of Raleigh Club, Inc. (a not-for-profit entity) (the "Club") two months of common area expenses for the purpose of establishing a working capital fund; one year's hazard insurance premium; and a deposit to the Club for an operating reserve fund which, if unused, may be refunded, upon the earlier waiver of this reserve requirement by the State of North Carolina or resale of the unit. The amount of the reserve requirement, per unit, is \$14,000. The State of North Carolina must give approval for the release of the operating reserve funds.

Reserves paid by a resident upon entering into a continuing care contract, net of the portion thereof that is refundable to the resident, are recorded as net assets with donor restrictions. The refundable portion of the reserve is recorded as a liability.

A reserve for asset replacement has also been established, funded through monthly condominium fees budgeted annually.

**Cash Equivalents**

All liquid investments with a maturity of three months or less are considered to be cash equivalents.

**Property, Plant and Equipment**

Purchased property, plant and equipment are recorded at cost. Donated property, plant and equipment are recorded as an addition to fund balance when received from the developer based on the fair market value of the assets on the date of contribution. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Expenditures that materially increase values, change capacities or extend useful lives are capitalized.

**Cash and Investments Whose Use is Limited**

Cash and investments whose use is limited include funds held pursuant to the requirement of the membership agreement. Asset replacement reserves are funded by a portion of budgeted monthly condominium fees and year-end surplus, if any. These investments were transferred to the Club in 2015.

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies (concluded)**

**Due to Club**

Cash funds are maintained in the Club where all income is collected, and all expenses are paid. The Club holds these cash funds for the Association.

**Transactions with Affiliates**

The Association engages in various transactions with affiliates, The Cypress of Raleigh, LLC (the "Company") and Club. The Company is the developer of The Cypress. The Association is comprised of the owners of units in The Cypress and serves as the governing body for all issues related to the real estate aspects of the units and the common areas of the community. The Association has delegated to the Club all of the Association's responsibilities with respect to investment management and maintenance of the community's common areas, including the clubhouse and health center.

**Income Taxes**

The Association, a not for profit entity under Internal Revenue Code Section 528(c)(1), will, as a homeowners' Association, elect on an annual basis to be taxed as a regular corporation or as a homeowners' association. Any fees collected from members in excess of expenses can be deferred from taxation by an election approved by the membership.

Income from non-exempt function income is taxable. Non-exempt function income includes any income from non-members for assessment which are uniformly accessible to the owners. For the purpose of calculating income taxes, interest income is the only income considered non-exempt function income.

**2. Summary of Significant Forecasted Assumptions**

**Cash and Investment Whose Use is Limited**

A reserve for asset replacement has also been established, funded through monthly condominium fees budgeted annually. These investments were transferred from the Association to the Club in 2015.

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**2. Summary of Significant Forecasted Assumptions (continued)**

**Property, Plant and Equipment**

The Company has contributed the furniture, fixtures and equipment to the Association, per the Membership Agreement. The Company sells the units and expenses all costs associated with the construction as a cost of sales.

Each homeowner purchases an inseparable fractional ownership interest in the common areas of The Cypress, along with the purchase of a unit. For financial statement purposes and for the purpose of estimated reserves, the Association elects to record the common area facilities at their estimated fair market value.

The Club began a twenty-one-bed expansion of the Rosewood Health Center at The Cypress in 2019. Once construction is completed, the assets will be transferred to the Association in 2020.

**Revenue**

The revenue and expense estimates have been calculated based upon full occupancy of Phases I and II. In September 2018, the Company completed the construction of the Villa D building of Phase III, which contains fifty-seven units. Construction of the Villa E building of Phase III, which will contain fifty-seven units, began in 2019, and the Company estimates that Villa E will be ready for occupancy in late 2020. The Company began the twenty-one-bed expansion of the Rosewood Health Center at The Cypress in 2019, which is scheduled to be completed in August 2020.

Monthly payments from residents of The Cypress include a service fee component and a condominium fee component. These monthly payments vary by unit and the amounts included herein are the weighted average monthly payments for the villas and cottages. The monthly payments, second person fees and health center fees are based upon expected fill up budget. Revenues on the monthly payments and second person fees are calculated based upon the occupancy numbers and the weighted average service fees/second person fees.

**Operating Expenses**

Expenses for program services are based on historic data and adjusted for estimated inflation over the term of the forecast.



**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**2. Summary of Significant Forecasted Assumptions (concluded)**

**Operating Expenses (concluded)**

Management fees consist of the overhead fee paid to the Company, which is 10% of the operating expense of the Association before depreciation, income taxes and overhead fee.

**Interest Income**

Interest income has been forecasted based on an average interest-bearing cash balance of \$100,000 at a rate of 3% over the period 2020 through 2024.

**Depreciation**

Depreciation expense in the forecast period reflects straight-line depreciation of asset balances at December 31 of each year, computed over the estimated useful lives of the assets.

Buildings and improvements	40 years
Furniture, fixtures & equipment	7 years

**Income Taxes**

For forecasted purposes, Management will accrue income taxes on the interest income of the Association at the rate of 30%.

**EXHIBIT K**

**THE CYPRESS OF RALEIGH CLUB, INC. AND  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED FORECASTED FINANCIAL STATEMENTS FOR  
THE YEARS ENDED DECEMBER 31, 2020 THROUGH 2024**

**{ATTACHED}**

**THE CYPRESS OF RALEIGH CLUB, INC.**

**AND**

**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**

**COMBINED FORECASTED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDING DECEMBER 31, 2020 THROUGH 2024**

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## INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Directors  
The Cypress of Raleigh Club, Inc.  
The Cypress of Raleigh Owners' Association, Inc.

Management is responsible for the accompanying combined forecasted statements of financial position, statements of activities, changes in net assets and cash flows for The Cypress of Raleigh Club, Inc. and The Cypress of Raleigh Owners' Association, Inc. as of December 31, 2020 through 2024 and for the years ending, including the related summaries of significant accounting policies and forecasted assumptions in accordance with guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants (AICPA). We have performed the compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the forecast or were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on this forecast.

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

The accompanying forecast and this report were prepared pursuant to the North Carolina Statute 58-64-20(a) (12) and should not be used for any other purpose.

*Dreher Martin CPAs, P.A.*

Raleigh, North Carolina  
March 27, 2020

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**Combined Forecasted Statements of Financial Position for the Years Ending December 31, 2020 Through 2024**

See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions  
and Independent Accountants' Compilation Report

	2020	2021	2022	2023	2024
<u>Assets</u>					
Current Assets:					
Cash	\$ 146,852	\$ 453,176	\$ 993,779	\$ 416,556	\$ 997,638
Accounts Receivable	686,305	759,873	823,688	866,682	885,966
Inventory	145,149	145,149	145,149	145,149	145,149
Prepaid Expenses	164,590	170,350	176,313	182,484	188,871
Total Current Assets	1,142,896	1,528,548	2,138,929	1,610,871	2,217,624
Property, Plant & Equipment:					
Furniture, Fixtures, & Equipment	17,204,986	19,077,525	20,385,965	22,980,279	24,033,107
Less Accumulated Depreciation	(3,617,859)	(4,788,533)	(6,075,366)	(7,594,693)	(9,194,413)
Net Property, Plant & Equipment	13,587,127	14,288,992	14,310,599	15,385,586	14,838,694
Restricted Assets Limited as to Use					
Cash & Investments Whose Use is Limited:					
Reserves Required by State Statute-Investments	30,206	30,810	31,427	32,055	32,696
Reserves Required by State Statute-Cash	4,428,145	4,560,989	4,697,819	4,838,754	4,983,916
Reserve for Replacements	5,162,360	4,699,160	4,738,260	4,779,660	5,183,360
Total Restricted Assets Limited as to Use	9,620,711	9,290,959	9,467,506	9,650,469	10,199,972
Other Assets					
Refundable Deposits	62,177	62,177	62,177	62,177	62,177
Total Other Assets	62,177	62,177	62,177	62,177	62,177
Total Assets	\$ 24,412,912	\$ 25,170,677	\$ 25,979,212	\$ 26,709,104	\$ 27,318,468
<u>Liabilities &amp; Net Assets</u>					
Current Liabilities:					
Accounts Payable	\$ 855,367	\$ 950,401	\$ 996,807	\$ 1,029,249	\$ 1,060,528
Accrued Expenses	959,104	1,065,664	1,117,698	1,154,075	1,189,147
Due to Members	35,429	36,492	37,587	38,714	39,876
Current Portion of Notes Payable	10,230	10,987	11,801	10,500	-
Current Portion of Capital Lease Payable	9,917	-	-	-	-
Deferred Revenue - Refundable	-	-	-	-	-
Deferred Revenue - Non-Refundable	-	-	-	-	-
Total Current Liabilities	1,870,047	2,063,544	2,163,893	2,232,538	2,289,551
Long-term Liabilities:					
Notes Payable, Net of Current Portion	33,288	22,301	10,500	-	-
Total Long-term Liabilities	33,288	22,301	10,500	-	-
Total Liabilities	1,903,335	2,085,845	2,174,393	2,232,538	2,289,551
Net Assets:					
Net Assets without Donor Restriction, Undesignated	(169,310)	355,739	1,411,436	(44,509)	1,913,542
Net Assets without Donor Restriction, Designated	5,162,360	4,699,160	4,738,260	4,779,660	5,083,360
Net Assets with Donor Restrictions	3,852,000	3,852,000	3,852,000	3,852,000	3,852,000
Member's Equity, Undesignated	13,664,527	14,177,933	13,803,123	15,889,415	14,180,016
Total Net Assets	22,509,577	23,084,832	23,804,819	24,476,566	25,028,918
Total Liabilities & Net Assets	\$ 24,412,912	\$ 25,170,677	\$ 25,979,212	\$ 26,709,104	\$ 27,318,468

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**Combined Forecasted Statements of Activities for the Years Ending December 31, 2020 Through 2024**

**See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions and  
Independent Accountants' Compilation Report**

	2020	2021	2022	2023	2024
<b>Net Assets Without Donor Restrictions</b>					
<b>Revenue:</b>					
Service Fees	\$ 13,878,521	\$ 16,712,566	\$ 17,447,440	\$ 17,970,336	\$ 18,509,541
Health Center	4,093,739	4,524,054	5,091,942	5,449,734	5,537,918
Working Capital	165,600	36,800	39,100	41,400	43,700
Insurance	50,210	11,158	11,855	12,552	13,250
Home Health Revenue	1,955,877	2,014,553	2,074,990	2,137,240	2,201,357
Other income	3,000	7,302	7,521	7,747	7,979
<b>Total Revenue</b>	<b>20,146,947</b>	<b>23,306,433</b>	<b>24,672,848</b>	<b>25,619,009</b>	<b>26,313,745</b>
<b>Expenses:</b>					
<b>Program Services</b>					
Housekeeping	1,665,241	1,891,915	1,952,072	2,014,170	2,078,272
Food and Beverage	4,027,529	4,387,449	4,550,729	4,704,942	4,851,142
Health Center	3,444,802	4,044,462	4,548,342	4,720,165	4,867,829
Community Home Health	1,947,650	2,152,399	2,224,615	2,299,380	2,376,789
Resident Services	564,601	647,935	668,744	690,246	712,465
Plant	2,984,496	3,554,610	3,665,731	3,780,409	3,898,764
<b>Sub Total</b>	<b>14,634,319</b>	<b>16,678,770</b>	<b>17,610,233</b>	<b>18,209,312</b>	<b>18,785,261</b>
<b>Supportive Services</b>					
General & Administrative	2,088,820	2,048,403	2,069,905	2,128,293	2,194,337
Management Fee - Life Care Services	719,010	849,757	901,876	937,113	962,218
Management Fee - The Cypress of Raleigh, LLC	1,739,193	1,956,577	2,057,016	2,126,216	2,192,857
<b>Sub Total</b>	<b>4,547,023</b>	<b>4,854,737</b>	<b>5,028,797</b>	<b>5,191,622</b>	<b>5,349,412</b>
Depreciation	803,772	1,170,672	1,286,832	1,519,327	1,599,720
Amortization of Entrance Fees	-	-	-	-	-
Other Expenses	-	27,000	27,000	27,000	27,000
<b>Total Expenses</b>	<b>19,985,114</b>	<b>22,731,179</b>	<b>23,952,862</b>	<b>24,947,261</b>	<b>25,761,393</b>
Net Assets Released from Restriction	7,474,316	-	-	-	-
Increase (Decrease) in Net Assets without Donor Restrictions	7,636,148	575,254	719,986	671,748	552,352
<b>Net Assets With Donor Restrictions</b>					
Reserves Required by State Statute Deposited	798,000	-	-	-	-
Developer Contribution	1,200,000	-	-	-	-
Net Assets Released from Restriction	(7,474,316)	-	-	-	-
Increase (Decrease) in Net Assets with Donor Restrictions	(5,476,316)	-	-	-	-
Increase (Decrease) in Net Assets	\$ 2,159,832	\$ 575,254	\$ 719,986	\$ 671,748	\$ 552,352

**THE CYPRESS OF RALEIGH CLUB, INC.**  
**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**Combined Forecasted Statements of Changes in Net Assets for the Years Ending December 31, 2020 Through 2024**

See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions and Independent Accountants' Compilation Report

	2020	2021	2022	2023	2024
Net Assets without Donor Restriction:					
Undesignated Net Assets without Donor Restriction:					
Undesignated Net Assets without Donor Restriction-beginning of year	\$ (972,820)	\$ (169,310)	\$ 355,739	\$ 1,411,436	\$ (44,509)
Increase (Decrease) in Undesignated Net Assets without Donor Restriction	8,445,031	1,539,667	1,737,416	1,902,223	1,869,955
Transfer from (to) net assets designated for asset replacement	1,000,000	500,000	-	-	(260,000)
Treansfer from (to) Association	733,500	77,041	430,451	(1,153,000)	1,243,000
Transfer of Rosewood to Owner's Association	(7,474,316)	-	-	-	-
Asset purchases transferred to Owners' Association	(1,900,704)	(1,591,660)	(1,112,171)	(2,205,167)	(894,905)
Increase (Decrease) in Undesignated Net Assets without donor restriction-end of year	(169,310)	355,739	1,411,436	(44,509)	1,913,542
Designated Net Assets without Donor Restriction:					
Designated Net Assets without Donor Restriction-beginning of year	5,996,760	5,162,360	4,699,160	4,738,260	4,779,660
Transfer to Undesignated Net Assets without Donor Restriction asset replacement and repair	(1,000,000)	(500,000)	-	-	260,000
Increase (Decrease) in Designated Net Assets without Donor Restriction-end of year	165,600	36,800	39,100	41,400	43,700
Total Net Assets without Donor Restriction - end of year	4,993,050	5,054,899	6,149,696	4,735,151	6,996,902
Net Assets with Donor Restrictions:					
Net assets with Donor Restrictions-beginning of year	9,328,316	3,852,000	3,852,000	3,852,000	3,852,000
Developer contribution	1,200,000	-	-	-	-
Rosewood expansion (expense)	(7,474,316)	-	-	-	-
Net Investment Income	798,000	-	-	-	-
Additions from new units	-	-	-	-	-
Increase (Decrease) in Net Assets with Donor Restrictions - end of year	3,852,000	3,852,000	3,852,000	3,852,000	3,852,000
Net Assets - end of year	\$ 8,845,050	\$ 8,906,899	\$ 10,001,696	\$ 8,587,151	\$ 10,848,902
Members' Equity - Undesignated:					
Beginning Balance	\$ 5,997,488	\$ 13,664,527	\$ 14,177,933	\$ 13,803,123	\$ 15,889,415
Excess of Revenue, Gains, and Other	-	-	-	-	-
Support Over Expense	(808,881)	(964,413)	(1,017,430)	(1,230,475)	(1,317,604)
Asset purchases transferred from Club	1,900,704	1,591,660	1,112,171	2,205,167	894,905
Transfer of Rosewood from Club	7,474,316	-	-	-	-
Transfer (to) from Club	(733,500)	(77,041)	(430,451)	1,153,000	(1,243,000)
Amounts transferred to Club for designated asset replacement and repair	(165,600)	(36,800)	(39,100)	(41,400)	(43,700)
Total Member's Equity-Undesignated - end of year	\$ 13,664,527	\$ 14,177,933	\$ 13,803,123	\$ 15,889,415	\$ 14,180,016



**THE CYPRESS OF RALEIGH CLUB, INC.**  
**THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.**  
**Combined Forecasted Statements of Cash Flows From Operations for the Years Ending December 31, 2020 Through 2024**

See Accompanying Summaries of Significant Accounting Policies and Forecasted Assumptions and Independent Accountants' Compilation Report

	2020	2021	2022	2023	2024
<u>Cash Flows from Operating Activities</u>					
Change in Net Assets	\$ 2,159,832	\$ 575,254	\$ 719,986	\$ 671,748	\$ 552,352
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:					
Depreciation	803,772	1,170,672	1,286,832	1,519,327	1,599,720
(Increase) Decrease in:					
Accounts Receivable	(77,992)	(73,568)	(63,814)	(42,995)	(19,284)
Inventory	(25,936)	-	-	-	-
Due from Affiliate	176,495	-	-	-	-
Prepaid Expenses	(5,566)	(5,761)	(5,962)	(6,171)	(6,387)
Increase (Decrease) in:					
Accounts Payable	48,585	95,035	46,406	32,442	31,279
Due to Members	(11,394)	1,063	1,095	1,127	1,162
Accrued Expense	54,477	106,560	52,033	36,377	35,072
Net Cash Provided by Operating Activities	<u>3,122,274</u>	<u>1,869,255</u>	<u>2,036,574</u>	<u>2,211,855</u>	<u>2,193,913</u>
<u>Cash Flow from Investing Activities</u>					
Developer Contribution	(1,200,000)	-	-	-	-
Proceeds (Purchases) of Investments	4,936,409	330,360	(175,932)	(182,334)	(548,862)
Purchase of Property & Equipment	(8,010,586)	(1,872,541)	(1,308,436)	(2,594,314)	(1,052,829)
Net Cash Used by Investing Activities	<u>(4,274,177)</u>	<u>(1,542,181)</u>	<u>(1,484,368)</u>	<u>(2,776,648)</u>	<u>(1,601,691)</u>
<u>Cash Flow from Financing Activities</u>					
Payments on Notes Payable	(49,706)	(10,230)	(10,987)	(11,801)	(10,500)
Payments on Capital Lease Payable	(18,980)	(9,917)	-	-	-
Net Cash Used by Financing Activities	<u>(68,686)</u>	<u>(20,147)</u>	<u>(10,987)</u>	<u>(11,801)</u>	<u>(10,500)</u>
Net Increase (Decrease) in Cash	(1,220,589)	306,927	541,219	(576,594)	581,723
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,397,648</u>	<u>177,059</u>	<u>483,986</u>	<u>1,025,205</u>	<u>448,611</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 177,059</u>	<u>\$ 483,986</u>	<u>\$ 1,025,205</u>	<u>\$ 448,611</u>	<u>\$ 1,030,334</u>
<u>CASH AND CASH EQUIVALENTS RECONCILIATION</u>					
Cash	\$ 146,852	\$ 453,176	\$ 993,779	\$ 416,556	\$ 997,638
Reserves Required by State Statute - Cash	30,206	30,810	31,427	32,055	32,696
	<u>\$ 177,059</u>	<u>\$ 483,986</u>	<u>\$ 1,025,205</u>	<u>\$ 448,611</u>	<u>\$ 1,030,334</u>

**THE CYPRESS OF RALEIGH CLUB, INC.  
AND  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

These financial forecasts present, to the best of management's knowledge and belief, the expected financial position, results of operations and cash flows for the forecast periods. Accordingly, the forecasts reflect management's judgment as of March 27, 2020, the date of these forecasts, of the expected conditions and management's expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecasts. There will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying forecasted financial statements include the accounts of The Cypress of Raleigh Club, Inc. (a not for profit entity) (the "Club") and The Cypress of Raleigh Owners' Association, Inc. (a not for profit entity) (the "Association"). The Club and the Association were organized under the laws of the State of North Carolina in connection with the development of a condominium continuing care retirement community located in Raleigh, North Carolina and known as The Cypress of Raleigh ("The Cypress" or the "community"). The Association, which is comprised of the owners of units in The Cypress in accordance with the North Carolina Condominium Act, serves as the governing body for all issues related to the real estate aspects of the units and the common areas of the community. The Association has delegated to the Club all of the Association's responsibilities with respect to investment management and maintenance of the community's common areas, including the clubhouse and health center. The Club has retained Life Care Services, LLC, specialists in continuing care, to manage the daily operations of the Club and the Association.

**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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**THE CYPRESS OF RALEIGH CLUB, INC.  
AND  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies (continued)**

**Membership Fees**

At the time of signing a Purchase and Sale Agreement, a designated resident must also sign a Membership Agreement, which governs the Member's membership interest in the Club. Membership in the Club is a contractual right and is not incidental to the ownership of a real property interest in a villa or cottage. The cost of Membership is a separate, non-refundable Membership Fee, which is calculated as ten percent (10%) of the condominium unit's gross purchase price. The Membership Fee is paid to The Cypress of Raleigh, LLC ("Company"), the developer of the community. Therefore, the Club does not record these fees as revenue.

**Reserves**

At closing, the purchaser will also pay to the Club two months of common area expenses for the purpose of establishing a working capital fund; one year's hazard insurance premium; and a deposit to the Club for an operating reserve fund which, if unused, may be refunded, upon the earlier waiver of this reserve requirement by the State of North Carolina, or resale of the unit. The amount of the reserve requirement per unit is \$14,000. The State of North Carolina must give approval for the release of the operating reserve funds.

Reserves paid by a resident upon entering into a continuing care contract, net of the portion thereof that is refundable to the resident, are recorded as net assets with donor restrictions. The refundable portion of the reserve is recorded as a liability.

A reserve for asset replacement has also been established, funded through monthly condominium fees budgeted annually.

**Cash Equivalents**

All liquid investments with a maturity of three months or less are considered to be cash equivalents.

**THE CYPRESS OF RALEIGH CLUB, INC.  
AND  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies (continued)**

**Property, Plant and Equipment**

Purchased property, plant and equipment are recorded at cost. Donated property, plant and equipment are recorded as an addition to fund balance when received from the developer based on the fair market value of the assets on the date of contribution. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Expenditures that materially increase values, change capacities or extend useful lives are capitalized.

**Cash and Investments Whose Use is Limited**

Cash and investments whose use is limited include funds held pursuant to the requirement of the membership agreement.

The Cypress is required to maintain reserve funds equal to 50% of the total annual operating expenses for 2019 if the occupancy is below 90%. Since the occupancy exceeds 90%, the reserve requirement is required to be 25%. The Company reserves the right, if necessary or appropriate, to loan funds for the statutory reserve account and to be reimbursed as funding occurs through future sales. The Association has also adopted a resolution to designate funds from the asset replacement reserve account to meet the statutory reserve requirement, if necessary. This fund was transferred from the Association to the Club in 2015.

The Association's Declaration requires that each member, at closing, be assessed an amount equal to at least two months' estimated common expenses for the purpose of establishing a working capital fund for the Association. While there is no restriction on these funds by the Declaration, the Association's Board of Directors may declare that these funds be designated for future major repairs and replacements.

Asset replacement reserves are funded by a portion of budgeted monthly condominium fees and year-end surplus, if any.

**THE CYPRESS OF RALEIGH CLUB, INC.  
AND  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies (continued)**

**Accounts Receivable**

Accounts receivable have been estimated based on historic data adjusted for inflation.

Due to the contractual agreements with the members and the health care manager, it is anticipated that there will be no bad debt or a need for a reserve thereof.

**Accounts Payable**

Accounts payable are based on historic data adjusted for inflation.

**Transactions with Affiliates**

The Club engages in various transactions with affiliates, the Company and the Association. The Company is the developer of The Cypress. The Association is comprised of the owners of units in The Cypress and serves as the governing body for all issues related to the real estate aspects of the units and the common areas of the community. The Association has delegated to the Club all of the Association's responsibilities with respect to investment management and the maintenance of the community's common areas, including the clubhouse and health center.

**Net Assets with Donor Restrictions**

Net assets with donor restrictions are estimated to be available for North Carolina Department of Insurance reserves and the Rosewood Health Center expansion:

Operating Reserve		
	2020	\$3,852,000
	2021	\$3,852,000
	2022	\$3,852,000
	2023	\$3,852,000
	2024	\$3,852,000

**THE CYPRESS OF RALEIGH CLUB, INC.  
AND  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies (concluded)**

**Income Taxes**

The Club, a not-for-profit entity, files its own tax return as a tax-exempt organization. The Association, a not-for-profit entity under Internal Revenue Code Section 528(c)(1), will, as a homeowners' association, elect on an annual basis to be taxed as a regular corporation or as a homeowners' association. Any fees collected from members in excess of expenses can be deferred from taxation by an election approved by the membership.

**Obligation to Provide Future Services**

The Club will annually calculate the present value of the net cost of providing certain future services to current members and associate members. If the present value of the cost of providing these services exceeds the present value of the anticipated revenues, a liability is recorded (obligation to provide future services) with a corresponding charge to income. The obligation is discounted at 2.43%, based on the expected long-term rate of return on government obligations. For December 31, 2020 through 2024, this net present value computation is expected to yield a surplus and, accordingly, no liability has been recorded.

**2. Summary of Significant Forecasted Assumptions**

**Cash and Investment Whose Use is Limited**

Operating reserves are forecast to meet the minimum operating reserve requirements which will be required by the North Carolina Department of Insurance. The Cypress is required to maintain reserve funds equal to 50% of the total annual operating expenses if the occupancy is below 90%. Since the occupancy exceeds 90%, the reserve requirement is required to be 25%. The Company reserves the right, if necessary or appropriate, to loan funds for the reserve account and to be reimbursed as funding occurs through future sales. The Association has also adopted a resolution to designate funds from the asset replacement reserve account to meet the statutory reserve requirement if necessary. This fund was transferred from the Association to the Club in 2015.

**THE CYPRESS OF RALEIGH CLUB, INC.  
AND  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**2. Summary of Significant Forecasted Assumptions (continued)**

**Property, Plant and Equipment**

The Company has contributed the furniture, fixtures and equipment to the Association, per the Membership Agreement. The Company sells the units and expenses all costs associated with the construction as a cost of sales.

Each homeowner purchases an inseparable fractional ownership interest in the common areas of The Cypress, along with the purchase of a unit. For financial statement purposes and for the purpose of estimated reserves, the Association elects to record the common area facilities at their estimated fair market value.

The Club began the twenty-one-bed expansion of the Rosewood Health Center at The Cypress in 2019. Once construction is completed, the assets will be transferred to the Association in 2020.

**Revenue**

The revenue and expense estimates have been calculated based upon full occupancy of Phases I and II. In September 2018, the Company completed the construction of the Villa D building of Phase III, which contains fifty-seven units. Construction of the Villa E building of Phase III, which will contain fifty-seven units, began in 2019, and the Company estimates that Villa E will be ready for occupancy in late 2020. The Company began the twenty-one-bed expansion of the Rosewood Health Center at The Cypress in 2019, which is scheduled to be completed in August 2020.

Monthly payments from residents of The Cypress include a service fee component and a condominium fee component. These monthly payments vary by unit and the amounts included herein are the weighted average monthly payments for the villas and cottages. The monthly payments, second person fees and health center fees are based upon expected fill up budget. Revenues on the monthly payments and second person fees are calculated based upon the occupancy numbers and the weighted average service fees/second person fees.

Health Center revenues are based on historic occupancy rates; prices for services adjusted for an average inflation rate of 3%.

**THE CYPRESS OF RALEIGH CLUB, INC.  
AND  
THE CYPRESS OF RALEIGH OWNERS' ASSOCIATION, INC.  
COMBINED FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**2. Summary of Significant Forecasted Assumptions (concluded)**

**Revenue (concluded)**

Community Home Health revenues are based on growth rates achieved by comparable services provided by continuing care retirement communities similar to Cypress of Raleigh.

Other income is based on new units to be added.

**Operating Expenses**

Expenses for program services are based on historical data for each service adjusted for estimated inflation of 3%. Additional expenses are forecasted for the new units that will be added in late 2020.

**Interest Income**

Interest income has been forecasted based on the balance of the reserve for replacement and interest-bearing cash balances at a rate of 3% over the period 2020 through 2024.

**Depreciation**

Depreciation expense in the forecast period reflects straight-line depreciation of asset balances at December 31 of each year, computed over the estimated useful lives of the assets.

Buildings and improvements	40 years
Furniture, fixtures & equipment	7 years

**Income Taxes**

For forecasted purposes, Management has accrued income taxes on the interest income or the net income of the Association at the rate of 30%. The Club is a non-profit organization under Section 501(c) (4) of the Internal Revenue Code and, accordingly, no provision for income taxes was recorded.



**EXHIBIT L**

**THE CYPRESS OF RALEIGH, LLC  
AUDITED FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 2019 and 2020**

**{ATTACHED}**

**THE CYPRESS OF RALEIGH, LLC**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

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## **INDEPENDENT AUDITORS' REPORT**

To the Members of  
The Cypress of Raleigh, LLC

We have audited the accompanying financial statements of The Cypress of Raleigh, LLC (a North Carolina Limited Liability Company) which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and members' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditors' Responsibility**

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

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

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

## Opinion

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

## Adoption of New Accounting Standard

As discussed in Note 2, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Effective January 1, 2019, the Company changed its method for accounting for revenue as a result of the adoption. Our opinion is not modified with respect to this matter.

*Dreher Martin CPAs, P.A.*

March 10, 2020

**THE CYPRESS OF RALEIGH, LLC**  
**BALANCE SHEETS**  
**DECEMBER 31, 2019 AND 2018**

**Assets**

	<b>2019</b>	<b>2018</b>
Current Assets		
Cash	\$ 1,559,440	\$ 1,926,783
Accounts receivable	308,667	152,646
Units in Inventory	460,000	874,000
Development costs	7,266,154	190,308
Notes receivable, current portion	-	141,480
Total Current Assets	<u>9,594,261</u>	<u>3,285,217</u>
Property & Equipment		
Furniture, fixtures & equipment	72,562	57,471
Less accumulated depreciation	<u>(54,157)</u>	<u>(50,869)</u>
	18,405	6,602
Development Rights	392,000	392,000
Restricted Assets		
Cash from reservation deposits and escrow	3,624,149	151,139
Cash investment	-	2,649
	<u>3,624,149</u>	<u>153,788</u>
Other Assets		
Notes receivable, net of current portion	159,480	-
Deposits	9,000	9,000
Accrued interest receivable	33,536	7,074
Total Other Assets	<u>202,016</u>	<u>16,074</u>
 Total Assets	 <u>\$ 13,830,831</u>	 <u>\$ 3,853,681</u>

**Liabilities & Members' Equity (Deficit)**

Current Liabilities		
Accounts payable	\$ 1,399,026	\$ 134,133
Accounts payable-related parties	23,240	78,158
Accrued trust liabilities	149	139
Accrued payroll liabilities	-	89
Accrued interest payable	2,322	2,322
Notes payable - current portion, related party	268,388	257,916
Notes payable - current portion	-	450,000
Reservation deposits	3,624,000	151,000
Total Current Liabilities	<u>5,317,125</u>	<u>1,073,757</u>
Long-term Liabilities		
Long-term debt, related party	12,119,935	6,388,336
Long-term debt	1,143,812	975,000
Total Long-term Liabilities	<u>13,263,747</u>	<u>7,363,336</u>
 Total Liabilities	 18,580,872	 8,437,093
 <b><u>Members' Equity (Deficit)</u></b>		
Members' Equity (Deficit)	<u>(4,750,041)</u>	<u>(4,583,412)</u>
 Total Liabilities & Members' Equity (Deficit)	 <u>\$ 13,830,831</u>	 <u>\$ 3,853,681</u>

**See Accompanying Notes and Auditors' Report.**

**THE CYPRESS OF RALEIGH, LLC**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Revenue		
Sale of Units and Covered Parking	\$ 553,500	\$ 28,243,900
Membership Fees	61,500	3,058,100
Resale Membership Fees	928,700	784,400
Resale Commissions	462,079	344,855
Management Fees	1,630,363	1,460,179
Total Revenue	<u>3,636,142</u>	<u>33,891,434</u>
Cost of Units Sold	<u>564,000</u>	<u>28,936,362</u>
Gross Profit	3,072,142	4,955,072
Operating Expenses		
Bank Service Charges	6,657	8,258
Computer Expense	5,438	262
Contributions	600	-
Consulting	28,485	33,215
Depreciation and Amortization Expense	40,584	70,931
Dues & Subscriptions	1,600	1,426
Insurance-Health & Dental	18,924	20,231
Insurance-Liability	879	740
Licenses & Fees	245	245
Maintenance and Repairs	11,835	3,213
Management Fee	360,000	281,250
Marketing Expense	1,950,294	486,259
Meals & Entertainment	2,938	14,832
Office Supplies	25,728	18,233
Payroll Expenses	158,774	154,800
Professional Fees	121,393	181,805
Property Taxes	14,057	32,696
Retirement Expense	780	583
Telephone Expense	1,258	2,006
Temporary/Sub-labor	24,257	-
Travel	1,351	2,037
Training	-	1,250
Office administrative expenses	54,899	36,371
Total Operating Expenses	<u>2,830,976</u>	<u>1,350,643</u>
Operating Income	241,166	3,604,429
Other Income/(Expense)		
Miscellaneous Income	11,137	-
Miscellaneous Expense	(70,352)	-
Gain (Loss) on Impairment	-	(392,000)
Gain on Equity Unit	-	460,000
Interest Expense	(437,708)	(556,915)
Interest Income	89,128	42,537
Total Other Income/(Expenses)	<u>(407,795)</u>	<u>(446,378)</u>
Net Income (Loss)	<u>\$ (166,629)</u>	<u>\$ 3,158,051</u>

**See Accompanying Notes and Auditors' Report.**

**THE CYPRESS OF RALEIGH, LLC**  
**STATEMENTS OF MEMBERS' EQUITY (DEFICIT)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Members'</u> <u>Equity</u>
Balance, January 1, 2018	\$ (6,624,752)
Distributions	(1,116,711)
Net Income - 2018	<u>3,158,051</u>
Balance, December 31, 2018	<u>\$ (4,583,412)</u>
Distributions	-
Net Loss - 2019	<u>(166,629)</u>
Balance, December 31, 2019	<u>\$ (4,750,041)</u>

**See Accompanying Notes and Auditors' Report.**



**THE CYPRESS OF RALEIGH, LLC**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Cash Provided by Operating Activities:		
Net Income	\$ (166,629)	\$ 3,158,051
Depreciation and amortization expense	40,584	70,931
Impairment of development rights	-	392,000
Adjustments to Reconcile Change in Operating Activities to Net Cash Provided:		
(Increase)/Decrease in:		
Accounts and notes receivable	(174,021)	(31,281)
Units in inventory	414,000	(874,000)
Accrued interest receivable	(26,462)	(900)
Increase/(Decrease) in:		
Accounts payable	1,209,976	(1,398,750)
Reservation deposits due	3,473,000	(4,354,397)
Accrued trust liability	10	85
Accrued interest payable	-	(16,264)
Accrued payroll	(89)	(1,882)
Net Cash Provided (Used) by Operating Activities	<u>4,770,369</u>	<u>(3,056,407)</u>
Cash Provided (Used) by Investing Activities:		
Investment in bonds	-	(5,700,000)
Proceeds from sale of investments in bonds	-	5,700,000
Development costs	(7,113,143)	11,237,830
Purchase of furniture, fixtures and equipment	(15,091)	-
Net Cash Provided (Used) by Investing Activities	<u>(7,128,234)</u>	<u>11,237,830</u>
Cash Provided (Used) by Financing Activities:		
Distributions	-	(1,116,711)
Return of Capital	-	-
Proceeds on notes payable - related parties	6,000,000	-
Proceeds on notes payable	1,143,812	15,717,389
Payments on notes payable - related parties	(257,929)	(5,247,852)
Payments on notes payable	(1,425,000)	(21,721,804)
Net Cash Provided (Used) by Financing Activities	<u>5,460,883</u>	<u>(12,368,978)</u>
Net increase (decrease) in cash	3,103,018	(4,187,555)
Beginning Cash	2,080,571	6,268,126
Ending Cash	<u>\$ 5,183,589</u>	<u>\$ 2,080,571</u>
Cash Consists of:		
Cash	\$ 1,559,440	\$ 1,926,783
Restricted Cash	3,624,149	153,788
	<u>\$ 5,183,589</u>	<u>\$ 2,080,571</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ 437,708</u>	<u>\$ 528,442</u>

See Accompanying Notes and Auditors' Report.

**THE CYPRESS OF RALEIGH, LLC  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1 - NATURE OF ORGANIZATION**

The Cypress of Raleigh, LLC (the “Company”), a Limited Liability Company, was organized on September 28, 2004 under the laws of the State of North Carolina to engage in the business of developing The Cypress of Raleigh, a condominium continuing care retirement community in Raleigh, North Carolina (“The Cypress” or “community”). The managing member is The Cypress Management Group, LLC with management delegated to three members, Michael G. Sandman, Craig C. Huggins and Mark T. Andrews.

The Company secured the licenses and permits necessary to construct The Cypress. Upon full completion of Phases I, II and III, the Company expects to have developed and sold approximately 335 units to residents of the community. The Cypress of Raleigh Owners’ Association, Inc. (the “Association”), which is comprised of the owners of units in the community, serves as the governing body for all issues related to the real estate aspects of the units and the common areas of the community. The Association has delegated to The Cypress of Raleigh Club, Inc. (the “Club”) the Association’s responsibilities with respect to the maintenance of the community’s common areas.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue and Cost Recognition**

The Company receives revenue from the sale of villas and cottages. Revenue from unit sales are recognized when title passes to the member at the date of closing.

The Company also receives a membership fee from each resident member for services that are provided to them pursuant to their membership in the Club. These services are provided for in each new member’s Membership Agreement. Membership in The Club is a contractual right and is not incidental to the ownership of a real property interest in a villa or cottage. The cost of Membership is a separate, non-refundable Membership Fee paid to the Company, which is calculated as ten percent (10%) of the condominium unit’s gross purchase price. Since the Club, not the Company, is obligated to provide the future services associated with membership, revenue is recognized at the date of closing.

In addition, a customary real estate commission (typically 5% of the sales price of the unit without regard to the purchaser’s membership fee) may be earned on resales. Commission revenue is recognized at the date of closing.

The Company acts as management agent for the Club and in return receives a management fee of 10% of the operating costs of the Club. Management fee revenue is recognized monthly as services are performed and billed to the Club.

**THE CYPRESS OF RALEIGH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

All costs associated with the development of the community that have been incurred through December 31, 2019 have been capitalized to development costs. As units are sold, a portion of additional development costs are charged to cost of goods sold. As of December 31, 2019, all units of Phase I and II have been sold. Sales and marketing related costs have been expensed in the current period.

**Accounting Method**

Activities are accounted for using the accrual method of accounting. This method of accounting conforms to accounting principles generally accepted in the United States of America.

**Cash, Cash Equivalents and Restricted Cash**

For purposes of the balance sheet and statement of cash flows, cash and cash equivalents consist of cash on hand, depository accounts and money market funds. Restricted cash consists of reservation and escrow.

**Advertising Costs/Commissions**

The Company expenses advertising costs/commissions as incurred. Advertising costs/commissions for the years ended December 31, 2019 and 2018 was \$1,950,294 and \$486,259 respectively.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Limited Liability Company/Income Taxes**

Since limited liability companies have the tax attributes of a partnership, the entity does not incur federal and state income taxes; instead, its taxable income and losses are included in the tax returns of its members and taxed depending on their tax situations.

**Property & Equipment**

The Company's policy is to capitalize property and equipment over \$5,000. Lesser amounts are expensed. Furniture, fixtures and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets.

**THE CYPRESS OF RALEIGH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New Accounting Pronouncement**

In May 2014, the FASB issued ASU 2014-09, “*Revenues from Contracts with Customers (Topic 606)*”, which amends the guidance in ASC 605, “Revenue Recognition.” The core principle of this new standard is to recognize revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. ASC 606 also requires additional disclosures around the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of this new standard had no impact the Company’s recognition of revenues for the year ended December 31, 2019.

**NOTE 3 - CONCENTRATIONS OF CREDIT RISK**

The Company maintains its cash balances in several financial institutions located in Raleigh, North Carolina. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 for interest and non-interest bearing accounts. At December 31, 2019 and 2018, the Company's uninsured cash balances totaled \$2,295,410 and \$3,547,039, respectively. The Company also maintains investments in a brokerage account that are insured by the Securities Investor Protection Corporation (SIPC) up to \$500 per customer, which includes a \$250,000 limit for cash. At December 31, 2019 and 2018, the Company’s total investments amounted to \$3,541,879 and \$0, resulting in deposits of \$3,291,879 and \$0, respectively, in excess of the SIPC insured amount for cash.

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable are reported at contract value. The Company has not established an allowance for uncollectible accounts as it is management's opinion that they are fully collectible.

**NOTE 5 – INVENTORY**

Inventory consists of a unit that reverted back to the Company after a members’ passing under an alternate equity plan and is carried at fair market value of \$460,000. The gain of \$460,000, recognized at reversion, is included in other income on the Statements of Operations for the year ended December 31, 2018.

**THE CYPRESS OF RALEIGH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6 - NOTES RECEIVABLE**

Notes receivable consist of money that has been loaned to current residents who were not able to sell their homes and loans made to current residents as revolving lines of credit. The specific notes are:

	<u>2019</u>	<u>2018</u>
5% per annum through July 2016. In May 2016, the borrower elected to extend the term of the note until July 31, 2019. To date, a new agreement with the resident has not been reached, however the Company's intent is to continue loaning the resident funds as long as they maintain their current residence.	<u>\$ 159,480</u>	<u>\$ 141,480</u>
Less current portion	<u>                  -</u>	<u>141,480</u>
Long term portion	<u>\$ 159,480</u>	<u>\$                  -</u>

**NOTE 7 - RELATED PARTY TRANSACTIONS**

As the managing member, The Cypress Management Group, LLC, is reimbursed for expenses paid on behalf of the Company. The managing members of The Cypress Management Group, LLC are Michael G. Sandman, Craig C. Huggins and Mark T. Andrews. For the years ended December 31, 2019 and 2018, the management fee was \$360,000 and \$281,250, respectively.

During 2019 and 2018, the Company paid TME Investments \$45,722 and \$31,350, respectively for office administrative services.

During 2019 and 2018, the Company paid Michael G. Sandman \$38,257 and \$40,370, respectively, for legal services. At December 31, 2019 and 2018, the amount due was \$1,254 and \$785, respectively.

During 2019 and 2018, the Company paid Chandler Financial \$11,136 and \$17,439, respectively, for office administrative services. At December 31, 2019 and 2018, the amount due was \$0 and \$3,769, respectively.

The Company receives a 10% management fee from the Club and the Association. During 2019 and 2018 the Company collected \$1,630,363 and \$1,460,179, respectively. At December 31, 2019 and 2018, \$282,400 and \$152,646, respectively, was due to the Company.

**THE CYPRESS OF RALEIGH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 7 - RELATED PARTY TRANSACTIONS (continued)**

During 2019 and 2018 the Company paid the Club a total of \$120,866 and \$145,044, respectively. As of December 31, 2019 and 2018 the Company owed \$21,987 and \$73,604, respectively, to the Club. In December 2019, the Company paid \$150,000 to the Club for the Rosewood Health Center Expansion. In December 2018, the Company transferred investments of \$5,686,110 and \$275,175 of development costs to the Club for the Rosewood Health Center expansion. Investments were purchased using funds from the sale of Phase II units and the transfer is included in cost of units sold on the statements of operations.

During 2019, the Company made quarterly payments of \$15,000 each to Michael G. Sandman, Craig C. Huggins and Mark T. Andrews for developer fees related to Phase III construction. Total developer fees paid for the year ended December 31, 2019 and 2018 was \$180,000 and \$180,000, respectively.

**NOTE 8 - RESERVATION DEPOSITS**

The Company receives deposits from the potential residents for the purchase of units, which are held in a First Citizens escrow account, until the closing of the property. Each deposit is applied to the subsequent purchase of the unit, or is refundable less an administrative fee, at the request of the depositor.

**NOTE 9 - PROPERTY & EQUIPMENT**

These assets are recorded at cost when constructed or purchased by the Company and will be depreciated using the straight-line method over 5 to 27.5 years estimated useful lives once they are placed in service. Depreciation expense was \$3,288 and \$2,681 for 2019 and 2018, respectively.

**NOTE 10 - LAND & DEVELOPMENT COSTS**

Land development rights were purchased in April 2007. The Company evaluates the rights annually for impairment in accordance with FASB ASC 350-35. In 2018, Phase II of The Cypress was completed at which time development rights were revalued and an impairment loss of \$392,000 was recognized. For the year ended December 31, 2019 and 2018 the rights were valued at \$392,000 and \$392,000, respectively.

**THE CYPRESS OF RALEIGH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 10 - LAND & DEVELOPMENT COSTS (continued)**

Phase I of The Cypress opened in Fall 2008 and included a Clubhouse, Health Center, 34 cottages with garages and 168 single-story villas in 3 mid-rise buildings. In 2010, Phase II of the development was completed, and the community added three cottages bringing the total number of cottages to 37 and the total number of units to 205. The Company has the right (but not the obligation) to construct Phase III of The Cypress, which may consist of up to 128 villas in 2 mid-rise buildings and up to 5 cottages. The maximum number of units in Phase I, Phase II and Phase III will not exceed 335. However, the Company has reserved the right (but not the obligation) to develop an additional phase of the community consisting of up to 111 units. In September 2018, the Company completed construction on the first Villa building of Phase III (the "Villa D Building"), which contains fifty-seven units ("Villa D") and was ready for occupancy in 2018. Construction on the second Villa Building of Phase III (the "Villa E Building"), which will contain fifty-seven units ("Villa E"), began in 2019, and the Company estimates that Villa E will be ready for occupancy in late 2020.

**NOTE 11 - LINE OF CREDIT**

The Company has a line of credit with a credit limit of \$1,000,000 at an interest rate of LIBOR + 1.5% with all principal and accrued interest due January 15, 2021. The line is unsecured and personally guaranteed by the managing members. At December 31, 2019 and 2018 there was no balance due.

**THE CYPRESS OF RALEIGH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 12 - NOTES PAYABLE**

	<u>2019</u>	<u>2018</u>
<p>\$3,000,000 note payable to First Citizens Bank, with 59 payments of interest only, beginning January 20, 2015, 8 consecutive quarterly principal payments of \$75,000 beginning March 20, 2015, 4 consecutive quarterly principal payments of \$150,000 beginning March 20, 2017, 7 consecutive quarterly principal payments of \$225,000 beginning March 20, 2018 and one final payment of remaining amounts due on December 29, 2019. The note is unsecured, carries an interest rate of 3.25% and is personally guaranteed by the managing members. In 2017, the note was modified to require 11 quarterly principal payments of \$112,500 beginning September 20, 2017, monthly interest payments at 3.5% beginning July 20, 2017 and one final payment of remaining amounts due on May 30, 2020. The note was paid in full as of July 31, 2019.</p>	\$ -	\$ 1,425,000
<p>Notes payable to related parties, with 59 quarterly payments of interest only, beginning December 31, 2017 and one final payment of principal and accrued interest on September 30, 2022. The notes are unsecured and carry interest rates of 8%.</p>	4,000,000	4,000,000
<p>Notes payable to related parties, with 40 quarterly payments of interest and principal beginning December 31, 2017. The notes mature September 30, 2027, are unsecured and carry interest rates of 4%.</p>	2,388,323	2,646,252



**THE CYPRESS OF RALEIGH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 12 - NOTES PAYABLE (continued)**

	<u>2019</u>	<u>2018</u>
Notes payable to related parties, with 24 monthly payments of interest only, beginning June 30, 2019 and one final payment of principal and accrued interest on May 24, 2021. The notes are unsecured and carry interest rates of 7%.	6,000,000	-
\$22,900,000 note payable to First Citizens Bank, with 24 payments of interest only beginning August 10, 2019 and one final payment of remaining amounts due on June 26, 2021. The note is secured by real property of the Company and carries an interest rate of 3.85% and is personally guaranteed by the managing members and a general partner.	<u>1,143,812</u> 13,532,135	<u>-</u> 8,071,252
Less current portion	<u>268,388</u> <u>\$ 13,263,747</u>	<u>707,916</u> <u>\$ 7,363,336</u>

Future maturities of long-term debt are as follows:

2020	\$ 268,388
2021	7,423,098
2022	4,290,626
2023	302,426
2024	314,706
Thereafter	<u>932,891</u> <u>\$ 13,532,135</u>

**THE CYPRESS OF RALEIGH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 12 - NOTES PAYABLE (continued)**

The Company capitalizes interest cost as a component of development costs. The following is a summary of interest cost incurred during 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest cost capitalized	\$ 240,258	\$ 494,145
Interest cost expensed	<u>437,708</u>	<u>556,916</u>
Total interest cost incurred	<u>\$ 677,966</u>	<u>\$ 1,051,061</u>

The Company paid interest of \$398,095 and \$395,123 to Michael G. Sandman, Craig C. Huggins and Mark T. Andrews for the year ended December 31, 2019 and 2018, respectively.

The Company has a debt service ratio covenant of between 1.25% and 1.00% that is tested annually. The Company was in compliance with debt service covenants at December 31, 2019 and 2018.

**NOTE 13 - OPERATING LEASES**

The Company leases a copier and postage machine under non-cancelable operating leases requiring monthly payments of \$457 and quarterly payments of \$251, respectively. The copier lease expired March 2017 and is on a month-to-month basis. The postage machine lease expires October 2021.

Future minimum lease payments under all of these leases are as follows:

<u>Period Ending</u>	<u>Amount</u>
2020	\$ 1,005
2021	<u>838</u>
	<u>\$ 1,843</u>

Total rent expense was \$6,525 in 2019 and \$6,109 in 2018.

**THE CYPRESS OF RALEIGH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 14 - INCOME TAXES**

The IRS and North Carolina Department of Revenue may examine the returns of the Company for a three-year period after they are filed. The Company has open tax years from December 31, 2016 through December 31, 2019 which can be reviewed.

The members are liable for individual income taxes on their share of the Company's taxable income for both federal and state tax purposes. Distributions of \$0 and \$1,116,711 were made in 2019 and 2018, respectively.

**NOTE 15 - COMMITMENTS**

The Company has a consulting agreement with a firm to provide marketing services. The agreement requires monthly compensation of \$3,500 through the expiration or earlier termination of the agreement. The agreement terminates after 24 months or when 100% of the Phase III Expansion sales are achieved and binding, whichever occurs first. In November 2018, the agreement was amended to allow commencement of the delay fee in 2019 and community success bonus in December 2018. In December 2019, a new agreement was entered into effective January 1, 2020. Compensation under the new agreement is \$3,500 monthly. The Company paid the firm monthly fees of \$42,000 in 2019 and \$45,500 in 2018.

In February 2018, the Company entered into an agreement with a firm to provide architectural services for Phase III development. The Company will compensate the firm \$537,500 for basic services and additional amounts as needed.

In December 2018, the Company entered into an agreement with a firm to provide construction services for the Rosewood expansion. In November 2019, the contract was modified to increase the maximum contract price not to exceed \$5,676,279. Monthly progress payments will be made to the contractor with final unpaid balance due at project completion.

In June 2019, the Company entered into an agreement with a firm to provide construction services for the Phase III development. The contract sum is guaranteed not to exceed \$21,560,258. Monthly progress payments will be made to the contractor with final unpaid balance due at project completion.

**NOTE 16 - SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 10, 2020 which is the date the financial statements were available to be issued.

**EXHIBIT M**

**THE CYPRESS OF RALEIGH, LLC  
FORECASTED FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 2020 THROUGH 2024**

**{ATTACHED}**

**THE CYPRESS OF RALEIGH, LLC**

**FORECASTED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDING DECEMBER 31, 2020 THROUGH 2024**

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**DREHER MARTIN**  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Directors  
The Cypress of Raleigh LLC

Management is responsible for the accompanying forecast of the Cypress of Raleigh, LLC, which comprises the accompanying forecasted balance sheets, statements of operations and members' equity and statements of cash flows of The Cypress of Raleigh, LLC as of December 31, 2020 through 2024, and for the years then ending, including the related summaries of significant assumptions and accounting policies in accordance with guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants (AICPA). We have performed the compilation engagement in accordance with Statements of Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the forecast nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any for of assurance on this forecast.

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

The accompanying forecast and this report were prepared pursuant to the North Carolina Statute 58-64-20(a) (12) and should not be used for any other purpose.

*Dreher Martin CPAs, P.A.*

Raleigh, North Carolina  
April 23, 2020

**THE CYPRESS OF RALEIGH, LLC**

**Forecasted Balance Sheets for the Years Ending December 31, 2020 Through 2024**

**See Accompanying Summaries of Significant Assumptions and Accounting Policies and Independent Accountants' Compilation Report**

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<u>Assets</u>					
Current Assets:					
Cash	\$ 6,016,979	\$ 6,576,380	\$ 7,750,624	\$ 9,011,823	\$ 10,355,882
Accounts and Notes Receivable, current portion	168,809	173,872	179,088	184,463	189,997
Units in Inventory	460,000	920,000	920,000	920,000	920,000
Total Current Assets	<u>6,645,788</u>	<u>7,670,252</u>	<u>8,849,712</u>	<u>10,116,286</u>	<u>11,465,879</u>
Property & Equipment					
Furniture, Fixtures, & Equipment	72,562	72,562	72,562	72,562	72,562
Less Accumulated Depreciation	(57,287)	(59,203)	(60,494)	(61,785)	(61,893)
	<u>15,275</u>	<u>13,359</u>	<u>12,068</u>	<u>10,777</u>	<u>10,669</u>
Land & Development Costs:					
	-	-	-	-	-
Restricted Assets					
Cash From Reservation Deposits and Escrow	160,000	180,000	200,000	200,000	200,000
Other Assets					
Notes Receivable, net of current portion	177,480	195,480	213,480	231,480	249,480
Deposits	9,000	23,000	23,000	23,000	23,000
Accrued interest receivable	46,185	57,926	71,189	86,051	104,051
Total Other Assets	<u>232,665</u>	<u>276,406</u>	<u>307,669</u>	<u>340,531</u>	<u>376,531</u>
Total Assets	<u>\$ 7,053,728</u>	<u>\$ 8,140,015</u>	<u>\$ 9,369,451</u>	<u>\$ 10,667,596</u>	<u>\$ 12,053,079</u>
<u>Liabilities &amp; Members' Equity</u>					
Current Liabilities					
Accounts Payable & Other Accrued Expenses	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Current Portion of Long-Term-Debt, related party	279,286	290,626	302,426	314,706	327,484
Deferred Revenue - Refundable	-	-	-	-	-
Deferred Revenue - Non-refundable	-	-	-	-	-
Reservation Deposits	160,000	180,000	200,000	200,000	200,000
Total Current Liabilities	<u>539,286</u>	<u>570,626</u>	<u>602,426</u>	<u>614,706</u>	<u>627,484</u>
Long-Term Liabilities					
Deferred Revenue - Refundable	-	-	-	-	-
Deferred Revenue - Non-refundable	-	-	-	-	-
Long Term Debt	-	-	-	-	-
Long Term Debt - Related Party	5,840,662	5,550,036	5,247,610	4,932,904	4,605,420
Total Long-term Liabilities	<u>5,840,662</u>	<u>5,550,036</u>	<u>5,247,610</u>	<u>4,932,904</u>	<u>4,605,420</u>
Total Liabilities	<u>6,379,948</u>	<u>6,120,662</u>	<u>5,850,036</u>	<u>5,547,610</u>	<u>5,232,904</u>
Members' Equity (Deficit)					
Unrestricted	673,780	2,019,353	3,519,415	5,119,986	6,820,175
Total Members' Equity (Deficit)	<u>673,780</u>	<u>2,019,353</u>	<u>3,519,415</u>	<u>5,119,986</u>	<u>6,820,175</u>
Total Liabilities & Members' Equity (Deficit)	<u>\$ 7,053,728</u>	<u>\$ 8,140,015</u>	<u>\$ 9,369,451</u>	<u>\$ 10,667,596</u>	<u>\$ 12,053,079</u>



**THE CYPRESS OF RALEIGH, LLC**

**Forecasted Statements of Operations and Members' Equity for the Years Ending December 31, 2020 Through 2024**

See Accompanying Summaries of Significant Assumptions and Accounting Policies and Independent Accountants' Compilation Report

	2020	2021	2022	2023	2024
<u>Revenue:</u>					
Sale of Units, net	\$ 31,950,000	\$ -	\$ -	\$ -	\$ -
New Membership Fee	3,550,000	-	-	-	-
Resale Membership Fees	1,050,000	1,120,000	1,232,500	1,305,000	1,377,500
Resale Commissions	472,500	504,000	554,625	587,250	619,875
Management Fee	1,714,830	1,956,577	2,057,015	2,126,217	2,192,857
Interest Income	5,000	5,000	5,000	5,000	5,000
Miscellaneous Income	-	-	-	-	-
<b>Total Revenue</b>	<b>38,742,330</b>	<b>3,585,577</b>	<b>3,849,140</b>	<b>4,023,467</b>	<b>4,195,232</b>
<u>Cost of Goods Sold:</u>					
Cost of Units Sold	27,986,048	-	-	-	-
Amortization of Development Rights	392,000	-	-	-	-
<b>Total Cost of Goods Sold</b>	<b>28,378,048</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gross Margin</b>	<b>10,364,282</b>	<b>3,585,577</b>	<b>3,849,140</b>	<b>4,023,467</b>	<b>4,195,232</b>
<u>Operating Expenses</u>					
Legal and Accounting	62,400	64,896	67,492	70,192	72,999
Management and Other Expense	360,000	360,000	360,000	360,000	360,000
Miscellaneous Expense	500	500	500	500	500
Interest Expense, Not Capitalized	411,541	400,643	389,303	377,503	365,223
Contributions	-	-	-	-	-
Depreciation	3,130	1,916	1,291	1,291	108
Amortization of Entrance fees	-	-	-	-	-
Marketing Expense and other	500,000	515,000	530,450	546,364	562,754
<b>Total Operating Expenses</b>	<b>1,337,571</b>	<b>1,342,955</b>	<b>1,349,036</b>	<b>1,355,849</b>	<b>1,361,585</b>
<b>Net Income (Loss)</b>	<b>\$ 9,026,711</b>	<b>\$ 2,242,622</b>	<b>\$ 2,500,104</b>	<b>\$ 2,667,618</b>	<b>\$ 2,833,647</b>
<b>Beginning Members' Equity (Deficit)</b>	<b>(4,742,247)</b>	<b>673,780</b>	<b>2,019,353</b>	<b>3,519,415</b>	<b>5,119,986</b>
<b>Distributions</b>	<b>(3,610,684)</b>	<b>(897,049)</b>	<b>(1,000,042)</b>	<b>(1,067,047)</b>	<b>(1,133,459)</b>
<b>Ending Members' Equity (Deficit)</b>	<b>\$ 673,780</b>	<b>\$ 2,019,353</b>	<b>\$ 3,519,415</b>	<b>\$ 5,119,986</b>	<b>\$ 6,820,175</b>

**THE CYPRESS OF RALEIGH, LLC**

**Forecasted Statements of Cash Flows for the Years Ending December 31, 2020 Through 2024**

**See Accompanying Summaries of Significant Assumptions and Accounting Policies and Independent Accountants' Compilation Report**

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Cash Provided (Used) by Operating Activities:					
Net Income (Loss)	\$ 9,026,711	\$ 2,242,622	\$ 2,500,104	\$ 2,667,618	\$ 2,833,647
Adjustments					
Depreciation expense	3,130	1,916	1,291	1,291	108
Adjustments to Reconcile Change in Operating Activities to Net Cash Provided:					
(Increase)/Decrease in:					
Accounts receivable and notes receivable	121,858	(23,061)	(23,220)	(23,375)	(23,532)
Units in inventory	-	(474,000)	-	-	-
Accrued interest receivable	(12,649)	(11,741)	(13,263)	(14,862)	(18,000)
Increase/(Decrease) in:					
Reservation Deposits Due	(3,464,000)	20,000	20,000	-	-
Accounts Payable & Other Accrued Expenses	(1,324,737)	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>4,350,313</u>	<u>1,755,736</u>	<u>2,484,912</u>	<u>2,630,672</u>	<u>2,792,224</u>
Cash Provided by (Used) by Investing Activities					
Land and Development Costs	7,665,948	-	-	-	-
Net Cash Provided (Used) by Investing Activities	<u>7,665,948</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Provided (Used) by Financing Activities					
Activities:					
Proceeds from Notes Payable, Related Party	-	-	-	-	-
Payments on Notes Payable, Related Party	(6,268,375)	(279,286)	(290,626)	(302,426)	(314,706)
Proceeds from Notes Payable	22,021,350	-	-	-	-
Payments on Notes Payable	(23,165,162)	-	-	-	-
Members' Capital Distribution	(3,610,684)	(897,049)	(1,000,042)	(1,067,047)	(1,133,459)
Net Cash Provided (Used) by Investing Activities	<u>(11,022,871)</u>	<u>(1,176,335)</u>	<u>(1,290,668)</u>	<u>(1,369,473)</u>	<u>(1,448,165)</u>
Net Increase (Decrease) in Cash	993,390	579,401	1,194,244	1,261,199	1,344,059
Beginning Cash	<u>5,183,589</u>	<u>6,176,979</u>	<u>6,756,380</u>	<u>7,950,624</u>	<u>9,211,823</u>
Ending Cash	<u>\$ 6,176,979</u>	<u>\$ 6,756,380</u>	<u>\$ 7,950,624</u>	<u>\$ 9,211,823</u>	<u>\$ 10,555,882</u>
Cash Consists of:					
Cash	\$ 6,016,979	\$ 6,576,380	\$ 7,750,624	\$ 9,011,823	\$ 10,355,882
Restricted Cash	160,000	180,000	200,000	200,000	200,000
	<u>\$ 6,176,979</u>	<u>\$ 6,756,380</u>	<u>\$ 7,950,624</u>	<u>\$ 9,211,823</u>	<u>\$ 10,555,882</u>

**THE CYPRESS OF RALEIGH, LLC  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumptions**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

These financial forecasts present, to the best of management's knowledge and belief, the expected financial position, results of operations and cash flows for the forecast periods. Accordingly, the forecasts reflect management's judgment as of April 23, 2020, the date of these forecasts, of the expected conditions and management's expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecasts. There will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying forecasted financial statements include the accounts of The Cypress of Raleigh, LLC (the Company), a Limited Liability Company, organized under the laws of the State of North Carolina, to engage in the business of purchasing and developing real property and related facilities, more specifically a condominium continuing care retirement community in Raleigh, North Carolina. The Company's managing member is The Cypress Management Group, LLC, a North Carolina Limited Liability Company, which is managed by three members, Michael G. Sandman, Craig C. Huggins and Mark T. Andrews.

**Nature of Operations**

Partners (Members of the LLC) contributed the aggregate amount of \$5,543,000 in original capital contributions. Members also contributed the aggregate amount of \$8,457,000 to satisfy the cash flow needs of the development. In addition, a related party contributed a note in the amount of \$7,220,000 in exchange for an equity interest in the LLC. The total expected costs for the entire facility are \$175,000,000 including an amount of \$2,500,000 to be used to cover the start-up costs for The Cypress of Raleigh Club, Inc. (the "Club") and The Cypress of Raleigh Owners' Association, Inc. (the "Association").

The major sources of revenue include sales of villas or cottage units and garage spaces. These sales commenced in Fall 2008 and are projected to continue through 2020. Management anticipates that a total of 319 units will be completed and sold through the end of the forecast period. By agreement with the parties, the Company will receive 10% of the annual operating costs from the Club and the Association as an overhead and management fee. The Company will also receive, from new members, a membership fee for services that are provided to them on account of their membership in the Club. These services are provided in each new member's Membership Agreement. Membership in the Club is a contractual right and is not incidental to the ownership of a real property interest in a villa or cottage. The cost of Membership is a separate, non-refundable Membership Fee paid to the Company, which is calculated as ten percent (10%) of the condominium unit's gross purchase price.

**THE CYPRESS OF RALEIGH, LLC  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumption**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies**

**Nature of Operations (continued)**

In addition, a market real estate commission (typically 5% of the price of the condominium, net of the new purchasers' membership fee) may be earned by the Company on resales.

As an integral component of the application to and approval by the State of North Carolina Department of Insurance for The Cypress to operate as a life care community, on September 10, 2008, the Association entered into a Management Agreement with the Club pursuant to which the Club agreed to undertake the management and operation of the affairs of the condominium. Further, and effective the same date, the Club entered into a Management Agreement with the Company to provide management services as outlined therein, the failure or termination of which would deprive the Condominium Unit Owners and the Members of the Club of a material benefit intended by their purchase of a Unit and a membership interest in the Club.

Operating expenses consist of administrative salaries and expenses and ongoing marketing costs. Estimated operating and future development costs are in part based on actual costs incurred from previous development projects.

Phase I of The Cypress opened in Fall 2008 and included a Clubhouse, Health Center, 34 cottages with garages and 168 single-story villas in 3 mid-rise buildings. In 2010, Phase II of the development was completed, and the community added three cottages bringing the total number of cottages to 37 and the total number of units to 205. The Company has the right (but not the obligation) to construct Phase III of The Cypress, which may consist of up to 128 villas in 2 mid-rise buildings and up to 5 cottages. The maximum number of units in Phase I, Phase II and Phase III will not exceed 335. However, the Company has reserved the right (but not the obligation) to develop an additional phase of the community consisting of up to 111 units. In September 2018, the Company completed construction on the first Villa building of Phase III (the "Villa D Building"), which contains fifty-seven units ("Villa D") and was ready for occupancy in 2018. Construction on the second Villa Building of Phase III (the "Villa E Building"), which will contain fifty-seven units ("Villa E"), began in 2019, and the Company estimates that Villa E will be ready for occupancy in late 2020.

The Company transferred funds to The Cypress in 2018 for the twenty-one bed expansion of the Rosewood Health Center at The Cypress. Construction began in 2019 and will be completed in 2020.

**THE CYPRESS OF RALEIGH, LLC  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumption**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**1. Summary of Significant Accounting Policies**

**Nature of Operations (continued)**

**Development Loans**

The Company obtained a loan from a financial institution for the construction of Villa E in an amount up to \$22,900,000. Interest is required to be paid on a monthly basis, and the outstanding principal balance is required to be paid by June 26, 2021. As the Villa E units are sold, the Company will pay the lender 100% of the sales proceeds (less up to \$7,000 per unit in closing costs and related expenses) in reduction of the principal balance of the loan.

**Distributions**

Distributions will be paid based upon the availability of cash of the Company.

**Income Taxes**

Since limited liability companies have the tax attributes of a partnership, the entity does not incur federal and state income taxes; instead, its taxable income and losses are included in the tax returns of its members and taxed depending on their individual tax situations.

**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 certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**THE CYPRESS OF RALEIGH, LLC  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumption**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**2. Summary of Significant Forecasted Assumptions**

**Transactions with Affiliates**

The Company engages in various transactions with its affiliates, the Club and the Association. The Association, which is comprised of the owners of units in The Cypress, serves as the governing body for all issues related to the real estate aspects of the units and the common areas of the community. The Association has delegated to the Club the Association's responsibilities with respect to the maintenance of the community's common elements.

Pursuant to a Management Agreement entered into between the Club and the Company, the Company will perform services for which it earns a management fee (overhead payment) based on 10% the total operating costs of the Cypress.

The Club is required to maintain reserve funds equal to 50% of the total annual operating expenses for 2019 if the occupancy is below 90%. Once the occupancy exceeds 90%, the reserve requirement is reduced to 25%. Management reserves the right, if necessary or appropriate, to loan funds for the reserve account and to be reimbursed as funding occurs through future sales.

**Land and Buildings**

Land and land development rights for the development were purchased in April 2007. The Company evaluates the rights annually for impairment in accordance with FASB ASC 350-35. For the year ended December 31, 2019, the rights were valued at \$392,000.

**Construction Loan**

The Company obtained a construction term loan from a local financial institution for financing up to \$22,900,000 for Villa E. The terms include a 24 -month maturity with interest at a fixed rate of 3.85%. The loan includes an early payoff premium equal to 1% of the loan balance that is paid off, but this prepayment penalty does not apply to payments made from proceeds from sales of units to unrelated third parties. The loan also includes a commitment fee of 35 basis points of the loan amount due at closing.

**THE CYPRESS OF RALEIGH, LLC  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumption**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**2. Summary of Significant Forecasted Assumptions (continued)**

**Construction Loan (continued)**

The loan is collateralized by a 1<sup>st</sup> Deed of Trust on the subject property to be built, assignment of all non-refundable security deposits to be held on account at the bank and assignment of development rights from the Company. Loan advances are limited to the lesser of 80% of the cost or appraised value. 100% of the sales proceeds, less allowance of \$7,000 per unit for closing costs, are required for release of collateral on units sold. The loan covenants consist of a fully bonded development/construction contract, no change in ownership of The Cypress of Raleigh, LLC or The Cypress of Raleigh Management Group, LLC and pre-sold units to be delivered and closed within a reasonable time following the certificate of occupancy.

The loan is guaranteed by The Cypress Management Group, LLC, Michael Sandman, Mark Andrews and Craig Huggins. Other conditions include operating accounts being held at lender, equity contribution options and prior to the first draw, delivery of a minimum of 40 non-refundable security deposits of not less than 10% of the unit purchase price be held in escrow as collateral until closing of subject units. \$6,000,000 of equity provided by the Partners has been loaned by the financial institution under similar terms as the construction loan and has been personally guaranteed by the Partners.

**Deposits**

None of the purchase deposits paid by buyers of the Villa E units will be used by the Company until after (i) The Cypress of Raleigh has presold a minimum of seventy-five percent (75%) of the Villa E units; (ii) construction has been completed and a certificate of occupancy has been issued for the Villa E Building; and (iii) the Villa E units are available for occupancy by the new residents. The escrowed deposits will be released and credited to the buyers at each of their individual closings.

**THE CYPRESS OF RALEIGH, LLC  
FINANCIAL FORECAST**

**Summary of Significant Accounting Policies  
and Forecasted Assumption**

**Years Ending December 31, 2020 through 2024**

**See Independent Accountants' Compilation Report**

**2. Summary of Significant Forecasted Assumptions (continued)**

**Construction Sources and Uses**

The following is a summary source and use schedule for Villa E:

Uses:

Construction costs:	
Villa E	\$ 21,560,000
General conditions, insurance and fees	289,000
Contingency	1,030,400
Soft costs:	
Planning and design	994,000
Marketing	1,800,000
Development management	455,000
Development administration	227,000
Operations/Start-up	199,500
Allowances	66,000
Professional fees	300,000
Furniture, fixtures and equipment	130,000
Financing costs:	
Unit Closing costs	256,500
Loan origination fee	100,100
Construction interest reserve	900,000
Contingency	<u>278,500</u>
	<u>\$ 28,586,000</u>
Sources:	
Construction loan	\$ 22,586,000
Equity from Partners	<u>6,000,000</u>
	<u>\$ 28,586,000</u>



**EXHIBIT N**  
**THE CYPRESS OF RALEIGH, LLC – INTERIM FINANCIAL**  
**STATEMENTS FOR THREE MONTHS ENDED MARCH 2020**  
**{ATTACHED}**

**THE CYPRESS OF RALEIGH, LLC**  
**COMPILED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED MARCH 31, 2020**

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## INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Members  
The Cypress of Raleigh, LLC  
Raleigh, North Carolina

Management is responsible for the accompanying financial statements of The Cypress of Raleigh, LLC (a North Carolina Limited Liability Company), which comprise the balance sheet as of March 31, 2020, and the related statements of operations, members' equity (deficit) and cash flows for the three months then ended, in accordance with accounting principles generally accepted in the United States of America. 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 audit or review the 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 financial statements.

Management has elected to omit substantially, all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

*Dreher Martin CPAs, P.A.*

Raleigh, North Carolina  
April 20, 2020

**THE CYPRESS OF RALEIGH, LLC**  
**BALANCE SHEET**  
**March 31, 2020**

**Assets**

Current Assets	
Cash	\$ 2,392,767
Accounts Receivable	39,034
Units in Inventory	460,000
Development Costs	12,227,983
Total Current Assets	<u>15,119,784</u>
Property & Equipment	
Furniture, Fixtures, & Equipment	72,562
Less Accumulated Depreciation	<u>(55,321)</u>
	17,241
Development Rights	392,000
Restricted Assets	
Cash From Reservation Deposits and Escrow	3,712,361
Other Assets	
Notes Receivable	163,980
Deposits	9,000
Accrued Interest Receivable	35,978
	<u>208,958</u>
Total Assets	<u>\$ 19,450,344</u>

**Liabilities & Members' Equity**

Current Liabilities	
Accounts Payable	\$ 1,647,987
Accrued Trust Liabilities	86,531
Accrued Interest Payable	2,322
Accrued Payroll Liabilities	872
Current Portion of Long-Term Debt, Related Party	268,388
Wait List Deposits Due	140,000
Reservation Deposits Due	3,420,500
Upgrade Prepayments	422,719
Total Current Liabilities	<u>5,989,319</u>
Long-term Liabilities	
Long-Term Debt, Related Party	12,053,836
Long-term Debt	6,135,071
Total Long-term Liabilities	<u>18,188,907</u>
Total Liabilities	24,178,226
<b><u>Members' Equity</u></b>	
Members' Equity (Deficit)	<u>(4,727,882)</u>
Total Liabilities & Members' Equity (Deficit)	<u>\$ 19,450,344</u>

See Independent Accountants' Compilation Report.

**THE CYPRESS OF RALEIGH, LLC**  
**STATEMENT OF OPERATIONS**

	<b>Three Months  Ended March 31,  2020</b>
Revenue	
Resale Membership Fees	\$ 204,500
Resale Commissions	101,200
Management Fees	140,344
Total Revenue	446,044
Operating Expenses	
Bank Service Charges	3,632
Computer Expense	2,810
Consulting	6,415
Contributions	100
Depreciation & Amortization Expense	17,704
Dues & Subscriptions	545
Insurance-Health & Dental	6,616
Licenses & Fees	200
Maintenance and Repairs	15,704
Management Fee	90,000
Marketing Expense	84,826
Meals & Entertainment	2,743
Office Supplies	6,943
Office Expense	15,330
Payroll Expenses	39,588
Professional Fees	19,489
Retirement Expense	199
Telephone Expense	221
Temporary/Sub-labor	9,367
Travel	698
Total Operating Expenses	323,130
Net Operating Income	122,914
Other Income/(Expense)	
Miscellaneous Expense	(8,383)
Interest Expense	(103,884)
Interest Income	11,512
Total Other Income/(Expenses)	(100,755)
Net Income (Loss)	\$ 22,159

**See Independent Accountants' Compilation Report.**

**THE CYPRESS OF RALEIGH, LLC**  
**STATEMENT OF MEMBERS' EQUITY (DEFICIT)**  
**THREE MONTHS ENDED MARCH 31, 2020**

	<b><u>Members'</u></b> <b><u>Equity (Deficit)</u></b>
Balance, January 1, 2020	\$ (4,750,041)
Net Income - Three Months Ended March 31, 2020	<u>22,159</u>
Balance, March 31, 2020	<u><u>\$ (4,727,882)</u></u>

**See Independent Accountants' Compilation Report.**

**THE CYPRESS OF RALEIGH, LLC**  
**STATEMENT OF CASH FLOWS**

		<b>Three Months Ended March 31, 2020</b>
Cash Provided by Operating Activities:		
Net Income (Loss)	\$	22,159
Depreciation and Amortization Expense		17,704
Adjustments to Reconcile Change in Operating Activities to Net Cash Provided by:		
(Increase)/Decrease in:		
Accounts & Notes Receivable		265,133
Units in Inventory		-
Accrued interest receivable		(2,442)
Increase/(Decrease) in:		
Accounts Payable		225,721
Wait List Deposits Due		9,000
Reservation Deposits Due		(72,500)
Upgrade Prepayments		422,719
Accrued Trust Liability		86,382
Accrued Payroll		872
Net Cash Provided by Operating Activities		<u>974,748</u>
Cash Used by Investing Activities:		
Development Costs Expenses		(4,978,369)
Net Cash Used by Investing Activities		<u>(4,978,369)</u>
Cash Provided by Financing Activities:		
Proceeds from Notes Payable		4,991,259
Payments on Note Payable - Related Parties		(66,099)
Net Cash Provided by Financing Activities		<u>4,925,160</u>
Net Increase In Cash		921,539
Beginning Cash		5,183,589
Ending Cash	\$	<u><u>6,105,128</u></u>
Cash Consists of:		
Cash	\$	2,392,767
Restricted Cash		3,712,361
	\$	<u><u>6,105,128</u></u>
Supplemental Disclosures:		
Cash Paid for Interest	\$	<u>103,884</u>

**See Independent Accountants' Compilation Report.**



**EXHIBIT O**

**COMMUNITIES PLANNED, DEVELOPED AND/OR MANAGED  
BY LIFE CARE SERVICES, LLC**

**{ATTACHED}**

**EXHIBIT O**  
**SENIOR LIVING COMMUNITIES MANAGED**  
**BY LIFE CARE SERVICES**  
**AS OF 04/06/2020**

Alabama, Birmingham – Galleria Woods  
Alabama, Hoover – Danberry at Inverness  
Arizona, Chandler – Clarendale of Chandler  
Arizona, Peoria – Sierra Winds  
Arizona, Phoenix – Sagewood  
Arizona, Tempe (Phoenix) – Friendship Village of Tempe  
California, Cupertino – Forum at Rancho San Antonio, The  
California, San Diego – Casa de las Campanas  
California, San Luis Obispo – Villaggio at San Luis Obispo  
California, San Rafael – Aldersly  
California, Santa Rosa – Arbol Residences of Santa Rosa  
Connecticut, Essex – Essex Meadows  
Connecticut, Mystic – StoneRidge  
Connecticut, Redding – Meadow Ridge  
Connecticut, Southbury – Pomperaug Woods  
Florida, Boca Raton – Toby & Leon Cooperman Sinai Residences of Boca Raton  
Florida, Bradenton – Freedom Village of Bradenton  
Florida, Celebration – Windsor at Celebration  
Florida, Clearwater – Regency Oaks  
Florida, Jacksonville – Cypress Village  
Florida, Leesburg – Lake Port Square  
Florida, Naples – The Glenview at Pelican Bay  
Florida, Palm City – Sandhill Cove  
Florida, Port Charlotte – South Port Square  
Florida, Seminole – Freedom Square of Seminole  
Florida, Seminole – Lake Seminole Square  
Florida, Sun City Center – Freedom Plaza  
Florida, The Villages – Freedom Point at The Villages  
Georgia, Columbus – Spring Harbor at Green Island  
Georgia, Evans – Brandon Wilde  
Georgia, Savannah – Marshes of Skidaway Island, The  
Georgia, Stone Mountain – Park Springs  
Hawaii, Honolulu – Hale Ola Kino  
Illinois, Addison – Clarendale of Addison  
Illinois, Algonquin – Clarendale of Algonquin  
Illinois, Chicago – Clare, The  
Illinois, Godfrey – Asbury Village  
Illinois, Lincolnshire – Sedgebrook  
Illinois, Long Grove – Arboria of Long Grove  
Illinois, Mokena – Clarendale of Mokena  
Illinois, Naperville – Monarch Landing  
Illinois, St. Charles – River Glen of St. Charles  
Illinois, Wheaton – Wyndemere  
Indiana, Carmel – Magnolia Springs at Bridgewater  
Indiana, Greenwood (Indianapolis) – Greenwood Village South

Indiana, Indianapolis – Magnolia Springs Southpointe  
 Indiana, Indianapolis – Marquette  
 Indiana, North Manchester – Peabody Retirement Community  
 Indiana, Schererville – Clarendale of Schererville  
 Indiana, Terre Haute – Westminster Village  
 Indiana, West Lafayette – Westminster Village West Lafayette  
 Iowa, Ames – Green Hills Retirement Community  
 Iowa, Cedar Rapids – Cottage Grove Place  
 Kansas, Atchison – Dooley Center  
 Kansas, Bel Aire – Catholic Care Center  
 Kentucky, Florence – Magnolia Springs Florence  
 Kentucky, Lexington – Magnolia Springs Lexington  
 Kentucky, Lexington – Richmond Place Senior Living  
 Kentucky, Louisville – Magnolia Springs East  
 Kentucky, Louisville – Magnolia Springs at Whipps Mill  
 Maryland, Annapolis – Baywoods of Annapolis  
 Maryland, Columbia – Residences at Vantage Point  
 Maryland, Pikesville (Baltimore) – North Oaks  
 Maryland, Timonium – Mercy Ridge  
 Maryland, Towson (Baltimore) – Blakehurst  
 Michigan, Battle Creek – NorthPointe Woods  
 Michigan, Dearborn – Henry Ford Village  
 Michigan, East Lansing – Burcham Hills  
 Michigan, Holland – Freedom Village  
 Michigan, Kalamazoo – Friendship Village  
 Michigan, Waterford – Canterbury-on-the-Lake  
 Minnesota, Champlin – Champlin Shores  
 Minnesota, Plymouth – Trillium Woods  
 Minnesota, Vadnais Heights – Gable Pines  
 Missouri, Higginsville – John Knox Village East  
 Missouri, Kansas City – Kingswood Senior Living Community  
 Missouri, St. Peters – Clarendale of St. Peters  
 Nebraska, Lincoln – Woodlands at Hillcrest, The  
 New Hampshire, Keene – Hillside Village  
 New Jersey, Bridgewater – Delaney of Bridgewater, The  
 New Jersey, Bridgewater – Laurel Circle  
 New Jersey, Lakewood – Harrogate  
 New York, Levittown – Village Green A Carlisle Assisted Living Community  
 New York, Patchogue – Village Walk Patchogue  
 New York, Rye Brook – Broadview Senior Living at Purchase College  
 North Carolina, Chapel Hill – Cedars of Chapel Hill, The  
 North Carolina, Charlotte – Cypress of Charlotte, The  
 North Carolina, Durham – Croasdaile Village  
 North Carolina, Greensboro – WhiteStone  
 North Carolina, Greenville – Cypress Glen Retirement Community  
 North Carolina, Lumberton – Wesley Pines Retirement Community  
 North Carolina, Raleigh – Cypress of Raleigh, The  
 North Carolina, Wilmington – Plantation Village  
 Ohio, Dublin – Friendship Village of Dublin  
 Ohio, Mason – Magnolia Springs Loveland  
 Oklahoma, Bartlesville – Green Country Village

Oregon, Dallas – Dallas Retirement Village  
Oregon, Salem – Capital Manor  
Pennsylvania, Coatesville – Freedom Village at Brandywine  
Pennsylvania, Reading – Heritage of Green Hills, The  
Pennsylvania, Warrington – Solana Doylestown, The  
South Carolina, Greenville – Rolling Green Village  
South Carolina, Hilton Head Island – Bayshore on Hilton Head Island  
South Carolina, Hilton Head Island – Cypress of Hilton Head, The  
South Carolina, Sumter – Covenant Place  
Tennessee, Brentwood – Heritage at Brentwood, The  
Tennessee, Hendersonville – Clarendale at Indian Lake  
Tennessee, Nashville – Clarendale at Bellevue Place  
Texas, Austin – Westminster  
Texas, Bedford – Parkwood Healthcare  
Texas, Bedford – Parkwood Retirement  
Texas, Dallas – Autumn Leaves  
Texas, Dallas – Monticello West  
Texas, Dallas – Signature Pointe  
Texas, Dallas – Walnut Place  
Texas, Georgetown – Delaney at Georgetown Village, The  
Texas, League City – Delaney at South Shore, The  
Texas, Lubbock – Carillon  
Texas, Richmond – Delaney at Parkway Lakes, The  
Texas, Spring – Village at Gleannloch Farms, The  
Texas, Temple – Meridian of Temple  
Texas, The Woodlands – Village at the Woodlands Waterway, The  
Texas, Victoria – Copperfield Village  
Texas, Victoria – Greatwood Homes of Victoria  
Texas, Waco – Delaney at Lake Waco, The  
Utah, Taylorsville – Summit Vista  
Vermont, White River – Village at White River Junction, The  
Virginia, Fairfax – Virginian, The  
Virginia, Gainesville – Heritage Village Assisted Living and Memory Care  
Virginia, Virginia Beach – Atlantic Shores  
Washington, Issaquah – Timber Ridge at Talus  
Wisconsin, Greendale – Harbour Village  
Wisconsin, Mequon – Newcastle Place  
Wisconsin, Milwaukee – Eastcastle Place

**EXHIBIT P**

**THE ROSEWOOD HEALTH CENTER ROOM RATES (2020)**

**{ATTACHED}**

The Rosewood Health Center  
2020 Rates  
Effective 1/1/2020

<u>Type</u>		<u>Non-Member Rate</u>		<u>Member Rate</u> (after 90 free days)	
Semi-Private Suite	AL*	\$262.00	per day	\$125.00	per day
Private Suite	AL*	\$360.00	per day	\$154.00	per day
Private Deluxe Suite	AL*	\$458.00	per day	n/a	
Semi-Private Suite	SNF**	\$316.00	per day	\$197.00	per day
Private Suite	SNF**	\$397.00	per day	\$239.00	per day
Private Deluxe Suite	SNF**	\$556.00	per day	\$330.00	per day
Dementia Care Private Suite		\$397.00	per day	\$239.00	per day

\*AL: Assisted Living

\*\*SNF: Skilled Nursing Care

**The Cypress of Raleigh Non-Member Entrance Fee: \$12,500**

**During the 90 Free Days the following rates apply:**

Semi-Private Room: \$25 per day for 2 additional meals  
\$39 upgrade fee + \$25 per day for meals = \$64 per day  
Private Room: differential  
Private Deluxe Suite: \$122 upgrade fee + \$25 per day for meals = \$147 per day

NOTE: Rates are subject to change

**EXHIBIT Q**

**AVERAGE RATE INCREASES IN THE ROSEWOOD  
HEALTH CENTER ROOM RATES (FROM 2014)**

**{ATTACHED}**

Health Center Room Rates								
Private Room Member Rate Average Increase Per Day (\$)								
		<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Assisted Living		4	4	3	4	12	6	8
Skilled Nursing		5	6	5	7	13	11	16



**EXHIBIT R**

**ANNUAL MONTHLY FEE INCREASE PER UNIT TYPE (FROM 2015)**

**{ATTACHED}**

**Annual Average Monthly Fee Increase (\$)**

	2015	2016	2017	2018	2019	2020					
<b>First Person</b>	95	82	100	92	98	142					
<b>Second Person</b>	36	32	38	37	24	55					
<b>Unit Type</b>	<b>2015 Monthly Fee (\$)</b>	<b>2016 Monthly Fee (\$)</b>	<b>2015-2016 \$ Increase</b>	<b>2017 Monthly Fee (\$)</b>	<b>2016-2017 \$ Increase</b>	<b>2018 Monthly Fee (\$)</b>	<b>2017-2018 \$ Increase</b>	<b>2019 Monthly Fee (\$)</b>	<b>2018-2019 \$ Increase</b>	<b>2020 Monthly Fee (\$)</b>	<b>2019-2020 \$ Increase</b>
Alexander	2,236	2,292	56	2360	68	2425	65	2,484	59	2,582	98
Arbor	2,394	2,454	60	2526	72	2595	69	2,659	64	2,764	105
Ascot	2,672	2,739	67	2820	81	2,898	78	2,969	71	3,086	117
Azalea I	3,250	3,331	81	3429	98	3,523	94	3,610	87	3,753	143
Azalea II	3,250	3,331	81	3429	98	3,523	94	3,610	87	3,753	143
Bayberry I	2,820	2,891	71	2976	85	3,058	82	3,133	75	3,257	124
Bayberry II	2,820	2,891	71	2976	85	3,058	82	3,133	75	3,257	124
Camden	3,076	3,153	77	3246	93	3,335	89	3,417	82	3,552	135
Covington	3,076	3,153	77	3246	93	3,335	89	3,417	82	3,552	135
Dogwood	3,037	3,113	76	3205	92	3,293	88	3,374	81	3,507	133
Gallery I	3,481	3,568	87	3673	105	3,774	101	3,866	92	4,019	153
Gallery II	3,481	3,568	87	3673	105	3,774	101	3,866	92	4,019	153
Indigo I	2,474	2,536	62	2611	75	2,683	72	2,749	66	2,858	109
Indigo II	2,474	2,536	62	2611	75	2,683	72	2,749	66	2,858	109
Osprey I	3,723	3,816	93	3929	113	4,037	108	4,136	99	4,299	163
Osprey III	3,723	3,816	93	3929	113	4,037	108	4,136	99	4,299	163
Park	3,055	3,131	76	3223	92	3,312	89	3,393	81	3,527	134
Rosewalk	3,250	3,331	81	3429	98	3,523	94	3,610	87	3,753	143
Holly	3,797	3,892	95	4007	115	4,117	110	4,218	101	4,385	167
Laurel	3,902	4,000	98	4118	118	4,231	113	4,335	104	4,506	171
Poplar	3,902	4,000	98	4118	118	4,231	113	4,335	104	4,506	171
Magnolia	4,102	4,205	103	4329	124	4,448	119	4,557	109	4,737	180

Ashcroft*						3,058		3,133	75	3,257	124
Bradford I*						3,058		3,133	75	3,257	124
Bradford II*						3,058		3,133	75	3,257	124
Caldwell*						3,335		3,417	82	3,552	135
Danbury*						3,430		3,514	84	3,653	139
Magnolia*						4,448		4,557	109	4,737	180
Newport*						3,523		3,610	87	3,753	143
Prescott*						3,650		3,739	89	3,887	148

These Units are Building D Villas, which were not completed and sold until 2018.

**EXHIBIT S**  
**MEMBERSHIP AGREEMENT**

**{ATTACHED}**



## THE CYPRESS OF RALEIGH MEMBERSHIP AGREEMENT

**THIS AGREEMENT** is executed as of the \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by and between **THE CYPRESS OF RALEIGH, LLC**, a North Carolina limited liability company, whose address is 7101 Creedmoor Road, Suite 142, Raleigh, North Carolina 27613 (the "Company"), **THE CYPRESS OF RALEIGH CLUB, INC.**, a North Carolina non-profit corporation, whose address is 7101 Creedmoor Road, Suite 142, Raleigh, North Carolina 27613 ("The Club") and \_\_\_\_\_, whose address is \_\_\_\_\_ (the "Member").

**WHEREAS**, \_\_\_\_\_ (the "Unit Owner") has entered into a Purchase and Sale Agreement or a Resale Purchase and Sale Agreement, as applicable (the "Purchase and Sale Agreement"), for the purchase of Unit No. \_\_\_\_\_ (the "Unit") of The Cypress of Raleigh, a Continuing Care Retirement Community, located in Raleigh, Wake County, North Carolina ("The Cypress"); and

### **THIS AGREEMENT OUTLINES MEMBERSHIP RIGHTS AND SERVICES**

**WHEREAS**, to become eligible for residency at The Cypress and to acquire all rights of access to the Club Facilities, the Unit Owner or his approved designee, must acquire membership in The Club simultaneously with the purchase of the Unit and must enter into this Agreement, which outlines the membership rights, obligations and services derived from the membership. The intangible contractual rights and obligations conferred upon the Member pursuant to this Agreement are non-transferable and personal to the Member. Membership in The Club is a contractual interest that is separate and distinct from the fee simple real property interest acquired by the Unit Owner in the Unit. The services provided pursuant to this Agreement encompass meal preparation (personalized for the medical and nutritional needs of the Member), personal safety, socialization, transportation, and monitoring of other activities of daily living, and are part of a coordinated system of care and resources to address both medical and non-medical drivers of health outcomes associated with growing older.

**NOW, THEREFORE**, in consideration of the mutual promises contained in this Agreement, the receipt and legal sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

### **DEFINED TERMS**

1. Definitions. The following terms used herein are defined as follows:



a. "The Club" shall mean and refer to a non-profit corporation serving as the entity to carry out the plan of membership as hereinafter set forth.

b. "Club Facilities" shall mean and refer to (i) the Clubhouse, an approximately 42,709 square foot building, including, but not limited to, a community hall, kitchen, dining areas, living room, game room, craft room, reading rooms, exercise areas, pool, limited offices, and areas available for commercial lease; and (ii) the Health Care Facility located on the site of and comprising an integral part of The Cypress.

c. "Company" shall mean and refer to The Cypress of Raleigh, LLC, a North Carolina limited liability company.

d. "Condominium" shall mean and refer to The Cypress of Raleigh as described in the Declaration of Condominium creating same.

e. "The Cypress" shall mean and refer to The Cypress of Raleigh, a Continuing Care Retirement Community consisting of the Club Facilities and two (2) types of living units which include attached and/or detached cottages and villa units, all being located upon property in Raleigh, Wake County, North Carolina.

f. "Health Care Facility" shall mean and refer to the approximately 29,485 square foot building consisting of approximately 40 beds (expandable to 60) (sometimes referred to as "The Rosewood"), and containing licensed nursing care and assistance-in-living facilities located on the site of and comprising an integral part of The Cypress.

g. "Member" shall mean and refer to the second party to this Agreement as hereinabove identified and shall likewise refer, in its generic context, to a person who has acquired a Membership, as hereinafter defined, and is therefore eligible for all rights of access to the Club Facilities.

h. "Membership" shall mean and refer to that certain license or collection of rights, coupled with the corresponding responsibilities and obligations, associated with permanent residency within The Cypress, which is available to persons age sixty-two (62) and over who meet the various requirements set forth in this Membership Agreement.



i. "Membership Fee" shall mean and refer to that certain fee charged for a Membership, as more particularly described in Paragraph 3.

j. "Monthly Payment" shall mean and refer to the payment which covers the cost of the various services provided to Members by The Club, as more particularly described herein (the "Service Fee"), and the monthly contribution to the Condominium (the "Condominium Fee"). In situations where there is a second occupant of the Unit, the Monthly Payment will include a "Second Person Fee". The percentages of the Monthly Payment that are attributable to the Service Fee and the Condominium Fee are set forth in the Notes to Schedule A attached hereto.

k. "Owner" shall mean and refer to a person, firm, corporation, partnership, association, trust or other legal entity which owns a Unit, as hereinafter defined, within the Condominium.

l. "Qualified Appraisal" shall mean and refer to an appraisal conducted by a qualified appraiser agreed upon by the Company and the Unit Owner. In the event the Company and the Unit Owner cannot agree upon the selection of an appraiser, each party shall designate an appraiser and the appraisers so designated shall select a third appraiser; and all three appraisers shall set a value for the Unit in question. In the event there is disagreement as to value among the appraisers, the value shall be set at the greater of (i) the original purchase price of the Unit; or (ii) the average of the three appraisals.

m. "Unit" shall mean and refer to that certain villa or cottage in the Condominium and, when used in its generic sense, denoting any cottage or villa located within The Cypress.

**CYPRESS IS A  
CONTINUING CARE  
RETIREMENT  
COMMUNITY**

2. Statement of Background. The Cypress is a continuing care retirement community located in Raleigh, North Carolina, which offers the opportunity of ownership of real property in a villa or cottage Unit for use by persons age sixty-two (62) and older, accompanied by a Membership which allows the Member access to the Club Facilities. Neither the Company nor the Club has any affiliation with any religious or charitable organizations. The Cypress of Raleigh Owners' Association, Inc. also does not have any affiliation with any religious or charitable organizations.

**ALL CYPRESS  
RESIDENTS MUST BE  
MEMBERS**

3. Required Membership; Membership Fee. All Unit Owners at The Cypress are required, simultaneously with the purchase of their Unit, to purchase a non-transferable Membership for their use or for use by their approved designee (herein referred to as the "Membership"); and the Unit Owner or his/her designee, as applicable, shall be the holder of the



**MEMBERSHIP FEE IS INCLUDED IN PURCHASE PRICE OF UNIT**

Membership. The Membership entitles the Member to use the Club Facilities and gives the Member the right to live in the Health Care Facility when (s)he is no longer capable of independent living, as hereinafter more fully provided. The cost of Membership (herein referred to as the Membership Fee) is equal to ten percent (10%) of the gross purchase price of the Unit, as stated in the Purchase and Sale Agreement, and is payable to the Company at or prior to closing on the purchase of a Unit. The Membership Fee is solely for the Member's personal participation in The Club and does not provide Membership in The Club for any purchaser of Member's Unit or any subsequent user of the Unit. In the event that a second person who is not the designated Member (including any subsequent spouse of the designated Member) resides in the Unit, he or she will be required to apply for Membership in The Club, and an additional Membership Fee may be charged by the Company at the then current rates, in accordance with Paragraph 13 (c) below.

**MEMBERSHIP IS NON-TRANSFERABLE**

4. Membership Non-Transferable. The Membership Fee is personal to the Unit Owner or his/her approved designee, and is non-refundable and non-transferable. If a Unit Owner(s) is the occupant of the Unit, such Unit Owner's Membership will expire when the Unit Owner(s) sells or otherwise disposes of the Unit or ceases to occupy the Unit. Provided however, if a Unit Owner ceases to occupy the Unit and lives in the Health Care Facility, then the Membership will continue and the Member shall continue to be responsible for payment of the Monthly Payment at the applicable Member rate. If a Unit is occupied by a person or persons other than the Unit Owner(s), the provisions of Paragraph 6 hereof shall apply.

**RESALE PRICE OF RESIDENCE WILL INCLUDE NEXT BUYER'S MEMBERSHIP FEE**

5. Resale of Units. If a Unit is resold, the new buyer of the Unit will be assessed a Membership Fee equal to ten percent (10%) of the purchase price of the Unit. The Membership Fee will be separately identified on the settlement statement and shall be paid to the Company at closing, pursuant to the terms of the purchase agreement. Any real estate commission due in connection with the resale of a Unit shall be based upon the purchase price of the real estate only and without regard to the cost of the Membership Fee.

If a Unit Owner transfers ownership or use of his/her Unit by gift, bequest, lease or any other method of conveyance to a family member or any other person(s), the Membership Fee to be paid to the Company shall be based on the gross fair market value of the Unit as determined by a Qualified Appraisal when such transfer occurs. The transferring Member or the proposed new Member shall be solely responsible for the cost of the appraisals.

**WHEN MEMBER IS NOT THE UNIT OWNER**

6. Provisions Applicable When Member is Not the Unit Owner. If a Unit Owner acquires a Unit to be used by someone other than him/herself, the Unit Owner must designate the person(s) who shall use the Membership, which Membership must be acquired at the time the Unit is purchased. The designated users of the Membership must: (a) meet the basic eligibility requirements for Membership in The Cypress; (b) be approved by The Club; and (c) have complied with the provisions of Paragraph 7 hereof regarding assurances with respect to the Monthly Payment. When the designated





person(s) no longer occupies the Unit; and, thus, ceases to use the Membership, the Membership expires. Provided however, if the designated user ceases to occupy the Unit and lives in the Health Care Facility then the Membership continues and the Member and the Unit Owner shall continue to be jointly responsible for payment of the Monthly Payment at the applicable Member rate. Any person(s) who subsequently occupy the Unit, including the Unit Owner, must acquire a Membership for their use prior to occupying the Unit. Since under these circumstances there is no sales price upon which to determine the Membership Fee, the Membership Fee is based on the gross fair market value of the Unit, as determined by a Qualified Appraisal. The transferring Member or the proposed new Member shall be responsible for the cost of the appraisal. The Membership Fee will then be assessed at ten percent (10%) of the Unit's gross fair market value, and must be paid prior to re-occupancy of the Unit. This procedure for change of Member due to circumstances other than a sale of the Unit will be followed with regard to each subsequent Member until there is a re-sale of the Unit, in which event the provisions of Paragraph 5 shall apply.

If the Member is not the Unit Owner, the Member and the Unit Owner will be jointly and severally responsible for the Membership Fee and the Monthly Payment. In addition to executing this Agreement, the Unit Owner will execute an agreement, in a form approved by The Club, personally guaranteeing payment of such obligations. In the event the Unit Owner fails to execute such agreement guaranteeing the payment of such obligations, this Membership Agreement shall act as and be the Unit Owner's personal guarantee for the benefit of the Company, its successor and assigns, guaranteeing the Member's payment of the Membership Fee and each Monthly Payment to the Company, its successors, and assigns.

The provisions of this Paragraph 6 also apply to individuals who qualify for membership and move into a Unit with an existing Member, whether through marriage or other arrangements.

**MONTHLY PAYMENT  
INCLUDES CYPRESS  
SERVICES AND  
CONDOMINIUM FEE**

7. Monthly Payment. All Members shall be responsible for a Monthly Payment which includes the Service Fee and the Condominium Fee as discussed in Paragraph 1.j. hereof. The estimated initial Monthly Payment for Members as of the most recent January is set forth on Schedule "A" attached hereto and incorporated herein by reference. The Service Fee and the Condominium Fee (and the Second Person Fee, where applicable) are the sole components of the Monthly Payment. The percentages of the Monthly Payment that are attributable to the Service Fee and the Condominium Fee are set forth in the Notes to Schedule A attached hereto. Company and Member acknowledge that the current amount of Member's Monthly Payment under this Agreement shall be \$\_\_\_\_\_, subject to annual adjustments as described in the Notes to Schedule A, and further subject to additional charges for any repair and/or maintenance of "custom changes", as set forth in the Declaration of Condominium, and for any optional services requested by Member, in accordance with Paragraphs 8 and 9 hereof.



**MONTHLY PAYMENT TO  
BE ADJUSTED  
ANNUALLY WITHIN  
LIMITS BASED ON  
CONSUMER PRICE  
INDICES**

The Monthly Payment for the first full year (calendar year 2009) will be based upon estimated costs of operations provided by an experienced continuing care operator. The Monthly Payment will thereafter be based on the actual operating costs. After the second full year (calendar year 2010), there will be a cap on future increases in the cost of services and features provided by The Club (i.e. the Service Fee). With respect to services provided by The Club, the formula for determining the maximum increase permitted for that portion of the Monthly Payment will be based on the higher of: (a) the annual percentage increase of the Consumer Price Index, U.S. City Average, All Items (1967-100) (hereinafter "C.P.I.") issued by the U.S. City Average, Labor Statistics in its monthly report entitled "The Consumer Price Index, U.S. City Average and Selected Areas," or (b) the annual percentage increase of the Medical Care Component of the C.P.I. An additional three percent (3%) may be added to the higher of the annual percentages. This formula will go into effect after the second full year of operations. The Member shall receive sixty (60) days advance notice of any Monthly Payment adjustment.

As mentioned above, one component of the Monthly Payment is the monthly Condominium Fee to the Condominium for the Unit owned or occupied by the Member. The Condominium Fee will be based on actual Condominium operating costs (together with a reserve for replacements), as shown in the annual Condominium operating budget formulated and adopted in accordance with the Bylaws of the Condominium, and assessed based on the percentage of ownership interest in the Condominium's common elements. The Condominium Fee is a separate cost from the operation of The Club, but is included in the Monthly Payment as a convenience to the Members.

The annual gross operating costs include a corporate overhead payment to the Company which will be ten percent (10%) of the actual total operating and administrative costs of The Club and the Condominium.

**OPTIONAL SERVICES  
AVAILABLE FOR  
ADDITIONAL COST**

The Monthly Payment covers the cost of the services and features outlined herein which are available to all Members. Members will be required to pay additional charges for any repair and/or maintenance of "custom changes", as set forth in the Declaration of Condominium, and for any optional services requested by them, in accordance with Paragraphs 8 and 9 hereof. The Monthly Payment will be payable on the tenth day of each month, in advance; and additional charges will be payable on the tenth day of each month for the optional services obtained during the preceding month. The Member's responsibility for the Monthly Payment shall commence on the earlier of: (a) actual occupancy of the Unit, or (b) the date on which the Unit will be available for occupancy, as specified in a notice thereof delivered to the Member at least fourteen (14) days prior to the specified date of availability.

**SERVICES INCLUDED IN  
MONTHLY PAYMENT**

The following services and features are included in the Monthly Payment:



## CLUB ACTIVITIES

a. Club Activities. A full-time Director of Community Life Services is employed by The Club who plans and organizes a variety of events tailored to the special interests of the Members. These programs are focused on wellness to meet the intellectual, physical, emotional, social and spiritual needs of the Members. Activities include cultural excursions, lecture series, dance and art classes, card games, craft activities, tournaments, and shopping. A full-time Wellness Coordinator is employed who plans and organizes fitness and wellness programs such as Tai-Chi, yoga, aquatic, aerobic and strength and balance classes.

## URGENT CALL SYSTEM

b. Urgent Call System. All Cottages and Villas have a two-way, telephonic urgent call system. The purpose of this system is to summon help in an emergency. The urgent call system is connected to an indicator panel in the Health Care Facility, which identifies the Cottage or Villa from which the signal was initiated. Licensed nursing personnel with emergency training will respond to calls from the urgent call system and will summon any other appropriate emergency personnel that may be required.

## MONTHLY FOOD SERVICE ALLOWANCE

c. Monthly Food Service Allowance. As part of residency at The Cypress of Raleigh, Members receive meal services as described in this section. To assist in tracking meal usage and monitoring the health of Members, Members receive monthly meal points, which may be used for food and beverage selections from a varied menu of favorites, seasonal and daily specials, giving the Members optimal choice and flexibility for their dining experience. A Member's meal points are designed to be allocated in the Member's discretion over the course of each month and are sufficient for one meal per day. With four distinct dining venues, the Members can choose to use meal points on dining experiences in the formal or main dining venues or on quick grab-and-go menu items from the buffet-style bistro and bar menus. Home delivery and take-out meals are also available. A registered dietician is available for consultation. A Member's monthly meal points may not be used to pay for guest meals or for meals for other Members. Charges for guest meals will be published by The Club and subject to change without prior notice based on variable food and labor costs. A Member's meal point allowance is not equivalent to dollars, cannot be exchanged for dollars, and does not reflect the actual cost of food and labor utilized for the delivery of food service as part of a Member's residency at The Cypress of Raleigh. Unused meal points will not carry over to the next month and are not refundable or redeemable for other products or services. Additional meal points cannot be purchased. Any additional meals that may be requested by a Member in excess of their monthly meal points will be charged on a per-item basis to the Member at a dollar amount determined by The Cypress of Raleigh. To the extent required by law, appropriate sales and use taxes will be charged to Members and collected on sales of alcohol, guest meals, and if prescribed by law, meals served in excess of the monthly point total.



Healthy eating and nutrition are central to a Member's well-being and are interrelated with health, personal safety, socialization, transportation and monitoring other activities of daily living that may not be apparent absent daily use of Cypress dining in the presence of trained staff. The excellence of The Cypress of Raleigh's dining program supports the coordinated system of care provided by The Club to address both medical and non-medical drivers of health outcomes associated with growing older.

### **PRIVATE DINING ROOM**

d. Private Dining Room. A private dining room is available for use by Members and their guests for special family or social occasions. Special meals and wait staff may be available, upon request, for an additional charge. Advance reservations with the Director of Food & Beverage or Dining Room Manager are required. Standing reservations for groups and/or clubs are not available

### **WEEKLY FLAT LAUNDRY**

e. Weekly Flat Laundry. Members receive weekly flat laundry service, which includes sheets, pillow cases, towels, face cloths and dish cloths. The flat laundry will be washed, dried, folded and returned on a weekly basis at the next scheduled housekeeping visit. The Club reserves the right to charge a reasonable fee for additional services to those Members who utilize the flat laundry service in excess of typical Member usage.

### **WEEKLY HOUSEKEEPING SERVICES**

f. Weekly Housekeeping Services. Members will receive weekly housekeeping services. These services include kitchen and bathroom cleaning, surface cleaning, dusting, and vacuuming. Periodically, window washing, carpet cleaning and other additional housekeeping will be performed.

### **SCHEDULED MAINTENANCE OF COTTAGE OR VILLA AND COMMON AREA**

g. Scheduled Maintenance of Cottage or Villa and Common Area: Maintenance, as more particularly described in the Declaration of Condominium, will be provided for each Cottage and Villa, and The Cypress common areas. If a Member needs maintenance service, the Member may submit a request with the Facilities Coordinator or concierge.

### **GROUNDS CARE AND GARDENING**

h. Grounds Care and Gardening. The Club's lawns, trees and shrubs will be maintained, as well as the interior and exterior of the club house, the parking areas, walks and exercise trails. In addition, gardening areas are available for Members' use and will be under the direction of the Director of Community Life Services on a first-come, first-serve basis.



## **CERTAIN UTILITIES**

i. Certain Utilities. Electric, gas (if applicable), water, sewer, and basic cable services will be included in the Monthly Payment for owners of villa Units. Owners of cottage Units must pay a separate charge for electric and gas.

## **SCHEDULED TRANSPORTATION**

j. Scheduled Transportation. Scheduled transportation is available for The Cypress Members. Scheduled trips include nearby grocery stores, banks, and shopping centers. Special trips may be periodically scheduled at an additional cost to each participant.

## **CAMPUS SECURITY**

k. Campus Security. The Cypress is a gated community with security staff personnel onsite twenty-four (24) hours a day. Additionally, security cameras and a card access only entrance into the Villa Buildings and Health Care Facility are utilized to enhance campus security.

## **MAIL DELIVERY**

l. Mail Delivery. Once each business day, the U.S. Postal Service collects and distributes mail to each Member's personal mailbox. At the request of a Member, mail can be forwarded during the Member's absence from his/her Villa or Cottage.

## **ABSENCE CREDIT**

m. Absence Credit. If a Member provides prior written notice to the Club that the Unit will be unoccupied for a period of not less than fourteen (14) consecutive days, the Member may be entitled to an "absence credit" in an amount determined by the Club to be applied against the Monthly Payment.

## **HEALTH CARE FACILITY**

n. Health Care Facility. The Cypress has secured a license from the North Carolina Department of Health & Human Services, Division of Facility Services to operate thirty-six (36) skilled nursing beds and four (4) assistance-in-living adult home beds. The skilled nursing care facility and the assistance-in-living facility are collectively referred to as the Health Care Facility. For a period of ninety (90) lifetime cumulative days, each Member will be entitled to receive nursing care in the nursing care facility in a semi-private room in the Health Care Facility, without extra charge, at the current Monthly Payment. During this ninety (90) day period, the Member will continue to pay his/her Monthly Payment, plus the cost of two (2) extra meals per day, nursing supply charges, and those costs outlined in Paragraph 9 hereof. A private room may be available for an additional charge. If the Member needs further care after the ninety (90) cumulative lifetime days of care, the Member will pay, in addition to the Monthly Payment, the applicable Member rate for such care. This rate will include meals and a semi-private room (at the request of a Member, a private room will be provided on an "as available" basis for an additional charge).



If two (2) Members occupy a Unit and one (1) of them becomes a permanent resident of the Health Care Facility, then the Monthly Payment for the Member continuing to occupy the Unit will be reduced to the single occupancy rate. The Member residing in the Health Care Facility will pay the applicable Member rate.

In the unlikely event that accommodations are not immediately available in the Health Care Facility, the Member agrees to relocate to another health care facility with which the Medical Director of The Cypress arranges to provide such care until accommodations at the Health Care Facility are available. The Club shall be responsible for any increased charge associated with the alternate health care accommodations.

It should be noted that, due to the licensing requirements for the Health Care Facility, the facility cannot provide treatment for all conditions (e.g., no psychiatric care will be available). In addition, occupancy at the Health Care Facility may be terminated in accordance with Paragraph 12 hereof.

In no event will a Member be admitted to or treated in the Health Care Facility if such Member requires care that cannot lawfully be provided at the Health Care Facility and/or the Medical Director determines in his or her reasonable opinion that such Member's mental or physical condition is such that his or her admittance or treatment at the Health Care Facility would present an unreasonable risk of injury or detriment to that Member or any other Member receiving treatment or residing at the Health Care Facility, including but not limited to, a situation in which the Member seeking admittance or treatment at the Health Care Facility has been or is suspected to have been infected with a communicable disease for which there is no readily available cure and/or vaccine.

The operation of the Health Care Facility shall be subject to the applicable regulations and licensing standards of the State of North Carolina, including the N.C. Department of Insurance and the North Carolina Department of Human Resources.

## **HEALTH CENTER ACTIVITIES**

o. Health Center Activities. An activities director is responsible for coordinating and directing the arts, crafts, social and recreational activities for the Members in the Health Care Facility. The focus of these activities will be restorative care by enhancing the quality of life through physical, emotional, psychological and spiritual programs while catering to the individual needs of each Member.



## **MEMBER COMMITTEES**

p. Member Committees. Member committees hold regularly scheduled meetings to promote communication between the Members and The Cypress' administration. The six (6) Member committees are finance, buildings and grounds, food and beverage, health and safety, library, and social and activities.

## **MONTHLY BILLING SERVICE**

q. Monthly Billing Service. Monthly statements are placed in each Member's mailbox or other appropriate location on or before the fifth (5th) day of the month. Each monthly statement must be paid within ten (10) days after the delivery date of the statement. Payment may be made at the accounting office, accounting drop box or by mail. Payments made after the ten (10) day period may be subject to a late fee. A staggered billing system may be implemented in the discretion of the Club.

## **UNCOVERED SURFACE PARKING FOR MEMBERS AND GUESTS**

r. Uncovered Surface Parking for Members and Guests. The Cypress has ample surface parking for both the Members and their invited guests. In addition, all Cottages have a two-car garage. Limited assigned covered parking and garage parking is available to Villa Members at an extra charge.

## **INTERRUPTION OR DELAY OF SERVICES**

s. Interruption or Delay of Services. If the Club is delayed, hindered, or prevented from delivering or performing any of the services described in the Membership Agreement by reason of any event or circumstance, whether or not foreseeable, not under The Club's reasonable control, including without limitation any governmental restriction, scarcity of labor or materials, strike, riot, civil disorder, fire, natural disaster, extreme weather event, disease, medical epidemics or outbreaks, curtailment of transportation facilities or infrastructure, and/or threats or acts of terrorism, the delivery or performance of such services shall be excused for the period of delay, and the delivery or performance of any such services shall be extended as necessary to complete performance after the delay period.

## **ADDITIONAL SERVICES NOT INCLUDED IN MONTHLY PAYMENT**

8. Additional Amenities and Services not Included in Monthly Payment. Additional amenities and services which will be available to Members at an additional charge include guest meals, additional meals, valet service, additional housekeeping, beauty parlor, barber shop, personal transportation, and health care services in the Member's Unit.

## **ADDITIONAL HEALTH SERVICES NOT INCLUDED IN MONTHLY PAYMENT**

9. Additional Health Services not Included in Monthly Payment. Special health services and supplies, which may include physical therapy, pharmacy, special duty nurses, personal hygiene, personal laundry, equipment rental, home health care and other services upon special arrangement, will be available at an extra charge. These health services and supplies are not included in the charges for care outlined in Paragraph 7 above.



**HEALTH CENTER HAS  
MEDICAL DIRECTOR**

A physician in good standing with the Raleigh medical community will be designated as the Medical Director of The Club (herein referred to as "Medical Director"). The Medical Director, although not an employee of The Club, will be on emergency call for Members. For matters other than emergencies, the Member may engage the services of the Medical Director or any other physician, at the Member's expense. The Club will not be responsible for the cost of medical treatment by the Medical Director, or for the cost of medicine, drugs, prescribed therapy and similar treatment.

**MEMBER MUST BE  
CAPABLE OF  
INDEPENDENT LIVING  
TO REMAIN IN  
RESIDENCE**

10. Duration of Member's Right to Occupy the Unit. The Member may occupy his/her Unit for as long as he/she (or both) is capable of independent living, and so long as independent living is practical and safe. If, in the opinion of either the Member's attending physician, the Medical Director or The Club, the Member's physical or mental health requires that the Member receive nursing care, the Member agrees to receive the necessary in home assistance through the provision of additional health services described herein, or relocate to the Health Care Facility or to some other health facility of the Member's choice.

**MEMBER'S VOLUNTARY  
TERMINATION RIGHTS**

11. Member's Termination Rights. The Member (including both of them if there are two (2) Members) may terminate this Agreement at any time for any reason by giving the Company thirty (30) days prior written notice signed by the Member (or both of them if there are two (2) Members). The Member's obligations hereunder shall continue until the Unit is transferred, sold or otherwise occupied by a successor Member, and the new Member assumes the obligation of the Monthly Payment. Transfer under the last will and testament of a deceased Member, other than to his/her estate, is a conveyance upon which a new Membership Fee must be paid if the devisee or beneficiary elects to become a Member of The Club. In the event of death, the estate of the Member will retain all Membership obligations provided herein until the deceased Member's Unit is transferred, sold or otherwise occupied by a successor Member, and the new Member assumes the obligation of the Monthly Payment. As previously stated, if the Member is not also the Unit Owner, the Unit Owner and the deceased Member's estate shall be jointly and severally responsible for obligations hereunder.

12. Termination Rights of the Company and/or The Club.

**THE COMPANY AND/OR  
THE CLUB MAY  
TERMINATE  
MEMBERSHIP FOR:**

a. The Company and/or The Club shall not terminate this Agreement except for just cause. The Member agrees that he/she will be obligated to promptly sell his/her Unit if the Company and/or The Club terminates this Agreement for just cause. Just cause includes, but is not limited to, the following:





**FAILURE TO PAY  
CHARGES DUE**

i. except as set forth below, failure to pay to The Club any charges due hereunder;

**DETRIMENTAL  
DISTURBANCES**

ii. creation by the Member of a disturbance within The Cypress which, in the judgment of The Club or the Company, is detrimental to the health, safety, comfort and peaceful lodging of the other Members; e.g., loud noises, harassing other residents;

**INFECTION WITH  
DANGEROUS OR  
CONTAGIOUS DISEASE,  
MENTAL INSTABILITY**

iii. the Member becomes infected with a dangerous and contagious disease or becomes mentally or emotionally disturbed, and the Medical Director determines that the Member's condition is detrimental to the health, safety or welfare of the Member, other residents or the staff of The Cypress, and the Member's condition cannot be treated in the Health Care Facility; or

**MEMBER REFUSES  
MEDICAL TREATMENT**

iv. the Member refuses medical treatment or health care services which, in the opinion of the attending physician or the Medical Director, is medically required for the Member's health or the health or safety of other Members or staff.

**CYPRESS POLICY NOT  
TO TERMINATE SOLELY  
BY REASON OF  
INABILITY TO PAY  
MONTHLY CHARGES**

b. Because it is and shall continue to be The Club's policy to endeavor to avoid termination of a Member's Membership Agreement solely by reason of his/her financial inability to pay the total Monthly Payment and other charges, the Member shall be permitted to remain at The Cypress at a reduced monthly charge based on the Member's ability to pay for so long as: (i) he/she establishes facts to justify deferral of the usual charges; (ii) he/she establishes the ability to secure repayment of such deferred charges; and (iii) the determination is made that the deferral of such charges can, in the sole discretion of The Club, be granted without impairing the ability of The Club to operate on a sound financial basis. The loss of revenue to The Club from any such deferral of charges will be borne by The Club until repaid as provided in this Paragraph 12.

**IF THE MEMBER HAS  
FINANCIAL  
DIFFICULTIES**

c. If the Member encounters financial difficulties making it impossible for him/her to pay the Monthly Payment and other applicable charges, then:



i. the Member may remain until any applicable Title XVIII Medicare benefits and/or third party insurance benefits received by The Club on his/her behalf have been exhausted. The Member shall continue to have the obligation to pay the amount of the Monthly Payment and other charges which are not covered by his/her Medicare or insurance benefits.

ii. the Member shall in any case be permitted to remain at The Cypress after the date of failure to pay until such time as other arrangements can be made for the Member's care; and

any charges deferred, as herein contemplated, will be offset by The Club against the proceeds from the sale of the Member's Unit when such sale occurs, and The Club shall have a first priority claim against such proceeds, subject only to any existing first mortgage lien and the lien of the Condominium for Condominium assessments, as hereafter provided. The Member agrees that his/her financial obligations to The Club constitute a debt which must be repaid. The Member agrees to execute a note and a mortgage on his/her Unit, and any other loan documents required by The Club as security for the repayment of this debt. If the Member is not the Unit Owner, then the Member shall cause the Unit Owner to give a mortgage on the Unit occupied by the Member. It is understood and acknowledged that the lien of such mortgage shall be subordinate to the lien of the Condominium for Condominium assessments and any such mortgage must expressly so provide. The Note shall bear interest at the average prime rate as published in the Wall Street Journal. Notwithstanding the above, the provisions of Paragraphs 12(b) and (c) shall be rendered inoperative and inapplicable if the Member has impaired his/her ability to meet his/her financial obligations hereunder by making unapproved gifts or other transfers.

**POLICY NOT APPLICABLE IN CASES WHERE MEMBER MAKES UNAPPROVED GIFTS OR OTHER TRANSFERS**

**CYPRESS WILL GIVE 30 DAYS NOTICE AND MEMBER HAS 30 DAYS TO CORRECT PROBLEM**

d. Prior to any termination of the Agreement by The Club, The Club will give the Member written notice of the reasons for termination, and the Member will have thirty (30) days thereafter within which to correct the problem. If the problem is corrected within such time period, this Agreement will not be terminated. If the problem is not corrected within such time period, this Agreement will be terminated and the Member must promptly leave The Cypress. Notwithstanding such termination, the Member will continue to pay his/her Monthly Payment and other applicable charges, until his/her Unit has been sold, transferred or otherwise conveyed to a new Member who assumes all obligations hereunder.

**MEDICAL DIRECTOR MAY WAIVE NOTICE**

e. If the Medical Director determines that either the giving of notice or the lapse of time specified above might be detrimental to the



**PERIOD IF LAPSE OF  
TIME DETRIMENTAL TO  
MEMBER, OTHER  
RESIDENTS OR STAFF**

Member or other residents or staff of The Cypress, then such notice and/or waiting period, prior to termination and relocation to an appropriate hospital or other facility, shall not be required and termination of this Agreement shall be deemed to have occurred when the Member is relocated. In such event, The Club is expressly authorized to transfer the Member to an appropriate hospital or other facility and will promptly notify the Member's representative or his/her attending physician. However, the Member will retain all ownership rights and obligations in the Unit until it is sold, transferred or otherwise conveyed to a new Owner who assumes the rights and obligations of membership with respect to the Unit and the Monthly Payment. If the Member is not the Unit Owner, then the Member and the Unit Owner shall be jointly and severally responsible for all such obligations until a new Member assumes all such rights and obligations of membership with respect to the Unit and the Monthly Payment.

13. Miscellaneous Provisions with Respect to the Member's Unit.

**UNITS ARE FOR  
RESIDENTIAL  
PURPOSES ONLY**

a. All Units are for living purposes only and shall not be used for carrying on any business or profession, nor in any manner in violation of applicable covenants, restrictions, laws and regulations.

**PETS ARE PERMITTED  
WITH STRICT  
GUIDELINES**

b. Subject to the prior written consent of the Executive Director, small pets may be permitted in the Units. Pets must be on a leash at all times. Pets must be healthy, have current shots and rabies immunization, and be free of fleas and other parasites. The Member owning the pet is responsible for any costs expended by The Club for the failure of the Member to adhere to The Cypress pet policy, including, but not limited to, the cost of disinfection, cleaning and fumigation. Pets are prohibited in the common facilities. Any Member having a pet understands and agrees that the pet will be removed from the Unit if the pet becomes a nuisance to other Members, as determined by the Executive Director in his or her sole discretion. The Club will provide the Member with fourteen (14) days written notice that the pet must be removed from the Unit.

**OCCUPANCY OF UNITS**

c. Except as hereinafter provided, no person other than the Member (or both of them) may occupy the Unit without the express written approval of The Club. If a person who is not a party to this Agreement (including any subsequent spouse of the Member) is accepted for residency under this Agreement after the date hereof (such acceptance to be in accordance with admission policies governing all other admissions), an additional Membership Fee and an additional Monthly Payment will be charged to the new resident of the Unit, in accordance with Paragraph 6 above. The amount of the Membership Fee will be based on the gross fair market value of the Unit at the time the new Member is accepted, as determined by a Qualified Appraisal. The new Member will pay the applicable Monthly Payment each



month he/she occupies the Unit. If, however, the new prospective resident does not meet the residency requirements for the Unit, such person will not be permitted to occupy the Unit for more than thirty (30) days (except with the express written approval of The Club). If such person does not vacate the Unit after the thirty (30) day period, this Agreement may be terminated in accordance with the terms hereof.

**CYPRESS MAY MODIFY UNITS TO MEET LEGAL REQUIREMENTS**

d. The Club or the Company may modify a Unit in The Cypress at any time to meet the requirements of applicable law. The Member agrees to temporarily relocate to other facilities provided by The Club, at The Club's cost, if it becomes necessary to vacate his/her Unit in order to make such modifications.

**MEMBER MUST OBTAIN INSURANCE FOR PERSONAL PROPERTY**

e. Each Member must obtain hazard and liability insurance covering the Member's personal property located within, and the interior of, his/her Unit. A Member's personal property, furniture, clothing, jewelry, etc. located within the Unit may not interfere with the health, safety and general welfare of other Members.

**FUTURE PURCHASERS MUST MEET CYPRESS RESIDENCY REQUIREMENTS**

14. Resale. The Member acknowledges that the resale of a Unit in The Cypress must be made to a person(s) who either meets The Cypress Membership and residency requirements or who is purchasing a Unit for or on behalf of a person(s) who meets The Cypress Membership and residency requirements. The Company shall determine whether a person(s) meets such requirements. The Member also acknowledges and agrees that, if he/she moves out of his/her Unit prior to its sale, the Member will be responsible for paying the Monthly Payment until the Unit is sold, transferred or otherwise conveyed to a new Owner who assumes the ownership rights and obligations of membership with respect to the Unit and the Monthly Payment.

**ASSOCIATE MEMBERSHIPS**

15. Associate Memberships. The Company anticipates that there will be a large demand for membership in The Club. Accordingly, the Company may, in its sole discretion, accept associate members who are not residents of The Cypress, but will have secondary priority access to the Club Facilities.

**DISAGREEMENT SETTLED BY ARBITRATION**

16. Arbitration. It is the parties' intent that any controversy arising under, out of, in connection with, or relating to, this Agreement and any amendment thereto, or breach thereof, shall be determined and settled by arbitration, in accordance with the rules of the American Arbitration Association. Any decision rendered therein shall be final and binding on each and all of the parties thereto and their personal representatives, and judgment may be entered on any such decision in any court having jurisdiction. Notwithstanding the foregoing, this arbitration provision will not be mandatory for any effort by The Club and/or the Company to collect Monthly Payments, Membership Fees, or other charges, nor with respect to decisions by the Company with respect to the admission of new Members.



17. Amendments.

**AMENDMENTS TO AGREEMENT**

a. Except as expressly provided herein, no amendment or modification to this Agreement shall be made.

**MUST BE IN WRITING**

b. No Amendment to this Agreement shall be valid unless in writing and signed by the Member (or both of them if there are two) and the Company, or otherwise approved and made effective in the manner set forth herein. Changes in the Monthly Payment and the Membership Fee are outside the scope of the amendment process and may only be made by the Company, pursuant to the terms and conditions provided herein.

**MAY BE AMENDED WITH 51% VOTE OF MEMBERS AND APPROVED BY THE COMPANY**

c. This Agreement may be amended only by written approval of not less than fifty-one percent (51%) of the Members, and the Company; provided, however, that no such amendment shall:

- i. reduce the aforesaid percentage of Members which is required to consent to any such amendment; or
- ii. permit the preference or priority of any Member over any other Member without the consent of each Member.

18. Cancellation Rights.

**MEMBER HAS 30 DAYS FROM DATE OF EXECUTION TO RESCIND THIS AGREEMENT**

a. This Agreement may be rescinded by the Member within thirty (30) days following the later of the execution of this Agreement or the receipt of a disclosure statement prepared in accordance with North Carolina law; and the Member will not be required to close on the purchase of his/her Unit prior to the expiration of the thirty (30) day period.

**AUTOMATIC TERMINATION OF AGREEMENT**

b. If a Member dies before closing on the purchase of a Unit or is unable to occupy a Unit due to illness, injury, or incapacity that renders him/her ineligible for Membership, then this Agreement will automatically be terminated and all deposits returned to the Member or his/her estate. If there is more than one purchaser of the Unit, the Agreement will continue to be binding on the surviving or eligible purchaser. The Agreement will also be automatically terminated if a Member sells his/her Unit and does not reside in the Unit or the Health Care Facility.



**MEMBER (OR MEMBER'S REPRESENTATIVE) MAY BE ENTITLED TO REFUND UPON RESCISSION OR CANCELLATION**

c. If the Agreement is rescinded or canceled pursuant to this Paragraph 18, the Member or his/her legal representative shall receive a refund of all money or property transferred to the Company, less (i) non-standard costs specifically incurred by the Company at the request of the Member, as described in any contract amendment signed by the Member or the Owner; (ii) any non-refundable fees or costs specified and described herein; and (iii) a reasonable service charge not to exceed the greater of one thousand dollars (\$1,000.00) or two percent (2%) of the Membership Fee.

19. Miscellaneous Legal Provisions.

**NORTH CAROLINA LAW GOVERNS**

a. This Agreement will be interpreted in accordance with the laws of the State of North Carolina.

**NORTH CAROLINA INSURANCE LAW REGARDING CONTINUING CARE RETIREMENT COMMUNITIES CONTROLS**

b. The purchase, sale and ownership of the Unit and membership in the Club are subject to the provisions of the North Carolina Condominium Act (North Carolina General Statutes Chapter 47C) and the North Carolina Insurance Law regarding Continuing Care Retirement Communities (North Carolina General Statutes Chapter 58, Article 64). North Carolina also has a law prohibiting transfer fees (North Carolina General Statutes Chapter 39A). In the event of a conflict among these laws, the Member, by execution of this Agreement, evidences the Member's acknowledgement and agreement that the North Carolina Insurance Law regarding Continuing Care Retirement Communities shall control, including specifically North Carolina General Statutes 58-64-85(b) which provides:

(b) Facilities and providers licensed under this Article that also are subject to the provisions of the North Carolina Condominium Act under Chapter 47C of the General Statutes shall not be subject to the provisions of Chapter 39A of the General Statutes, provided that the facility's declaration of condominium does not require the payment of any fee or charge not otherwise provided for in a resident's contract for continuing care, or other separate contract for the provisions of membership or services.

c. The invalidity of any restriction, condition or other provision of this Agreement, or any part of the same, shall not impair or affect in any way the validity or enforceability of the remainder of this Agreement.

**AGENTS OF THE CYPRESS NOT PERSONALLY LIABLE**

d. This Agreement has been executed on behalf of the Company by its duly authorized agent, and no officer, director, agent or employee of the Company shall have any personal liability hereunder to the Member under any circumstances.



**IF MORE THAN ONE MEMBER, OBLIGATIONS ARE JOINT AND SEVERAL**

e. When more than one Member occupies a Unit, the rights and obligations of such Members are joint and several, except as the context otherwise requires.

f. This Agreement is binding upon and shall inure to the benefit of the heirs, legal representatives, successors and assigns of the parties. The rights of Member pursuant to this Agreement may not be assigned or transferred. Any attempt by Member to assign this Agreement may be deemed a default of Member, and neither the Company nor The Club shall be bound by any such assignment.

**MEMBER REPRESENTS HE/SHE IS CAPABLE OF INDEPENDENT LIVING AND HAS SUFFICIENT ASSETS AND INCOME FOR PAYMENT OF MEMBERSHIP OBLIGATIONS**

By executing this Agreement, the Member represents and warrants that he/she is capable of independent living, with or without reasonable accommodation or modification, and has assets and monthly income which have been represented to The Cypress in writing through a preliminary application which are sufficient, under foreseeable circumstances and after provision for payment of the Member's obligations under this Agreement, to meet his/her ordinary and customary living expenses after assuming Membership and occupancy. The Member further warrants that he/she will continue to carry the applicable Title XVIII Medicare benefits and Medicare Supplement and/or third party insurance policies listed on the preliminary application and that all written representations made with respect to such matters by him/her or on his/her behalf to the Company are true and correct.

**MEMBER AGREES TO EXECUTE A POWER OF ATTORNEY**

d. Durable Power of Attorney. Each Member agrees to execute and deliver to The Club, at or before assuming residency in The Cypress, a Durable Power of Attorney, in a form acceptable to The Club, naming a person of Member's choice to act on Member's behalf in the capacity of attorney-in-fact in the event it shall become necessary that a third party representative act on behalf of the Member. The Durable Power of Attorney shall comply with all applicable laws, and grant the power and authority to make financial decisions for the Member. The Durable Power of Attorney shall not be affected by the physical disability or mental incompetence of the Member. Each Member shall keep the Durable Power of Attorney in full force and effect throughout the term of this Agreement. The attorney-in-fact, trustee or other representative named in the Durable Power of Attorney shall not be a person employed by The Club, the Company, The Condominium or any other entity engaged in the management of The Cypress. The Durable Power of Attorney must name a successor attorney-in-fact.



**MEMBER  
ACKNOWLEDGES  
RECEIPT OF ALL  
DOCUMENTS AND  
EXHIBITS**

20. Acknowledgment and Receipt of Documents. The Member hereby certifies that he/she has received a printed copy of this Agreement, a copy of the Declaration of Condominium establishing The Cypress of Raleigh Condominium, the Public Offering Statement and all Exhibits thereto, the Bylaws of The Cypress of Raleigh Condominium, the current Cypress Disclosure Statement and the Purchase Process worksheet, which sets forth all cost components of the Monthly Payment.

**MEMBER  
ACKNOWLEDGES THIS  
IS A CONTRACT FOR  
PERSONAL CONTINUING  
CARE SERVICES**

21. Personal Services Contract. The Member hereby acknowledges that this Agreement is a non-transferable contract for personal continuing care services subject to the provisions of North Carolina General Statutes Chapter 58, Article 64. The Member further acknowledges that the obligations set forth herein are contractual in nature and that this Agreement does not create an estate or interest in real property.

**COUNTERPARTS;  
ELECTRONIC  
SIGNATURES**

22. Counterparts; Electronic Signatures. This Agreement may be executed in one or more counterparts or counterpart signature pages attached to one copy of this Agreement, each of which shall constitute an original and all of which taken together shall constitute one agreement. Documents executed, scanned (in .PDF or similar reprographic format), and/or executed (and, as appropriate, witnessed and/or notarized) electronically using electronic signature software (e.g., DocuSign or similar software), or similar methods (each a method of "Electronic Execution") and transmitted electronically shall be deemed original signatures for purposes of this Agreement and all matters related thereto, with such Electronic Execution having the same legal and binding effect as original signatures. The parties hereto agree that this Agreement may be accepted, executed and/or agreed to through the use of an electronic signature in accordance with the Electronic Signatures in Global and National Commerce Act (E-Sign Act), Title 15, United States Code, Sections 7001 et seq., the Uniform Electronic Transaction Act (UETA) and any applicable state law. Any document accepted, executed or agreed to in conformity with such laws will be binding on all parties the same as if it were physically executed. The parties (a) consent to the Electronic Execution of the Agreement and the use of electronic signatures, (b) intend to be bound by the signatures on any document delivered via Electronic Execution; (c) are aware that the other party(ies) will rely on such Electronic Execution and electronic signatures; and (d) waive any defenses to the enforcement of the terms of this Agreement based on Electronic Execution or electronic signatures.

(The remainder of this page is intentionally left blank. The next page is the signature page.)





**SIGNED and SEALED** by Member(s) in duplicate originals as of the day and year first above written.

SIGNED IN THE PRESENCE OF:

"MEMBER(S)"

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

“UNIT OWNER” (if different from Member)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

SIGNED IN THE PRESENCE OF:

"COMPANY"  
**THE CYPRESS OF RALEIGH, LLC,**  
a North Carolina limited liability company

By: **THE CYPRESS MANAGEMENT GROUP, LLC,** its  
Manager

\_\_\_\_\_

By: \_\_\_\_\_

Its:

\_\_\_\_\_

Attest: \_\_\_\_\_

Its:

SIGNED IN THE PRESENCE OF:

"CLUB"  
**THE CYPRESS OF RALEIGH CLUB,**  
**INC.,** a North Carolina non-profit corporation

By: \_\_\_\_\_

Its:

\_\_\_\_\_

Attest: \_\_\_\_\_

Its:

Villa Type: \_\_\_\_\_

Villa Number: \_\_\_\_\_

Cottage Type: \_\_\_\_\_

Cottage Number: \_\_\_\_\_



**SCHEDULE A**

See attached list of Prices, Membership Fees and Monthly Fees.

**EXHIBIT T**

**RESERVATION AGREEMENT (WITH CONVERSION  
TO PURCHASE AND SALE AGREEMENT)**

**{ATTACHED}**

**PLEASE NOTE:** As discussed on page 32 of this Disclosure Statement, we have attached hereto (i) a Reservation Agreement (with conversion to Purchase and Sale Agreement) and (ii) an Addendum Conversion to Purchase and Sale Agreement each substantially in the form that will be used for pre-construction Units in Building E and Phase III. Purchase and Sale Agreements signed prior to January 1, 2012 are substantially in the form attached as Exhibit P to the Disclosure Statement filed by The Cypress of Raleigh with the Department of Insurance on or around May 28, 2010.

# THE CYPRESS OF RALEIGH

## RESERVATION AGREEMENT

(With Conversion to Purchase and Sale Agreement)

**PURCHASER:**

\_\_\_\_\_ whose address is \_\_\_\_\_, \_\_\_\_\_ ("Purchaser").

**SELLER:**

**THE CYPRESS OF RALEIGH, LLC**, a North Carolina limited liability company, whose address is c/o The Cypress Management Group, LLC, a North Carolina limited liability company, 7101 Creedmoor Road, Suite 142, Raleigh, NC 27613 ("Seller"). These parties shall hereinafter sometimes be referred to collectively as the "Parties", and individually as a "Party".

**THIS RESERVATION AGREEMENT (With Conversion to PURCHASE AND SALE AGREEMENT)** ("Agreement") is entered into by the Parties this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

### W I T N E S S E T H:

**THE CYPRESS WILL INCLUDE PRIVATE RESIDENCES, CLUB HOUSE AND HEALTH CARE FACILITY**

Seller has developed an adult residential continuing care retirement community known as THE CYPRESS OF RALEIGH ("The Cypress"), consisting of a 42,709 square foot "Clubhouse", forty (40) bed "Health Care Facility" (expandable to 60 beds) (the Clubhouse and the Health Care Facility shall hereinafter sometimes be referred to collectively as the "Club Facilities"), and two (2) types of living units (attached or detached "cottages" and "villas") upon its real property located in Raleigh, North Carolina (the "Land"); and

**RESIDENTIAL UNITS ARE CONDOMINIUMS**

**N.C. PUBLIC OFFERING STATEMENT**

All of the living units have been or are to be developed as condominium units (collectively, the "Units"; and each a "Unit") known as THE CYPRESS OF RALEIGH CONDOMINIUM (the "Condominium") and the Units will be sold subject to the Declaration of Condominium recorded in Book 13240, Page 738, Wake County Registry, as amended (the "Declaration"), a copy of which is attached as an Exhibit to the Public Offering Statement provided to Purchaser prior to execution of this Agreement; and

**PURCHASE OF RESIDENCE  
INCLUDES MEMBERSHIP  
IN THE CLUB**

The Club Facilities are operated by The Cypress of Raleigh Club, Inc., a non-profit and non-proprietary corporation (“The Club”). To become eligible for residency at The Cypress and to acquire all rights of access to the Club Facilities, each owner of a Unit (individually, a “Unit Owner”; and collectively, the “Unit Owners”) or his approved designee, must acquire membership in The Club simultaneously with the purchase of a Unit and must enter into The Cypress Membership Agreement with the Company and The Club. As a party to The Cypress Membership Agreement, the Unit Owner or such Unit Owner’s approved designee, as applicable, is referred to herein as a “Member”. The intangible contractual rights and obligations conferred upon a Member pursuant to The Cypress Membership Agreement are non-transferable and personal to the Member. As such, a Member’s membership interest is separate and distinct from the fee simple real property interest acquired by a Unit Owner in the Unit; and

**FUTURE PHASES OF  
DEVELOPMENT**

Phase I and Phase II of The Cypress have been constructed on the Land, and they consist of 168 villa Units in 3 mid-rise buildings (Buildings A, B and C) and 34 cottage Units. Phase I and Phase II also include the Clubhouse and a 40 bed Health Care Facility (expandable to 60 beds). As of January 1, 2013, Phase III consisted of three (3) cottage Units, bringing the total number of cottage Units in The Cypress to 37 as of that date. As of October 1, 2018, Phase III consisted of 57 Villa Units in 1 mid-rise building (Building D). Additional development of Phase III may consist of 1 additional mid-rise building containing up to 71 Villa Units, and up to 2 additional cottage Units. This final building in Phase III will be Building E, and it will contain 57 villa Units (the “Building E Expansion”); and

**SELLER MAY DEVELOP  
ADDITIONAL UNITS**

The Seller or its assigns may, in the future, develop additional Units and/or expand or develop additional common facilities, as one or more additional phases or expansions of the Condominium (collectively, the “Additional Phase Property”). The total number of Units for all phases shall be as specified in the Declaration and Public Offering Statement for the Condominium. Whether such additional phases are added, the number and architectural design of the Units in such phases, and the order of any such expansion, shall be solely in the discretion of Seller. Seller reserves the assignable right to provide other improvements in The Cypress that may be used by purchasers of Units in additional phases and to grant to such purchasers the right to use the common elements of The Cypress. Reference is made to the Declaration for specific discussion of the Additional Phase Property; and

Before Seller commits construction funds to the development of the Building E Expansion, it is the desire of the Parties that Purchaser be permitted to reserve a Building E Unit pursuant to this Agreement and to do so in such a way as to permit the Parties to have the ability to convert this Reservation Agreement to a binding purchase and sale agreement with a minimum of effort; and

To evidence Purchaser’s intent to acquire the Real Property hereinafter described and defined, Purchaser wishes to make a deposit with the Escrow

Agent hereinafter named to be held and disbursed pursuant to the provisions of this Agreement.

Neither the Company nor the Club has any affiliation with any religious or charitable organizations. The Cypress of Raleigh Owners' Association, Inc. also does not have any affiliation with any religious or charitable organizations.

NOW, THEREFORE, in consideration of the mutual promises contained in this Agreement, Purchaser and Seller hereby covenant and agree as follows:

**RESERVATION OF RESIDENCE**

1. **RESERVATION.** Purchaser hereby expresses a desire to purchase, and reserves the right to purchase, the Real Property hereinafter described for the purchase price hereinafter set forth. So long as this Agreement is in effect, or until it is converted to a binding purchase and sale agreement, Seller agrees that it shall not sell or commit to sell the Real Property to any other party.

**SPECIFIC RESIDENCE TO BE ACQUIRED**

2. **REAL PROPERTY.** The "Real Property" which is the subject of this Agreement is designated as Unit \_\_\_\_, which is to be constructed in Building E, together with an undivided fractional interest in and to the common areas and facilities included in the Condominium more fully described in the Declaration. The purchase of the Real Property must be coupled with a separate membership interest in The Club for the benefit of Purchaser or Purchaser's approved designee. Provided that Seller moves forward with the development of Building E, the Declaration will be amended to add the Building E Units to the Condominium. In the event that Purchaser executes, in accordance with Paragraph 8 hereof, the Conversion to Purchase and Sale Agreement Addendum attached hereto as Exhibit "A" (the "Addendum"), a more particular description of the Real Property will be attached to the Addendum.

**MEMBERSHIP IN THE CLUB INTEGRAL PART OF PURCHASE**

3. **CYPRESS MEMBERSHIP AGREEMENT.** Purchaser hereby expressly acknowledges receipt of The Cypress Membership Agreement, which Purchaser has executed simultaneously with this Agreement for the benefit of Purchaser or Purchaser's approved designee, as applicable. A copy of which is attached as an Exhibit to the Public Offering Statement. Purchaser further acknowledges that in the event he chooses a designee and this designee is approved by The Club, then the designee will also be required to enter into The Cypress Membership Agreement. The services to which Purchaser or Purchaser's approved designee, as applicable, will have access as a Member of The Club are described in Paragraph 40 of this Agreement.

**PURCHASE PRICE**

4. **PURCHASE PRICE.** The Purchase Price of the Real Property is \$\_\_\_\_\_ (hereinafter referred to as the "Purchase Price") payable as follows:

**DEPOSIT**

- a. \$ \_\_\_\_\_, upon the execution hereof by Purchaser, representing ten percent (10%) of the Purchase Price as a reservation deposit (the “Reservation Deposit”), but which will be converted into an earnest money deposit if the Parties elect to do so as herein provided. Upon the conversion of this Reservation Agreement to a Purchase and Sale Agreement, in accordance with the terms hereof, the Reservation Deposit automatically will convert to an earnest money deposit and shall hereinafter sometimes be referred to as the “Earnest Money”. If this Reservation Agreement is not converted into a Purchase and Sale Agreement in accordance with Paragraph 8 hereof, the Reservation Deposit shall be promptly returned to Purchaser.
- b. \$ \_\_\_\_\_, the balance of the Purchase Price due at Closing.

**MEMBERSHIP FEE INCLUDED IN PURCHASE PRICE**

**The non-refundable and non-transferable Membership Fee which is equal to ten percent (10%) of the Purchase Price is included in the Purchase Price of the Real Property.**

**ADDITIONAL PAYMENT FOR OPTIONAL COVERED PARKING**

- c. \$ \_\_\_\_\_, upon the conversion of this Reservation Agreement to a Purchase and Sale Agreement, representing the additional cost of reserving the right to acquire a covered parking space. This cost is in addition to the Purchase Price of the Real Property. Purchaser’s initials in the following blanks will indicate that Purchaser has elected to acquire the rights to \_\_\_\_\_ (insert number) covered parking space/spaces. The location of the covered parking space(s) reserved by Purchaser will be determined at a later date. At the time of Closing, the Purchaser shall enter into a Covered Parking Space Agreement which will give the Purchaser the right to exclusive use of the covered parking space(s) assigned to Purchaser by Seller and the further right to assign such use rights to subsequent purchasers. **[Purchaser may be added to a waiting list if a covered parking space is not available.]**

\_\_\_\_\_: Initial here if Purchaser has elected to acquire the rights to the covered parking space(s).

\_\_\_\_\_: Initial here if Purchaser has NOT elected to acquire the rights to the covered parking space(s).

**EARNEST MONEY PLACED IN ESCROW ACCOUNT UNTIL EXPIRATION OF CANCELLATION PERIOD**

5. **EARNEST MONEY.** The Earnest Money shall be paid to and immediately deposited in an escrow account (“Escrow Account”) with First Citizens Bank & Trust Company, as Escrow Agent, 4300 Six Forks Road, FCC-16, Raleigh, North Carolina 27609, until expiration of the Cancellation Period (defined in Paragraph 37). Until expiration of the Cancellation Period, the Earnest Money shall be the property of the Purchaser. Upon the expiration of the Cancellation Period, the Earnest Money will be placed into a special Cypress

account with First Citizens Bank & Trust Company (separate from the Escrow Account) (the “Earnest Money Account”). Prior to the expiration of the Cancellation Period, interest shall accrue to the benefit of Purchaser and shall be credited to Purchaser at Closing. After expiration of the Cancellation Period, interest shall accrue to the benefit of Seller. Purchaser acknowledges that after the expiration of the Cancellation Period, Seller shall be entitled to use a portion of the Earnest Money for construction purposes in accordance with the laws of North Carolina, without any obligation to segregate the same from other earnest money deposits received. Notwithstanding anything to the contrary herein provided, upon proper notification to the State of North Carolina Department of Insurance, Seller may appoint a new Escrow Agent and move the Earnest Money Account to a different financial institution in accordance with Article 64, Chapter 58 of the North Carolina General Statutes.

**FEATURES, SELECTIONS  
AND OPTIONS**

6. **SELECTIONS/OPTIONS.** The Purchase Price includes certain features and is subject to certain options and/or allowances. A list of The Cypress Features, Selections and Options shall be attached hereto as Exhibit “B” (“Selections/Options”) and incorporated herein by reference upon Purchaser’s execution of the Conversion to Purchase and Sale Agreement Addendum attached hereto as Exhibit “A”, in accordance with Paragraph 8 hereof. Once construction begins, Purchaser will be notified by Seller of deadlines for choosing Selections/Options. All Selections/Options must be chosen by Purchaser within the deadline period to assure the Seller’s ability to include the chosen Selections/Options for the established cost. If there are any authorized modifications to the Plans and Specifications (as defined in Paragraph 12 hereof) made during construction of the Unit by Purchaser, all such modifications must be evidenced by a written Addendum to Contract (“Change Order”) signed by both the Parties and payment by Purchaser of an additional nonrefundable deposit equal to the value of the Change Order, all of which funds shall be delivered to Seller and applied against the Purchase Price as adjusted at Closing.

**NO FINANCING  
CONTINGENCY**

7. **CASH PURCHASE.** This Agreement does **not** contain a financing contingency. Purchaser, upon request by Seller, must provide satisfactory evidence of the ability to close on the Real Property.

**UPON ELECTION BY  
PURCHASER,  
RESERVATION  
AGREEMENT WILL  
CONVERT TO A BINDING  
PURCHASE AGREEMENT**

8. **CONVERSION TO PURCHASE AND SALE AGREEMENT.** When Seller, in its sole discretion, makes the determination to begin accepting binding contracts for the Building E Expansion, Seller will provide Purchaser the opportunity to convert this Agreement into a binding Purchase and Sale Agreement by mailing or delivering to Purchaser an Addendum of the type attached hereto as Exhibit “A”. If Purchaser elects to convert this Agreement to a binding Purchase and Sale Agreement, the executed Addendum shall be returned to Seller within fourteen (14) days (unless extended by Seller in its sole discretion) of Purchaser having received such Addendum and the Reservation Deposit shall automatically be converted to the Earnest Money, as provided above in Paragraph 5.



**TERMINATION  
PROVISIONS**

9. **TERMINATION OF RESERVATION.** Unless this Agreement has been converted into a binding Agreement for Purchase and Sale by execution of the Addendum provided for in Paragraph 8 hereinabove, this Agreement shall terminate and expire and all monies paid hereunder and any interest earned thereon and due to Purchaser shall be returned to Purchaser upon the happening of any of the following:

- a. Purchaser mailing to Escrow Agent and Seller a written request for refund which likewise specifically releases all rights under this Agreement; or
- b. Fourteen (14) days (unless extended by Seller in its sole discretion) after Purchaser has been given notice of the opportunity to convert this Agreement to a binding purchase and sale agreement by delivery of the Addendum and such Addendum has not been executed and returned by Purchaser; or
- c. Seller mailing to Escrow Agent and Purchaser written notice that this Agreement is terminated and Seller refunding Purchaser's deposits and interest earned thereon; or
- d. Twenty four (24) months after the date on which this Agreement is converted to a binding Purchase and Sale Agreement in accordance with the terms hereof.

**PURCHASER OBLIGATIONS  
ARE CONDITIONAL UPON  
CONVERSION**

10. **OBLIGATION OF PURCHASER.** Purchaser has no obligation hereunder unless this Agreement is converted into a binding Purchase and Sale Agreement as herein provided. Therefore, all of the provisions of this Agreement relating to closing and transfer of the Real Property are subject to the condition precedent that such conversion has occurred.

**ESTIMATED COMPLETION  
DATE**

11. **ESTIMATED PROJECT TIMEFRAME.** The completion date for the Building E Expansion is estimated to be approximately eighteen (18) to twenty two (22) months after the start of construction.

The expression of an estimated time of delivery on the part of the Seller is made as an accommodation to Purchaser to assist Purchaser in formulating future plans, but any estimated time of delivery expressed herein or elsewhere, whether oral or written, shall not be considered as a time which is of the essence of this Agreement and said estimated delivery date shall be subject to amendment by the Seller should Seller's progress or plans be altered by conditions unforeseen by or outside the control of Seller, and any such amendment shall not require formal or specific notice by Seller to Purchaser. With reference to the estimated completion date set forth above, Purchaser understands and agrees that Seller can neither imply nor guarantee a firm completion and availability date for the Real Property, such advance projections being by their nature approximations only. Seller agrees to make reasonable efforts to meet estimated construction schedules, but shall not be obligated to provide or compensate Purchaser for any alternate accommodation as a result of delayed or accelerated completion, nor shall Seller be liable for any expense or inconvenience to Purchaser which may directly or indirectly arise from delay of completion or delivery of possession, and such delays shall not serve to cancel, amend or diminish Purchaser's obligations hereunder.

Notwithstanding the foregoing, in accordance with the Interstate Land Sales Full Disclosure Act (15 U.S.C §1701 et seq.) and its corresponding regulations at 12 C.F.R. § 1010.5, the Seller acknowledges its unconditional obligation to complete and to deliver the Real Property to Purchaser within not more than twenty four (24) months from the date this Agreement is converted into a binding Purchase and Sale Agreement.

## **POSSIBLE DESIGN ADJUSTMENTS**

12. **COMPLETION OF CONSTRUCTION AND DESIGN ADJUSTMENTS.** The Property shall be deemed complete at such time as the appropriate municipal authorities of the City of Raleigh, North Carolina, approve the Real Property for occupancy. Construction Plans and Specifications prepared by Thompson, Hancock, Witte & Associates, 4055 Roswell Road, NE, Atlanta, GA 30342, for the Villa E Units, (the "Plans and Specifications"), shall be placed on file in the offices of Seller. Any floor plan drawings, elevations or other schematic materials delivered to Purchaser are approximate representations of the floor plan or layout of the Real Property. In case of any conflict between such drawings or materials and the Plans and Specifications, the Plans and Specifications shall control and govern in all respects. Seller reserves the right to change the Plans and Specifications if necessitated by job conditions (including unworkable situations, errors in the Plans and Specifications, site conditions, unavailable materials, building codes, etc.), as long as the location, size, quality and appearance of the Real Property is substantially equal or superior to that shown on the Plans and Specifications.

## **POSSIBLE CONSTRUCTION DELAYS**

If construction of the Real Property is delayed by changes requested by Purchaser and approved by Seller, by labor disputes, governmental disturbances, fire, war, shortage of materials, acts of God, or by any causes beyond Seller's control, then the time for completion of the Real Property and for Closing hereunder may be extended by Seller for a reasonable time to compensate for such delays.

**APPLIANCES INCLUDED**

13. **APPLIANCES.** The following items are included in the Purchase Price of the Real Property: refrigerator, stove, oven, garbage disposal, microwave, dishwasher, washer and dryer. In the event Purchaser supplies additional appliances to the Real Property (i.e., toaster, etc.) then such appliances will be considered the personal property of the Purchaser.

**CLOSING WILL BE SET  
BASED ON ISSUANCE OF  
THE CERTIFICATE OF  
OCCUPANCY**

14. **CLOSING DATE.**

a. Closing of the purchase of the Real Property (hereinafter referred to as "Closing") shall occur at the place in Raleigh, North Carolina, and on the date and time specified by Seller, which date shall not be more than fifteen (15) calendar days after the date that the Certificate of Occupancy, as required by the governing authorities, has been obtained for the Real Property. Purchaser will receive fifteen (15) days advance notice of Closing.

**SELLER MAY COLLECT  
EXPENSES INCURRED IF  
PURCHASER DELAYS  
CLOSING**

b. Seller reserves the right to charge and collect from Purchaser, and Purchaser agrees to pay at Closing, funds for each day of delay beyond the Closing date to reimburse Seller for its expenses incurred by the delay of Purchaser. Such expenses include, but may not be limited to, interest, carrying costs of the Real Property, Monthly Payments (as defined in Paragraph 1(j) of The Cypress Membership Agreement), utility costs, and other prorated costs incidental to Seller's retaining ownership of the Real Property during the period of delay. **TIME OF CLOSING SHALL BE OF THE ESSENCE.**

**TIME IS OF THE ESSENCE**

**PUNCH LIST COMPLETION**

c. Purchaser agrees that upon Seller's compliance with all conditions contained herein, any incomplete punchlist items or warranty items identified by Purchaser as a result of a pre-Closing inspection ("Punchlist Items") shall not constitute grounds for delay of Closing. Seller agrees to complete the Punchlist Items within forty-five (45) days after Closing, or commence completion of the Punchlist Items if completion is not possible within said forty-five (45) day time frame, provided materials and labor are available.

**SELLER AND PURCHASER  
RESPONSIBLE FOR  
CERTAIN CLOSING  
EXPENSES**

15. **CLOSING EXPENSES.** Seller shall be responsible for paying the revenue stamps on the deed for the Real Property as well as for preparation of the deed and lien affidavit. Purchaser shall be responsible for recording fees for the Deed and for any costs associated with financing aspects of the Closing including title examination, Closing and loan documentation preparation, deed of trust recording fees, and title insurance, if applicable.

**PRORATIONS**

16. **PRORATIONS.** Property taxes, the Monthly Payment (as defined in Paragraph 24 hereof), and the applicable assessments on the Real Property shall be prorated between the Parties on a calendar year basis as of the date of Closing regardless of the taxing authority's fiscal year.

**GENERAL WARRANTY  
DEED GIVEN**

17. **CONVEYANCE OF TITLE.** Fee simple title to the Real Property shall be conveyed by Seller via general warranty deed free and clear of all encumbrances save and except:

- a. taxes and assessments not yet due;
- b. the terms, provisions, covenants, easements, restrictions, right of first refusal and reservations set forth in the Declaration, the Bylaws (the "Bylaws") of The Cypress of Raleigh Owners' Association, Inc. (the "Association"), The Cypress Membership Agreement, and the Rules and Regulations of the Association (the "Rules and Regulations"), if any, promulgated thereunder and in effect at the time;
- c. general utility easements of record and all other easements and restrictions of record which do not impair Buyer's use of the Real Property for residential purposes;
- d. easements established under the North Carolina Condominium Act;
- e. the Declaration, Bylaws and related documents establishing THE CYPRESS OF RALEIGH CONDOMINIUM, and all exhibits and amendments thereto;
- f. all facts and conditions which may be shown by survey and physical examination of the Real Property;
- g. any applicable zoning and/or development laws and ordinances, including those of Wake County and the City of Raleigh.

**TITLE CONDITIONS**

**PURCHASER AGREES TO  
BE BOUND BY THE  
CONDOMINIUM  
DOCUMENTS**

18 **DECLARATION OF CONDOMINIUM.** Seller has formed the Condominium by filing the Declaration pursuant to the provisions of the North Carolina Condominium Act (N.C. Gen. Stat. § 47C et seq., as amended) (the “Act”). Purchaser agrees to be bound by the Declaration, the Association’s Articles of Incorporation (the “Articles of Incorporation”), the Bylaws and the Rules and Regulations. Purchaser understands that Purchaser is purchasing a Unit in a building or cottage which has not yet been completed. Seller reserves the right to make such changes in the Declaration, Articles of Incorporation, Bylaws and the Exhibits thereto as may be necessary to conform to applicable laws and governmental regulations, to meet requirements of lending institutions, to expedite the sale of the other Units in the Condominium and to establish or reconfigure common areas; **PROVIDED**, such changes shall not substantially diminish the Purchaser’s interest in the Unit.

**CYPRESS MEMBER HAS  
ACCESS TO HEALTH  
FACILITY**

19. **CLUBHOUSE AND HEALTH CARE FACILITY.** The Club Facilities are now available.

The Club Facilities are part of the Condominium. The Seller has executed and in the future may negotiate and execute management agreements for the Club Facilities with a qualified operator. Pursuant to the terms of The Cypress Membership Agreement, the Purchaser, or his designee approved for Membership by The Club, as a benefit and membership right under his membership, will be entitled to admission to the Health Care Facility so long as his attending physician or the Medical Director of The Club determine that this type of care is needed.

**INSULATION  
SPECIFICATIONS**

20. **INSULATION.** Pursuant to the Federal Trade Commission's Trade Regulation Rule on labeling and advertising of home insulation (16 CFR, Part 460), set forth below is the following information with respect to the insulation in the Project:

**Villas**

<b><u>Location</u></b>	<b><u>Type</u></b>	<b><u>Thickness</u></b>	<b><u>R Value</u></b>
(a) Ceilings	Blown in Fiberglass	16.5”	R-49
(b) Exterior Walls	Batt Fiberglass	6”	R-19
	Continuous Insulation	1”	R-5
(c) Floor	Concrete	4” to 8”	R-.32-2.24

**Cottages**

<b><u>Location</u></b>	<b><u>Type</u></b>	<b><u>Thickness</u></b>	<b><u>R Value</u></b>
(a) Ceilings	Blown	10”	R-30
(b) Exterior Walls	Batt Fiberglass	3.5”	R-13

Purchaser understands and acknowledges the data on insulation, thickness and R Values may vary depending on local conditions and vagaries in construction including, but not necessarily limited to, such items as window openings in walls (which cannot carry the same R value as the rest of the wall, or plumbing or other structures within walls which displace insulation thickness, etc.).

Purchaser agrees that information regarding R value is based solely on information given to Seller by the appropriate manufacturers based on the thicknesses listed. Purchaser agrees that Seller is not responsible for any such manufacturer's errors. All of the foregoing information is also subject to Seller's general rights to make changes in Seller's plans and specifications or otherwise, and to applicable limitations of Seller's liability to Purchaser.

21. **RISK OF LOSS.**

**SELLER HAS OPTION TO  
REPAIR DAMAGE OR  
CANCEL AGREEMENT**

- a. Partial loss or damage to the Real Property by fire and storm or other casualties between the date hereof and Closing hereunder shall not void or impair this Agreement, but all such damage by way of fire and storm or other casualty is to be the responsibility of Seller.
- b. In the event of total or substantial loss as a result of the hazards mentioned above, Seller shall have the option to repair all damage at its own cost or through insurance proceeds from the Association, or to cancel this Agreement and refund all monies paid hereunder.
- c. In the event of loss or damage as a result of the hazards mentioned, the time for Closing shall be extended for such time as may be reasonably required to repair the damage.

**WARRANTIES ARE  
TRANSFERRED TO  
PURCHASER**

22. **WARRANTY.** At Closing, Seller shall transfer to Purchaser all of Seller's right, title and interest in and to any manufacturer's warranty furnished to Seller covering any equipment or appliance installed in the Real Property, and Seller makes no warranty or agreement of any kind with respect to any such equipment or appliance. If written notice is given to Seller by Purchaser within thirty (30) days of discovery of any defects not caused by Purchaser, his agents, guests, or invitees, then Seller will, at no cost to the Purchaser for a period of one (1) year from the date of Closing, repair or replace any defective portion of the Real Property. At the end of the warranty period, the Condominium and The Club will assume the obligation for repair in their respective areas of responsibility. Seller's warranty shall not apply to fixtures and appliances covered by a warranty of a manufacturer or dealer, for which defects the Purchaser shall have such rights as are defined in the applicable warranty documents. Seller shall not be responsible for any incidental or consequential damages arising from any defect. This warranty is personal to Purchaser, and shall automatically terminate and be of no further force or effect upon Purchaser's sale, transfer or conveyance of the Real Property. **SELLER MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED AS TO THE FITNESS, DESIGN, OR CONDITION OF ITEMS OF TANGIBLE PERSONAL PROPERTY OR FIXTURES, THEIR MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.**

**SELLER MAY MORTGAGE  
PROPERTY BUT MUST  
REMOVE LIEN AT CLOSING**

23. **SUBORDINATION.** This Agreement shall be and the same is hereby declared to be subordinated and subject to the lien and operation of any construction or other deed of trust which Seller may now or hereafter place upon the real property and improvements herein described as the Real Property or the Condominium; provided, however, that Seller at its own expense shall be obligated to cause such deed of trust to be released or satisfied as to the Purchaser's Property and percentage interest in the common areas being purchased hereunder at the time of the Closing.

24. **CLOSING AND POST-CLOSING FINANCIAL OBLIGATIONS OF PURCHASER.**

**MONTHLY PAYMENT  
INCLUDES CONDOMINIUM  
FEE AND SERVICE FEE**

- a. Purchaser shall execute The Cypress Membership Agreement and agrees to accept responsibility for the Member's Monthly Payment obligations under Paragraph 1(j) thereof, which includes the Condominium Fee and the cost of services (the "Service Fee"), each as defined in The Cypress Membership Agreement. If Purchaser's approved designee is the Member, such approved designee shall sign The Cypress Membership Agreement as the Member and shall be jointly and severally responsible with the Purchaser for the Monthly Payments required thereunder. In such circumstances, the Member and the Purchaser shall execute a guaranty agreement in a form approved by The Club further evidencing this joint and several responsibility ("Guaranty Agreement"). If Purchaser fails to execute the Guaranty Agreement, Section 6 of The Cypress Membership Agreement, which shall be signed by Purchaser and Member, shall serve as Purchaser's personal guaranty of payment of the Member's Monthly Payments to the Seller, its successors, and assigns. The services included in the Monthly Payment are described in Paragraph 40 hereof.

**CONDOMINIUM  
OPERATIONS AND  
EXPENSES**

- b. Purchaser acknowledges and agrees to accept responsibility for his/her continuing obligation pursuant to the Declaration, beginning with the date of Closing, to pay his Condominium Fee consisting of his pro rata share of any common expenses, operating expenses, capital expenses and debt service, if any, assessed against the Real Property. For purposes of this Agreement, debt service is limited to possible future loans voted on and approved by Unit Owners after Closing. It does not include development loans. Such assessments shall be for authorized purposes, including, but not limited to, expenses incurred for landscaping, maintenance, repairs, general area maintenance, administration supplies, professional services, utilities, garbage services, insurance, etc. Each purchaser's pro rata share will be determined in accordance with statutory percentage values as stated in the Declaration.

**SERVICE FEE INCLUDES  
ELECTRICITY IN THE  
VILLA UNITS**

- c. Electricity and natural gas for the Villa Units will be part of the Service Fee, while Cottage Unit owners will be directly responsible for the payment of electricity and gas for their own Units.



**INSURANCE EXPENSES  
AND TWO MONTHS  
COMMON EXPENSES DUE  
AT CLOSING FOR  
WORKING CAPITAL FUND**

d. At Closing, Purchaser shall pay to the Association a non-refundable payment in the amount of \$ \_\_\_\_\_, constituting two (2) months common expenses as the Real Property's contribution to the working capital fund for the Condominium. Purchaser shall also pay to the Association a payment in the amount of \$ \_\_\_\_\_, constituting twelve (12) months hazard and flood insurance premiums for the Real Property. The amounts of the common expense payment and the insurance premiums to be paid at Closing also will be set forth on the Purchase Process worksheet, which will be provided to Purchaser along with delivery of The Cypress of Raleigh Project Documentation-Book of Exhibits referenced in Paragraph 36 of this Agreement.

**THE SERVICE FEE**

e. Purchaser agrees to accept responsibility at the date of Closing for the Service Fee payable for the services provided by The Club under The Cypress Membership Agreement. Purchaser acknowledges his continuing obligation (either as a Member or as Member's guarantor) to pay his share of the cost of club services (the Service Fee) in accordance with the Cypress Membership Agreement, to contribute toward the expenses of operating the Club Facilities, as well as any capital purchases and debt service, if any, necessary for repair, maintenance and modification of the Club Facilities.

**PERSONAL PROPERTY AND  
CUSTOM CHANGES**

f. Purchaser agrees to pay the additional cost of repairs to appliances which are the personal property of the Purchaser. In addition, if custom changes are made to a Unit, including, without limitation, non-standard or upgraded appliances or flooring, the Unit owner will reimburse the Association for any amounts expended to maintain, repair, insure and replace the custom changes, to the extent such amounts exceed the amount which would have been expended for standard appliances, fixtures and finishes.

**COVERED PARKING**

g. All purchasers who have entered into Covered Parking Space Agreements as referenced in Paragraph 4 above shall be responsible for an additional periodic assessment to cover the actual pro rata costs of maintenance and repair of the covered parking space area.

**SPECIAL OPERATING RESERVE ACCOUNT REQUIRED BY N.C. DEPT. OF INSURANCE**

25. **OPERATING RESERVE DEPOSIT.** The State of North Carolina Department of Insurance, in accordance with Article 64, Chapter 58 of the North Carolina General Statutes, requires that all continuing care facilities maintain operating reserves equal to 50% of the total operating costs projected for a twelve (12) month period following the period covered by the most recent annual statement filed with the Department. Facilities that maintain an occupancy level in excess of 90% shall only be required to maintain a 25% operating reserve upon approval of the Commissioner. These reserves are to be used for the benefit of the Club as required by the State of North Carolina in the event of emergencies and/or unexpected operating shortfalls.

**PURCHASER TO MAKE A DEPOSIT INTO THE OPERATING RESERVE ACCOUNT**

At Closing, Purchaser shall be responsible for paying to the Club an Operating Reserve Deposit in the amount of \$14,000. This deposit, along with deposits in the same amount from all other purchasers who signed Purchase and Sale Agreements after December 31, 2011, will be held in a separate interest-earning account (the "Operating Reserve Account") with interest accruing to the benefit of The Club.

Each subsequent Unit buyer shall be obligated to pay a minimum of \$14,000 into the Operating Reserve Account so that upon resale of the Unit, any unused portion of the \$14,000 (or other amount) deposit paid by Purchaser shall be returned to Purchaser.

**PURCHASER MUST INSURE PERSONAL PROPERTY**

26. **INSURANCE ON PERSONAL PROPERTY.** Purchaser is responsible for insuring his personal property (i.e. furniture, clothing, jewelry, china, silver, etc.) located in his Property and for liability insurance within the Real Property.

**OCCUPANCY BY SOMEONE OTHER THAN OWNER**

27. **PROVISIONS APPLICABLE WHERE MEMBER IS NOT THE PURCHASER.** In those circumstances where a purchaser has acquired a Unit to be used by someone other than himself, that purchaser must designate the person or persons who shall use the Membership which must be acquired at the time the Unit is purchased. That designated person or persons must meet the basic eligibility requirements for Membership in The Cypress, must be approved by The Club, must execute The Cypress Membership Agreement and must comply with The Cypress Membership Agreement regarding assurances with respect to the Monthly Payment. The individual who becomes a Member shall be jointly and severally liable for the Monthly Payment and all other obligations outlined in The Cypress Membership Agreement. In this instance the Membership expires when that designated person or persons ceases to use the Membership by ceasing to be a resident of The Cypress. Any subsequent users of the Unit, including the purchaser, must acquire a Membership for their use prior to occupying such Unit. The Membership Fee for such Membership will be assessed at the then applicable rate for future Members and must be paid prior to occupancy of the Unit.

This procedure regarding change of Member due to circumstances other than a sale of the Unit shall be followed with regard to each subsequent user until there is a resale of the Unit in which event the provisions of Paragraph 28 shall apply. However, for each succeeding Member, the Membership Fee which will be assessed shall be at the then applicable rate for future Members and such Membership Fee must be paid to the Seller prior to resumption of use of the Unit and the Club Facilities. Ownership of the fee title to a Unit does not entitle the Unit Owner to the benefits of membership in the Club.

**RESALE PRICE OF UNIT  
WILL INCLUDE THE NEXT  
BUYER'S MEMBERSHIP  
FEE**

28. **PAYMENT OF MEMBERSHIP FEE ON RESALE.** Purchaser understands that in accordance with The Cypress Membership Agreement when he sells his Unit, the Membership Fee for the new purchaser is to be paid to Seller at the resale closing as part of the Unit's gross sales price. The Membership Fee to be collected from the new purchaser shall be ten percent (10%) of the gross sales price. Any real estate commission will be based on and paid from the proceeds of the sale of the Unit after deduction of the amount of money for the Membership Fee and not on the gross sales price.

**MEMBERSHIP FEE WILL BE  
BASED ON FAIR MARKET  
VALUE IF PURCHASER  
GIVES UNIT TO SOMEONE  
ELSE**

In the event the Purchaser gives, leases, wills or conveys by any other means the Real Property to any other person or entity (including an entity solely owned by the Purchaser), the Membership Fee paid to the Seller shall be based on the fair market value of the Real Property when the gift, devise or other conveyance is made and ownership of the Real Property is transferred. The Purchaser acknowledges that Seller has the unconditional right to approve or disapprove memberships in The Club.

**DEFAULT PROVISIONS**

29. **DEFAULT.** If Purchaser defaults in the performance of any obligation of this Agreement, Seller may, in its sole discretion (i) seek to recover all damages, including interest on the balance due, resulting from Purchaser's default, and in each instance shall be entitled to the legal costs incurred by the Seller in enforcing its rights, or (ii) retain all funds paid by or on behalf of Purchaser as liquidated damages, in which event Seller shall have no further obligation to Purchaser under this Agreement. In the event of a default in the performance of any of the obligations of the Seller pursuant to this Agreement, Purchaser shall be entitled as Purchaser's sole and exclusive remedy to (i) terminate this Agreement and receive a refund of the Earnest Money or (ii) seek specific performance according to law. Either Seller or Purchaser is hereby allowed fifteen (15) days after receipt of written notice of default to cure such default prior to termination hereof by the non-defaulting party as provided herein.

**NOTICE PROVISIONS**

30. **NOTICES.** Any notice to Seller or Purchaser shall be in writing and shall be delivered to the address of the appropriate Party stated above, or such other address as shall subsequently be provided by appropriate notice. Notice may be either hand delivered or deposited in the U.S. Mail or with a courier company such as Federal Express. If mailed or couriered, any written notice shall be deemed received on the second calendar day following the date of mailing if addressed and mailed by certified or registered mail, postage paid, to the addressee set forth above.

**SELLER RESERVES A  
RIGHT OF FIRST REFUSAL  
ON FUTURE SALES**

31. **RIGHT OF FIRST REFUSAL.** The Purchaser hereby acknowledges that the Declaration provides that when the Purchaser wishes to sell the Real Property and Purchaser has received a bona fide purchase offer from a third party (each a “BFP Offer”), Purchaser shall then offer the Real Property for sale, in writing, to Seller, its successors or assigns for the same price at which the highest BFP Offer has been made for the Real Property, and Seller shall have thirty (30) days after receipt of written notice of the price and terms of such BFP Offer within which to exercise its option to purchase the Real Property at this price. If Seller fails or refuses, within thirty (30) days after receipt of written notice of the BFP Offer, to exercise its option to purchase the Real Property at the offered price, then Purchaser shall have the right to sell the Real Property to the third party, subject, however, to all covenants, restrictions, limitations and affirmative obligations and other agreements referenced and contained in this Agreement. This Paragraph shall not be construed to impair the right of foreclosure of a mortgage on the Real Property and improvements thereon. The right of first refusal shall be set out in the deed to the Unit from the Seller to the Purchaser (“Deed”) and shall obligate the Seller to exercise the right of first refusal within thirty (30) days after the date Seller receives the written notice of the BFP Offer and, in any event, no later than twenty one (21) years after the death of the last survivor of two (2) lives in being on the date of the Deed. The Purchaser shall designate the two (2) lives in being in the Deed. The foregoing provisions related to the exercise of the right of first refusal no later than twenty one (21) years after the death of the last survivor of the two (2) lives in being are included herein to comply with the North Carolina common law rule against perpetuities.

32. **CERTAIN RESERVED RIGHTS OF SELLER.**

**SELLER MAY LEASE  
UNSOLD UNITS**

- a. The Seller shall have the absolute right and privilege of leasing any or all of the Units owned by it on a short or long term basis for use in the manner contemplated by The Membership Agreement and the Declaration. The Seller's lessees shall be entitled and subject to all of the privileges, rights, obligations and requirements as outlined in The Cypress Membership Agreement.

**UNITS MAY BE USED AS SALES MODELS**

- b. The Seller is entitled to use one or more of the Units as models for purposes of a sales model and/or offices and/or guest rooms. Further, as provided in the Declaration, the Seller is entitled to the use of offices in the Clubhouse for administrative and sales purposes, including resales.
- c. The Seller is entitled to use up to (i) nine (9) rooms in the Club Facilities as office and storage facilities for sales activity and related administrative and management purposes at no charge to Seller, as more particularly described in Section 14.4 of the Declaration, and (ii) any storage units identified as reserved by Declarant in the Declaration, as amended, for management purposes.

33. **MISCELLANEOUS.**

**AGREEMENT BINDING ON HEIRS AND SUCCESSORS.**

**MAY NOT BE ASSIGNED WITHOUT CONSENT**

**ILLNESS, INJURY, INCAPACITY OR DEATH OF PURCHASER PRIOR TO CLOSING**

- a. This Agreement is binding upon and shall inure to the benefit of the heirs, legal representatives, successors and assigns of the Parties. The rights of Purchaser pursuant to this Agreement may not be assigned or transferred without the express written consent of Seller. Any attempt by Purchaser to assign this Agreement without such consent may be deemed by Seller a default of Purchaser, and Seller shall not be bound by any such assignment. **Notwithstanding the foregoing, in the event of the death of Purchaser or Purchaser's designee prior to Closing, the Purchaser's obligations shall cease, the Agreement shall be automatically terminated, and all deposits returned to Purchaser's estate. In addition, if on account of illness, injury or incapacity, Purchaser or Purchaser's designee would be precluded from occupying the Unit under the terms of The Cypress Membership Agreement prior to Closing, Purchaser's obligations shall cease, the Agreement shall be automatically terminated, and all deposits returned to Purchaser's estate. If there is more than one Purchaser or designee, the Agreement will continue to be binding on the surviving Purchaser or designee.**

**TERMS SURVIVE THE CLOSING**

- b. The terms of this Agreement shall survive the Closing of the transaction contemplated hereby and shall thereafter continue to bind the Parties and their successors to this Agreement. This Agreement may be executed in duplicate originals.

**IF PART OF AGREEMENT UNENFORCEABLE THAT SHALL NOT AFFECT REMAINDER**

- c. If any provision of this Agreement is held to be invalid or unenforceable, it shall not affect the validity or enforceability of any other provision hereof. All titles or captions in this Agreement are for convenience in reference and in no way define, limit or extend this Agreement.

**WAIVER OF RIGHTS MUST BE IN WRITING**

- d. No failure of a Party to exercise any power or right granted hereunder or to insist upon strict compliance with any obligation specified herein, and no practice at variance with the terms hereof, shall constitute a waiver of said power or right unless expressly authorized in writing by the affected Party.

**THIS AGREEMENT SUPERSEDES OTHER AGREEMENTS**

- e. This Agreement supersedes any and all understandings and agreements between the Parties regarding the Real Property and constitutes the sole agreement between the Parties regarding the Real Property. No oral statements or representations shall be deemed to modify this Agreement or bind either Party.

**INDIVIDUAL MAY ACT FOR CORPORATION OR PARTNERSHIP**

- f. If Purchaser is a trust, corporation or partnership, Purchaser shall provide evidence that the persons executing this Agreement are authorized to act on behalf of the entity.

**ALL REPRESENTATIONS MADE BY SELLER ARE STATED IN THIS AGREEMENT**

- g. By execution of this Agreement, Purchaser agrees that Seller has made no pledges, covenants or commitments in regard to the future development of The Cypress which has induced the Purchaser of the Real Property herein, except as stated in this Agreement, The Cypress Membership Agreement, Declaration and Bylaws to the Public Offering Statement.

**SMOKING RESTRICTION/AIR PURIFICATION INSTALLATION REQUIREMENT**

- h. The smoking of cigarettes, pipes, and/or cigars in a Unit shall not be permitted unless an air purification system (approved by Seller) has been installed in the Unit at the Purchaser's sole cost and expense.

**AMENDMENTS MUST BE IN WRITING**

34. **AMENDMENTS.** NO AMENDMENT SHALL BE MADE TO THIS AGREEMENT EXCEPT AS EXPRESSLY AUTHORIZED IN WRITING BY SELLER AND ACCEPTED BY PURCHASER. PURCHASER ACKNOWLEDGES THAT HE HAS READ THIS AGREEMENT AND UNDERSTANDS AND AGREES TO ALL OF ITS TERMS.

**SELLER MUST OBTAIN PERMITS AND HAVE SUFFICIENT BINDING CONTRACTS BEFORE CONSTRUCTION WILL BEGIN**

35. **CONDITIONS TO CLOSING.** Notwithstanding anything to the contrary stated herein, the Seller's obligation to construct Building E and perform its obligations under this Agreement is specifically contingent upon the Seller having obtained the following: (a) all requisite approvals and permits for the Building E Expansion; and (b) binding contracts for the sale of approximately seventy percent (70%) (in Seller's discretion) of the Units in Building E.

**SELLER'S OPTION TO  
TERMINATE AGREEMENT**

If Seller fails to satisfy these conditions on or before six (6) months from the date this Agreement is converted to a binding purchase and sale agreement as herein provided, then Seller may, at Seller's option, notify Purchaser that this Agreement is terminated and refund the Earnest Money and neither Party shall have any further obligations or rights under this Agreement. If Purchaser has not received notice from Seller that Seller is terminating the Agreement by that date, then this Agreement and all its terms, except this Paragraph, shall continue in full force and effect. Provided, however, this pre-sale clause shall not extend the overall two-year (2-year) obligation of Seller to construct Building E.

**PURCHASER  
ACKNOWLEDGES RECEIPT  
OF DOCUMENTS**

36. **ACKNOWLEDGMENT OF RECEIPT.** By execution of this Agreement, Purchaser acknowledges receipt, review and approval of the form and content of the documents listed below, some of which are packaged in a booklet entitled "The Cypress of Raleigh Project Documentation-Book of Exhibits", and agrees to be bound by the terms and provisions thereof together with such amendments as are authorized herein:

- Public Offering Statement
- Disclosure Statement
- Membership Agreement
- Declaration of Condominium
- Articles of Incorporation of Condominium Owners' Association
- Bylaws of Condominium Owners' Association
- Rules and Regulations
- Campus Site Plan and Floor Plans
- Condominium Management Agreement
- Club Management Agreement
- Villa Specifications
- Monthly Fee Schedule
- Covered Parking Agreement
- Membership Application
- Budgets (Association, Club and Consolidated)
- The Cypress of Raleigh Purchase Process

**PURCHASER'S RIGHT TO CANCEL**

37. **PURCHASER'S RIGHT TO CANCEL.** (In the event of Purchaser's cancellation in accordance with the terms of this Agreement, all payments made by Purchaser prior to such cancellation shall be refunded to Purchaser in accordance with N.C.G.S. §58-64-25(a)(3). Notwithstanding the fact that N.C.G.S. §47C-4-108 provides for a seven (7) day cancellation period for condominium acquisitions, this Agreement provides for a longer cancellation period as set forth in this Paragraph 37.) Purchaser shall have the absolute right to cancel this Agreement at any time by delivering written notice to Seller during the thirty (30) calendar day period immediately following the later of (i) the full execution of the Addendum utilized for conversion as referenced in Paragraph 8 by the Parties, or (ii) the date the Disclosure Statement is delivered to Purchaser (the "Cancellation Period"). Purchaser's cancellation of this Agreement during the Cancellation Period is without penalty, and all payments made by the Purchaser before such cancellation shall be refunded by Seller within ten (10) days after the expiration of the Cancellation Period.

**NORTH CAROLINA LAW GOVERNS**

38. **NORTH CAROLINA LAW GOVERNS.** This Agreement will be interpreted in accordance with the laws of the State of North Carolina.

**NORTH CAROLINA INSURANCE LAW REGARDING CONTINUING CARE RETIREMENT COMMUNITIES CONTROLS**

39. **NORTH CAROLINA INSURANCE LAW REGARDING CONTINUING CARE RETIREMENT COMMUNITIES CONTROLS.** The purchase, sale and ownership of the Unit and membership in the Club are subject to the provisions of the North Carolina Condominium Act (North Carolina General Statutes Chapter 47C) and the North Carolina Insurance Law regarding Continuing Care Retirement Communities (North Carolina General Statutes Chapter 58, Article 64). North Carolina also has a law prohibiting transfer fees (North Carolina General Statutes Chapter 39A). In the event of a conflict among these laws, Purchaser, by execution of this Agreement, evidences Purchaser's acknowledgement and agreement that the North Carolina Insurance Law regarding Continuing Care Retirement Communities shall control, including specifically North Carolina General Statutes 58-64-85(b) which provides:

Facilities and providers licensed under this Article that also are subject to the provisions of the North Carolina Condominium Act under Chapter 47C of the General Statutes shall not be subject to the provisions of Chapter 39A of the General Statutes, provided that the facility's declaration of condominium does not require the payment of any fee or charge not otherwise provided for in a resident's contract for continuing care, or other separate contract for the provisions of membership or services.

**SERVICES INCLUDED IN MONTHLY PAYMENT**

40. **SERVICES INCLUDED IN MONTHLY PAYMENT.** The following services and features are included in the Monthly Payment:

**CLUB ACTIVITIES**

a. **Club Activities.** A full-time Director of Community Life Services is employed by The Club who plans and organizes a variety of events tailored to the special interests of the Members. These programs are focused on wellness to meet the intellectual, physical, emotional, social and spiritual needs of the Members. Activities include cultural excursions, lecture series, dance and art classes, card games, craft activities, tournaments, and shopping. A full-time Wellness Coordinator is employed who plans and organizes fitness and wellness programs such as Tai-Chi, yoga, aquatic, aerobic and strength and balance classes.



**URGENT CALL SYSTEM**

b. Urgent Call System. All Cottages and Villas have a two-way, telephonic urgent call system. The purpose of this system is to summon help in an emergency. The urgent call system is connected to an indicator panel in the Health Care Facility, which identifies the Cottage or Villa from which the signal was initiated. Licensed nursing personnel with emergency training will respond to calls from the urgent call system and will summon any other appropriate emergency personnel that may be required.

**MONTHLY FOOD SERVICE ALLOWANCE**

c. Monthly Food Service Allowance. Members receive a monthly meal allowance, which may be used for food and beverage purchases, giving the Members optimal choice and flexibility of their dining experience. With four distinct dining venues, the Members can choose to spend meal allowance dollars on quick grab and go menu items from the buffet style bistro and bar menus or enjoy either a casual or elegant dining experience in the main or formal dining venues. Home delivery and take-out meals are also available. A registered dietician is available for consultation. A surcharge is added to the price for guest meals. As of May 2014, the monthly meal allowance was \$330.00, and the guest surcharge was \$3.00 per guest for any á la carte meal and \$5.00 per guest for any buffet meal. The meal allowance and surcharge are subject to periodic adjustment by The Club.

**PRIVATE DINING ROOM**

d. Private Dining Room. A private dining room is available for use by Members and their guests for special family or social occasions. Special meals and wait staff may be available, upon request, for an additional charge. Advance reservations with the Director of Food & Beverage or Dining Room Manager are required. Standing reservations for groups and/or clubs are not available.

**WEEKLY FLAT LAUNDRY**

e. Weekly Flat Laundry. Members receive weekly flat laundry service, which includes sheets, pillow cases, towels, face cloths and dish cloths. The flat laundry will be washed, dried, folded and returned on a weekly basis at the next scheduled housekeeping visit.

**WEEKLY HOUSEKEEPING SERVICES**

f. Weekly Housekeeping Services. Members will receive weekly housekeeping services. These services include kitchen and bathroom cleaning, surface cleaning, dusting, and vacuuming. Periodically, window washing, carpet cleaning and other additional housekeeping will be performed.

**SCHEDULED MAINTENANCE OF COTTAGE OR VILLA COMMON AREA**

g. Scheduled Maintenance of Cottage or Villa and Common Area: Maintenance, as more particularly described in the Declaration of Condominium, will be provided for each Cottage and Villa, and The Cypress common areas. If a Member needs maintenance service, the Member may submit a request with the Facilities Coordinator or concierge.

**GROUNDS CARE AND  
 MAINTENANCE**

h. Grounds Care and Gardening. The Club's lawns, trees and shrubs will be maintained, as well as the interior and exterior of the club house, the parking areas, walks and exercise trails. In addition, gardening areas are available for Members' use and will be under the direction of the Director of Community Life Services on a first-come, first-serve basis.

**CERTAIN UTILITIES**

i. Certain Utilities. Electric, gas (if applicable), water, sewer, and basic cable services will be included in the Monthly Payment for owners of villa Units. Owners of cottage Units must pay a separate charge for electric and gas.

**SCHEDULED  
 TRANSPORTATION**

j. Scheduled Transportation. Scheduled transportation is available for The Cypress Members. Scheduled trips include nearby grocery stores, banks, and shopping centers. Special trips may be periodically scheduled at an additional cost to each participant.

**CAMPUS SECURITY**

k. Campus Security. The Cypress is a gated community with security staff personnel onsite twenty-four (24) hours a day. Additionally, security cameras and a card access only entrance into the Villa Buildings and Health Care Facility are utilized to enhance campus security.

**MAIL DELIVERY**

l. Mail Delivery. Once each business day, the U.S. Postal Service collects and distributes mail to each Member's personal mailbox. At the request of a Member, mail can be forwarded during the Member's absence from his/her Villa or Cottage.

**ABSENCE CREDIT**

m. Absence Credit. If a Member provides prior written notice to the Club that the Unit will be unoccupied for a period of not less than fourteen (14) consecutive days, the Member may be entitled to an "absence credit" in an amount determined by the Club to be applied against the Monthly Payment.

## HEALTH CARE FACILITY

n. Health Care Facility. The Cypress has secured a license from the North Carolina Department of Health & Human Services, Division of Facility Services to operate thirty-six (36) skilled nursing beds and four (4) assistance-in-living adult home beds. The skilled nursing care facility and the assistance-in-living facility are collectively referred to as the Health Care Facility. For a period of ninety (90) lifetime cumulative days, each Member will be entitled to receive nursing care in a semi-private room in the Health Care Facility, without extra charge, at the current Monthly Payment. During this ninety (90) day period, the Member will continue to pay his/her Monthly Payment, plus the cost of two (2) extra meals per day, nursing supply charges, therapies, pharmacy, special duty nurses, personal laundry, rental of equipment, and other services provided, upon request. A private room will be available for an additional charge. If the Member needs further care after the ninety (90) cumulative lifetime days of care, the Member will pay, in addition to the Monthly Payment, the applicable Member rate for such care. This rate will include meals and a semi-private room (at the request of a Member, a private room will be provided on an “as available” basis for an additional charge).

If two (2) Members occupy a Unit and one (1) of them becomes a permanent resident of the Health Care Facility, then the Monthly Payment for the Member continuing to occupy the Unit will be reduced to the single occupancy rate. The Member residing in the Health Care Facility will pay the applicable Member rate. The Member residing in the Health Care Facility will pay the applicable Member rate.

In the unlikely event that accommodations are not immediately available in the Health Care Facility, the Member agrees to relocate to another health care facility with which the Medical Director of The Cypress arranges to provide such care until accommodations at the Health Care Facility are available. The Club shall be responsible for any increased charge associated with the alternate health care accommodations.

It should be noted that, due to the licensing requirements for the Health Care Facility, the facility cannot provide treatment for all conditions (e.g., no psychiatric care will be available). In addition, occupancy at the Health Care Facility may be terminated in accordance with Paragraph 12 of The Cypress Membership Agreement.

The operation of the Health Care Facility shall be subject to the applicable regulations and licensing standards of the State of North Carolina, including the N.C. Department of Insurance (“NCDI”) and the North Carolina Department of Human Resources (“NCDHR”).

**HEALTH CENTER  
ACTIVITIES**

o. Health Center Activities. An activities director is responsible for coordinating and directing the arts, crafts, social and recreational activities for the Members in the Health Care Facility. The focus of these activities will be restorative care by enhancing the quality of life through physical, emotional, psychological and spiritual programs while catering to the individual needs of each Member.

**MEMBER COMMITTEES**

p. Member Committees. Member committees hold regularly scheduled meetings to promote communication between the Members and The Cypress' administration. The six (6) Member committees are finance, buildings and grounds, food and beverage, health and safety, library, and social and activities.

**MONTHLY BILLING  
SERVICE**

q. Monthly Billing Service. Monthly statements are placed in each Member's mailbox or other appropriate location on or before the fifth (5th) day of the month. Each monthly statement must be paid within ten (10) days after the delivery date of the statement. Payment may be made at the accounting office, accounting drop box or by mail. Payments made after the ten (10) day period may be subject to a late fee.

**UNCOVERED SURFACE  
PARKING FOR MEMBERS  
AND GUESTS**

r. Uncovered Surface Parking for Members and Guests. The Cypress has ample surface parking for both the Members and their invited guests. In addition, all Cottages have a two-car garage. Limited assigned covered parking and garage parking is available to Villa Members at an extra charge.

**OWNER MUST SELL UNIT  
IF MEMBERSHIP  
AGREEMENT  
TERMINATED FOR JUST  
CAUSE**

41. **OWNER MUST SELL UNIT IF MEMBERSHIP AGREEMENT TERMINATED FOR JUST CAUSE**. If a Unit Owner or his approved designee's Membership Agreement is terminated for just cause in accordance with Section 12 of The Cypress Membership Agreement, such Owner will be obligated to promptly sell his/her Unit.

(The remainder of this page is intentionally left blank. The next page is the signature page.)

**SIGNED and SEALED** by Purchaser in duplicate originals as of the day and year first above written.

**WITNESSES:**

**PURCHASER:** *(If more than one, each should sign)*

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

**SIGNED and SEALED** by Seller in duplicate originals this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**WITNESSES:**

**SELLER:**

THE CYPRESS OF RALEIGH, LLC,  
a North Carolina limited liability company

BY: THE CYPRESS MANAGEMENT GROUP, LLC,  
its managing member

\_\_\_\_\_  
\_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

**EXHIBIT A TO THE CYPRESS OF RALEIGH RESERVATION AGREEMENT**

**FORM OF ADDENDUM CONVERSION TO PURCHASE AND SALE AGREEMENT**

**THE CYPRESS OF RALEIGH**

**ADDENDUM  
CONVERSION TO PURCHASE AND SALE AGREEMENT**

THIS ADDENDUM is entered into this \_\_\_\_ day of \_\_\_\_\_, 20\_\_, by and between \_\_\_\_\_, whose current address is \_\_\_\_\_ (“Purchaser”), and THE CYPRESS OF RALEIGH, LLC, a North Carolina limited liability company, whose address is c/o The Cypress Management Group, LLC, its Managing Member, 7101 Creedmoor Road, Suite 142, Raleigh, North Carolina 27613 (“Seller”), for the purpose of converting that certain Reservation Agreement dated \_\_\_\_\_, 20\_\_ (the “Reservation Agreement”), between Purchaser and Seller. These parties shall hereinafter sometimes be referred to collectively as the “Parties”, and individually as a “Party”.

In case of conflict, if any, between the Reservation Agreement and this Addendum, this Addendum will control.

The Parties hereby agree as follows:

1. **CONVERSION.** Pursuant to Paragraph 8 of the Reservation Agreement, Seller hereby gives notice to Purchaser that Seller has made a determination to begin accepting binding contracts for units to be constructed in Phase III of the continuing care retirement community known as The Cypress of Raleigh. Purchaser previously reserved Unit \_\_\_\_ (the “Property”) by virtue of the Reservation Agreement, which is more particularly described on Exhibit “A” attached hereto and incorporated herein by reference. Purchaser acknowledges receipt of this Addendum and by the execution of this Addendum, Purchaser hereby offers to convert the Reservation Agreement into a binding Purchase and Sale Agreement pursuant to the terms and conditions contained therein.

2. **RATIFICATION.** All other terms and conditions of the Reservation Agreement are hereby ratified and confirmed by the Parties and, upon execution by Seller, is hereby converted into a binding Purchase and Sale Agreement as stated herein, except as may be modified below.

3. **AGREEMENT MODIFICATIONS.** The Parties hereby agree to the following modifications to the Reservation Agreements, if any: See Exhibit “B” and Exhibit “C” attached hereto and incorporated herein by reference.

4. **ESCROW AGENT’S DIRECTIONS.** Purchaser hereby directs Escrow Agent, as set forth in Paragraph 3 of the Reservation Agreement, to disburse to Seller the Earnest Money Deposit in accordance with N.C.G.S. Section 58-64-35. This money shall be used only for the purposes authorized by the laws of the State of North Carolina.

5. **MEMBERSHIP AGREEMENT.** The Membership Agreement referenced in Paragraph 3 of the Reservation Agreement is also ratified and confirmed by Purchaser, as if re-executed.

6. **PURCHASER’S RIGHT TO CANCEL.** **Purchaser may cancel this Addendum by delivering notice thereof to Seller before midnight of the thirtieth (30<sup>th</sup>) day after the later of (i) the date Purchaser has signed this Addendum, or (ii) the date the Disclosure Statement is delivered to Purchaser (the “Cancellation**

Period”). This notice must be sent in writing to the following address: The Cypress of Raleigh, LLC, 7101 Creedmoor Road, Suite 142, Raleigh, NC 27613, Attn: Michael G. Sandman. If Purchaser cancels this Addendum within the Cancellation Period, all payments made by Purchaser in connection with the Reservation Agreement and this Addendum shall be fully refunded to Purchaser within ten (10) days after the expiration of the Cancellation Period. If Purchaser does not cancel this Addendum within the Cancellation Period, all payments made by Purchaser in connection with the Reservation Agreement and this Addendum will be non-refundable, but applicable to the purchase price of the Real Property. Notwithstanding the foregoing, if Purchaser dies before occupying the Real Property or is precluded from occupying the Real Property due to illness, injury or incapacity, all payments made by Purchaser in connection with the Reservation Agreement and this Addendum will be refunded to Purchaser or Purchaser’s estate, in accordance with N.C.G.S. Section 58-64-25(a)(3).

IN WITNESS WHEREOF, the Parties have executed this Agreement under seal as of the day and year first above written.

PURCHASER:

\_\_\_\_\_  
Name: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_

SELLER:

THE CYPRESS OF RALEIGH, LLC

By: The Cypress Management Group, LLC, its Manager

By: \_\_\_\_\_  
\_\_\_\_\_, Manager



EXHIBIT “A” TO ADDENDUM  
**PROPERTY DESCRIPTION**

{TO BE ATTACHED}

**EXHIBIT “B” TO ADDENDUM  
REVISIONS TO THE RESERVATION AGREEMENT**

{TO BE ATTACHED}

**EXHIBIT “C” TO ADDENDUM  
REVISIONS TO THE CYPRESS FEATURES, SELECTIONS AND OPTIONS**

{TO BE ATTACHED}

**EXHIBIT B TO THE CYPRESS OF RALEIGH RESERVATION AGREEMENT**  
**THE CYPRESS FEATURES, SELECTIONS AND OPTIONS**

{TO BE ATTACHED}

**EXHIBIT U**

**RESALE PURCHASE AND SALE AGREEMENT**

**{ATTACHED}**

**PLEASE NOTE:** As discussed on page 32 of this Disclosure Statement, we have attached hereto a Re-Sale Purchase and Sale Agreement substantially in the form that will be used on and after January 1, 2012 for resale of existing Units. Purchase and Sale Agreements signed prior to January 1, 2012 shall be substantially in the form attached as Exhibit P to the Disclosure Statement filed by The Cypress of Raleigh with the Department of Insurance on or around May 28, 2010.



# THE CYPRESS OF RALEIGH RESALE PURCHASE AND SALE AGREEMENT

**PURCHASER:**

\_\_\_\_\_  
whose address is \_\_\_\_\_,  
\_\_\_\_\_ (the "Purchaser").

**SELLER:**

\_\_\_\_\_  
whose address is \_\_\_\_\_,  
\_\_\_\_\_ (the "Seller").

These parties shall hereinafter sometimes be referred to collectively as the "Parties", and individually as a "Party".

**THIS RESALE PURCHASE AND SALE AGREEMENT** (the "Agreement") is entered into by the Parties this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**WITNESSETH:**

**THE CYPRESS INCLUDES PRIVATE RESIDENCES, CLUB HOUSE AND HEALTH CARE FACILITY**

The adult residential continuing care retirement community known as THE CYPRESS OF RALEIGH ("The Cypress"), consisting of a 42,709 square foot "Clubhouse", forty (40) bed "Health Care Facility" (expandable to 60 beds) (the Clubhouse and the Health Care Facility shall hereinafter sometimes be referred to collectively as the "Club Facilities"), and two (2) types of living units (attached or detached cottages and villa units) has been developed by The Cypress of Raleigh, LLC, a North Carolina limited liability company (the "Company"), upon its real property located in Raleigh, North Carolina (the "Land"); and

**RESIDENTIAL UNITS ARE CONDOMINIUMS**

All of the living units have been or are to be developed as condominium units (collectively, the "Units"; and each a "Unit") known as THE CYPRESS OF RALEIGH CONDOMINIUM (the "Condominium"), and the Units are or will be sold subject to the Declaration of Condominium recorded in Book 13240, Page 738, Wake County Registry (as amended) (the "Declaration"), a copy of which is enclosed in the Project Documentation – Book of Exhibits provided to Purchaser prior to execution of this Agreement; and

**PURCHASE OF RESIDENCE INCLUDES MEMBERSHIP IN THE CLUB**

The Club Facilities are operated by The Cypress of Raleigh Club, Inc., a non-profit and non-proprietary corporation ("The Club"). The purchase of a Unit requires that it be coupled with the rights, privileges and responsibilities



of membership in The Club to be utilized by the Purchaser or by his designee approved by The Club who meets the various requirements set forth in The Cypress Membership Agreement. Each owner of a Unit (individually, a “Unit Owner”; and collectively, the “Unit Owners”) or his approved designee must acquire membership simultaneously with the purchase of a Unit and each member shall execute The Cypress Membership Agreement and become eligible for residency and all rights of access to the Club Facilities; and

Seller wishes to sell and Purchaser wishes to acquire the Property hereinafter described and defined, upon the terms and conditions set forth hereinbelow.

NOW, THEREFORE, in consideration of the mutual promises contained in this Agreement, the receipt and legal sufficiency of which are hereby acknowledged, the Parties hereby covenant and agree as follows:

**PURCHASE OF RESIDENCE**

1. **PURCHASE.** Purchaser hereby agrees to purchase the Property hereinafter described for the purchase price hereinafter set forth, all in accordance with the terms and conditions set forth herein.

**SPECIFIC RESIDENCE AND  
PARKING SPACE TO BE  
ACQUIRED**

2. **PROPERTY.** The property which is the subject of this Agreement is designated as Unit \_\_\_\_\_ of the Condominium more fully described in the Declaration, together with an undivided fractional interest in and to the common areas and facilities included in the Condominium (the “Property”), and together with a membership in The Club.

Check the one that applies:

**Rights to Parking Space(s) Included:** The “Property” also includes all of Seller’s rights to Garage or Covered Parking Space(s): \_\_\_\_\_, pursuant to a Garage/Covered Space Parking Agreement, which shall be assigned to Purchaser at Closing.

**Rights to Parking Space(s) Not Included:** The “Property” does not include any of Seller’s rights to any Garage or Covered Parking Space, and Purchaser does not desire to purchase any rights to a Garage or Covered Parking Space.

**New Rights to Parking Space:** The “Property” does not include any of Seller’s rights to any Garage or Covered Parking Space, but Purchaser desires to purchase rights to a Garage or Covered Parking Space from the Company in accordance with the terms and conditions set forth in a Garage/Covered Space Parking Agreement, which shall be executed by Purchaser at Closing. The rights will be to use Garage or Covered Parking Space(s): \_\_\_\_\_.



**MEMBERSHIP IN THE CLUB  
INTEGRAL PART  
OF PURCHASE**

3. **CYPRESS MEMBERSHIP AGREEMENT.** Purchaser hereby expressly acknowledges receipt of The Cypress Membership Agreement, which is being executed simultaneously with this Agreement, a copy of which is included in the Project Documentation – Book of Exhibits provided to Purchaser prior to execution of this Agreement. This Membership Agreement is subject to the Company’s approval. Purchaser further acknowledges that in the event he chooses a designee and this designee is approved by The Club, then the designee will also be required to enter into The Cypress Membership Agreement. The services to which Purchaser will have access as a Member of The Club are described in Paragraph 32 hereof.

**PURCHASE PRICE**

4. **PURCHASE PRICE.** The “Purchase Price” of the Property is \$\_\_\_\_\_. The Purchase Price is payable as follows:

**DEPOSIT**

- a. \$\_\_\_\_\_, upon the execution hereof by Purchaser, representing fifteen percent (15%) of the Purchase Price as an earnest money deposit (the “Earnest Money”), to be held by the Company as Escrow Agent.
- b. \$\_\_\_\_\_, the balance of the Purchase Price due at Closing (as defined in Paragraph 12 hereof).

**MEMBERSHIP FEE  
INCLUDED IN PURCHASE  
PRICE**

**The non-refundable and non-transferable Membership Fee which is equal to ten percent (10%) of the Purchase Price is included in the Purchase Price of the Property.**

**ALLOCATION OF THE  
PURCHASE PRICE**

The Purchase Price of the Property shall be allocated as follows:

- a. \$\_\_\_\_\_ (90% of the Purchase Price allocated to the purchase and sale of the Unit) shall be payable to the Seller.
- b. \$\_\_\_\_\_ (10% of the Purchase Price allocated for the non-refundable and non-transferable Membership Fee) shall be payable to the Company.

**PARKING SPACE PAYMENT**

Check the one that applies:

- For assignment by Seller:** In addition to the Purchase Price, Purchaser shall pay the sum of \$\_\_\_\_\_ to the Seller to acquire the Seller’s rights to use the Parking Space.
- No Parking Space purchase:** Purchaser has opted not to purchase a Parking Space.
- For new purchase:** In addition to the Purchase Price, Purchaser shall pay the sum of \$\_\_\_\_\_ to the Company for the rights to use the Parking Space.





**NO FINANCING  
CONTINGENCY**

5. **CASH PURCHASE.** This Agreement does **not** contain a financing contingency.

**PHASED DEVELOPMENT**

6. **PHASED DEVELOPMENT.** Phase I and Phase II of The Cypress have been constructed on the Land. Phase I and Phase II consist of 168 villa Units in 3 mid-rise buildings (Buildings A, B and C) and 34 cottage Units. Phase I and Phase II also include the Clubhouse and a 40 bed Health Care Facility (expandable to 60 beds). As of January 1, 2020, Phase III included three (3) cottages, bringing the total number of cottage Units in The Cypress to 37. Phase III also includes 57 villa Units located in Building D. The second and last of the mid-rise buildings in Phase III will be Building E, and it will contain 57 villa Units. As of January 1, 2020, construction on Building E was under way, with construction estimated to be complete by November 2020.

**DEVELOPER MAY  
DEVELOP ADDITIONAL  
UNITS**

The Company or its assigns may, in the future, develop additional Units and/or expand or develop additional common facilities, as one or more additional phases or expansions of the Condominium (collectively, the "Additional Phase Property"). The total number of Units for all phases shall be as specified in the Declaration for the Condominium. Whether such additional phases are added, the number and architectural design of the Units in such phases, and the order of any such expansion, shall be solely in the discretion of Company. The Company has reserved the assignable right to provide other improvements in The Cypress that may be used by purchasers of Units in additional phases and to grant to such purchasers the right to use the common elements of The Cypress. Reference is made to the Declaration for specific discussion of the Additional Phase Property.

**CLOSING**

7. **CLOSING DATE.** Closing on the purchase of the Property (the "Closing") shall be held at a mutually agreed upon location on or before \_\_\_\_\_, 20\_\_, time being of the essence (the "Closing Date").

**SELLER AND PURCHASER  
RESPONSIBLE FOR  
CERTAIN CLOSING  
EXPENSES**

8. **CLOSING EXPENSES.** Each Party shall be responsible for those Closing costs customarily paid by sellers and purchasers in Raleigh, North Carolina. For example, Seller shall be responsible for paying the revenue stamps on the deed, as well as for preparation of the deed and lien affidavit. Purchaser shall be responsible for recording fees for the deed and for any costs associated with financing the purchase of the Property, including, without limitation, title examination, loan documentation preparation, deed of trust recording fees, and title insurance, if applicable.

**PRORATIONS**

9. **PRORATIONS.** Property taxes, the Monthly Payment (as defined in Paragraph 16 hereof), and the applicable assessments on the Property shall be prorated between the Parties on a calendar year basis as of the Closing Date.

**GENERAL WARRANTY  
DEED GIVEN**

10. **CONVEYANCE OF TITLE.** Fee simple title to the Property shall be conveyed by Seller via warranty deed free and clear of all encumbrances save



and except:

- a. taxes and assessments not yet due;
- b. the terms, provisions, covenants, easements, restrictions and reservations set forth in the Declaration, the Bylaws (the "Bylaws") of The Cypress of Raleigh Owners' Association, Inc. (the "Association"), the Membership Agreement, and the Rules and Regulations of the Association (the "Rules and Regulations"), and all exhibits and amendments thereto;
- c. general utility easements of record and all other easements and restrictions of record which do not impair Purchaser's use of the Unit for residential purposes;

## TITLE CONDITIONS

- a. easements established under the North Carolina Condominium Act;
- b. all facts and conditions which may be shown by survey and physical examination of the Property;
- c. any applicable zoning and/or development laws and ordinances, including those of Wake County and the City of Raleigh.

## ACCEPTANCE OF PROPERTY "AS IS"

11. **ACCEPTANCE OF PROPERTY.** Purchaser has inspected and accepts the Property "as is", except as may otherwise be stated in this Agreement. All appliances, heating, plumbing and air conditioning systems will be in good working order on the Closing Date.

## PURCHASER AGREES TO BE BOUND BY THE CONDOMINIUM DOCUMENTS

12. **DECLARATION OF CONDOMINIUM.** The Company has formed the Condominium by filing the Declaration pursuant to the provisions of the North Carolina Condominium Act (N.C. Gen. Stat. § 47C et seq., as amended) (the "Act"). Purchaser agrees to be bound by the Declaration, the Association's Articles of Incorporation (the "Articles of Incorporation"), the Bylaws and the Rules and Regulations. The Company has reserved the right to make such changes in the Declaration, Articles of Incorporation, Bylaws and the Exhibits thereto as may be necessary to conform to applicable laws and governmental regulations, to meet requirements of lending institutions, to expedite the sale of the other Units in the Condominium and to establish or reconfigure common areas; **PROVIDED**, such changes shall not substantially diminish the Purchaser's interest in the Unit.



**CYPRESS MEMBER HAS  
ACCESS TO CLUB  
FACILITIES**

13. **CLUBHOUSE AND HEALTH CARE FACILITY.** The Club Facilities include the Clubhouse and Health Care Facility. The Company has received from the State of North Carolina a Certificate of Need for the Health Care Facility.

The Company, per the Declaration, has made the Club Facilities part of the Condominium. The Company has negotiated and executed a management agreement for the Club Facilities with a qualified operator. Pursuant to the terms of the Membership Agreement, the Purchaser, or his designee approved for Membership by The Club, as a benefit and membership right under his membership, will be entitled to admission to the Health Care Facility so long as his attending physician or the Medical Director of The Club determine that this type of care is needed.

**SELLER HAS OPTION TO  
REPAIR DAMAGE OR  
CANCEL AGREEMENT**

14. **RISK OF LOSS.**

- a. Partial loss or damage to the Property by fire, storm or other casualty between the date hereof and Closing shall not void or impair this Agreement, but all such damage will be the responsibility of Seller.
- b. In the event of total or substantial loss as a result of the hazards mentioned above, Seller shall have the option to repair all damage at Seller's own cost or through insurance proceeds from the Association, or to cancel this Agreement and refund to Purchaser all monies paid hereunder.
- c. If Seller is required or elects to repair the loss or damage to the Property caused by the hazards mentioned above, the time for Closing shall be extended for such time as may be reasonably required to repair the damage.

**WARRANTIES ARE  
TRANSFERRED TO  
PURCHASER**

15. **WARRANTY.** At Closing, Seller shall transfer to Purchaser all of Seller's right, title and interest in and to any manufacturer's warranty furnished to Seller covering any equipment or appliance installed in the Property, and Seller makes no warranty or agreement of any kind with respect to any such equipment or appliance.

16. **CLOSING AND POST-CLOSING FINANCIAL OBLIGATIONS OF PURCHASER.**

**MONTHLY PAYMENT  
INCLUDES CONDOMINIUM  
FEE AND SERVICE FEE**

- a. Purchaser agrees to accept responsibility for the Monthly Payment which includes the Condominium Fee and the Service Fee, as the same are defined in Paragraph 1(g) of the Membership Agreement. If the Member (as defined in the Membership Agreement) is not the Purchaser of the Unit, the



Member and the Purchaser shall be jointly and severally responsible for the Monthly Payment. In such circumstances, the Member and the Purchaser shall execute a guaranty agreement in a form approved by The Club further evidencing this joint and several responsibility (each a “Guaranty Agreement”). In the event that Purchaser fails to execute the Guaranty Agreement, Section 6 of the Membership Agreement, which shall be signed by Purchaser and Member, shall serve as Purchaser’s personal guaranty of payment of the Member’s Monthly Payments to the Company, its successors, and assigns. The services included in the Monthly Payment are described in Paragraph 32 hereof.

**CONDOMINIUM  
OPERATIONS AND  
EXPENSES**

- b. Purchaser acknowledges and agrees to accept responsibility for his continuing obligation pursuant to the Declaration, beginning with the date of Closing, to pay his Condominium Fee consisting of his pro rata share of any common expenses, operating expenses, capital expenses and debt service, if any, assessed against the Property. For purposes of this Agreement, debt service is limited to possible future loans voted on and approved by Unit owners after Closing. It does not include development loans. Such assessments shall be for authorized purposes, including, but not limited to, expenses incurred for landscaping, maintenance, repairs, general area maintenance, administration supplies, professional services, utilities, garbage services, insurance, etc. Each purchaser’s pro rata share will be determined in accordance with statutory percentage values as stated in the Declaration.

**SERVICE FEE INCLUDES  
ELECTRICITY IN THE  
VILLA UNITS**

- c. Electricity and natural gas for the villa Units will be part of the Service Fee, while cottage Unit owners will be directly responsible for the payment of electricity and gas for their Units.

**INSURANCE EXPENSES  
AND TWO MONTHS  
COMMON EXPENSES DUE  
AT CLOSING FOR  
WORKING CAPITAL FUND**

- d. At Closing, Purchaser shall pay to the Association a payment in the amount of \$\_\_\_\_\_, constituting two (2) months common expenses as the Property’s contribution to a working capital fund for the Condominium. Purchaser shall also pay to the Association a payment in the amount of \$\_\_\_\_\_, constituting twelve (12) months hazard and flood insurance premiums for the Property.

**THE SERVICE FEE**

- e. Purchaser agrees to accept responsibility on the Closing Date for the Service Fee. Purchaser acknowledges his continuing obligation as a Member to pay his share of the cost of the services provided by The Club (the Service Fee) in accordance with the Membership Agreement, to contribute toward the expenses of operating the Club Facilities, as well



as any capital purchases and debt service, if any, necessary for repair, maintenance and modification of the Club Facilities.

**PERSONAL PROPERTY AND CUSTOM CHANGES**

- f. Purchaser agrees to pay the additional cost of repairs to appliances which are the personal property of the Purchaser. In addition, if custom changes have been or will be made to a Unit, including, without limitation, non-standard or upgraded appliances or flooring, the Unit owner will reimburse the Association for any amounts expended to maintain, repair, insure and replace the custom changes, to the extent such amounts exceed the amount which would have been expended for standard appliances, fixtures and finishes. This provision also applies to any increased costs for the maintenance of landscape additions to cottage Units.

**GARAGE/COVERED PARKING**

- g. All Purchasers who have entered into Garage/Covered Parking Space Agreements as referenced in Paragraph 2 above may be responsible for an additional periodic assessment to cover the actual pro rata costs of maintenance and repair of the garage and/or covered parking space area.

**SPECIAL OPERATING RESERVE ACCOUNT REQUIRED BY N.C. DEPT. OF INSURANCE**

- 17. **OPERATING RESERVE DEPOSIT.** The State of North Carolina Department of Insurance, in accordance with Article 64, Chapter 58 of the North Carolina General Statutes, requires that all continuing care facilities maintain operating reserves equal to 50% of the total operating costs projected for a twelve (12) month period following the period covered by the most recent annual statement filed with the Department. Facilities that maintain an occupancy level in excess of 90% shall only be required to maintain a 25% operating reserve upon approval of the Commissioner. These reserves are to be used for the benefit of The Club as required by the State of North Carolina in the event of emergencies and/or unexpected operating shortfalls.

**PURCHASER TO MAKE A DEPOSIT INTO THE OPERATING RESERVE ACCOUNT**

At Closing, Purchaser shall be responsible for paying to The Club an Operating Reserve Deposit in the amount of \$14,000. This deposit, along with deposits in the same amount from all other purchasers, will be held in a separate account (the "Operating Reserve Account").

Each subsequent Unit purchaser shall be obligated to pay \$14,000 into the Operating Reserve Account so that upon resale of the Unit, any unused portion of the \$14,000 deposit paid by the Purchaser shall be returned to Purchaser.

**PURCHASER MUST INSURE PERSONAL PROPERTY**

- 18. **INSURANCE ON PERSONAL PROPERTY.** Purchaser is responsible for insuring his personal property (i.e. furniture, clothing, jewelry, china, silver, etc.) located in his Unit and for liability insurance for any occurrences within the Unit.



**OCCUPANCY BY SOMEONE OTHER THAN OWNER**

19. **PROVISIONS APPLICABLE WHERE MEMBER IS NOT THE PURCHASER.** If the Unit purchased by Purchaser will be used by someone other than Purchaser, then Purchaser must designate the person(s) who will use the membership which must be acquired at the time the Unit is purchased (the “Designated Member”). The Designated Member must: (a) meet the basic eligibility requirements for membership in The Cypress; (b) be approved by the Company; (c) execute the Membership Agreement; and (d) comply with the terms of the Membership Agreement, including, without limitation, assurances regarding the Monthly Payments. The Designated Member and Purchaser shall be jointly and severally liable for the Monthly Payment and all other obligations outlined in the Membership Agreement. The Designated Member’s membership in The Club will terminate when the Designated Member ceases to reside at The Cypress. Any subsequent residents of the Unit, including the Purchaser, must acquire their own membership in The Club prior to occupying the Unit. The Membership Fee for the membership will be assessed at the then applicable rate for future Members and must be paid to the Company prior to occupancy of the Unit.

**DEFAULT PROVISIONS**

20. **DEFAULT.** If Purchaser defaults in the performance of any obligation of this Agreement, Seller may, in its sole discretion (i) seek to recover all damages, including interest on the balance due, resulting from Purchaser’s default, and in each instance shall be entitled to the legal costs incurred by the Seller in enforcing its rights; or (ii) retain all funds paid by or on behalf of Purchaser as liquidated damages, in which event Seller shall have no further obligation to Purchaser under this Agreement. In the event of a default in the performance of any of the obligations of the Seller pursuant to this Agreement, Purchaser shall be entitled, as Purchaser’s sole and exclusive remedy, to (i) terminate this Agreement and receive a refund of the Earnest Money, or (ii) seek specific performance according to law. Either Seller or Purchaser is hereby allowed fifteen (15) days after receipt of written notice of default to cure such default prior to termination hereof by the non-defaulting Party as provided herein.

**NOTICE PROVISIONS**

21. **NOTICES.** Any notice to a Party shall be in writing and shall be delivered to the Party’s address stated above, or such other address as shall subsequently be provided by appropriate notice. Notice may be either hand delivered or deposited in the U.S. Mail or with a courier company such as Federal Express. If mailed or couriered, any written notice shall be deemed received on the second calendar day following the date of mailing if addressed and mailed by certified or registered mail, postage paid, to the addressee set forth above.

**COMPANY RESERVES A RIGHT OF FIRST REFUSAL ON FUTURE SALES**

22. **RIGHT OF FIRST REFUSAL.** The Purchaser hereby acknowledges that the Declaration provides that when the Purchaser wishes to sell the Property and Purchaser has received a bona fide purchase offer from a third party (each a “BFP Offer”), Purchaser shall then offer the Property for sale, in



writing, to the Company, its successors or assigns for the same price at which the highest BFP Offer has been made for the Property, and the Company shall have thirty (30) days after receipt of written notice of the price and terms of such BFP Offer within which to exercise its option to purchase the Property at this price. If the Company fails or refuses, within thirty (30) days after receipt of written notice of the BFP Offer, to exercise its option to purchase the Property at the offered price, then Purchaser shall have the right to sell the Property to the third party, subject, however, to all covenants, restrictions, limitations and affirmative obligations and other agreements referenced and contained in this Agreement. This Paragraph shall not be construed to impair the right of foreclosure of a mortgage on the Property and improvements thereon. The right of first refusal shall be set out in the deed to the Unit from the Seller to the Purchaser (“Deed”) and shall obligate the Company to exercise the right of first refusal within thirty (30) days after the date the Company receives the written notice of the BFP Offer and, in any event, no later than twenty one (21) years after the death of the last survivor of two (2) lives in being on the date of the Deed. The Purchaser shall designate the two (2) lives in being in the Deed. The reason for the provisions related to the exercise of the right of first refusal no later than twenty one (21) years after the death of the last survivor of the two (2) lives in being is intended to comply with the North Carolina common law rule against perpetuities.

**RESALE PRICE OF UNIT  
WILL INCLUDE NEXT  
PURCHASER’S  
MEMBERSHIP FEE**

23. **PAYMENT OF MEMBERSHIP FEE ON RESALE.** Purchaser understands that, in accordance with the terms of the Membership Agreement, when he sells the Property, the Membership Fee for the new purchaser is to be paid to the Company at the resale closing as part of the Property’s gross sales price. The Membership Fee to be allocated upon sale by Purchaser shall be ten percent (10%) of the gross sales price. Any real estate commission will be based on the real estate portion of the Property and paid from the proceeds of the sale net of the Membership Fee and not on the gross sales price.

**MEMBERSHIP FEE WILL BE  
BASED ON FAIR MARKET  
VALUE IF PURCHASER  
GIVES PROPERTY TO  
THIRD PARTY**

In the event the Purchaser gives or wills his Property to any other person or entity (including an entity solely owned by the Purchaser), the Membership Fee paid to the Company shall be based on the fair market value of the Property when the gift or devise is made and ownership of the Property is transferred. The Purchaser acknowledges that the Company has the unconditional right to approve or disapprove memberships in The Club.

24. **CERTAIN RESERVED RIGHTS OF COMPANY.**

**COMPANY MAY LEASE  
UNSOLD UNITS**

- a. The Company shall have the absolute right and privilege of leasing any or all of the Units owned by Company on a short or long term basis for use in the manner contemplated by the Membership Agreement and the Declaration. The Company’s lessees shall be entitled and subject to all of the privileges, rights, obligations and requirements as outlined in the Membership Agreement.



**UNITS MAY BE USED AS  
SALES MODELS**

- b. The Company is entitled to use one or more of the Units as models for purposes of a sales model and/or offices and/or guest rooms. Further, as provided in the Declaration, the Company is entitled to the use of offices in the Clubhouse for administrative and sales purposes, including resales.
- c. The Company is entitled to use up to nine (9) rooms in the Club Facilities as office and storage facilities for sales activity and related administrative and management purposes at no charge to Company, as more particularly described in Section 14.4 of the Declaration.

25. **MISCELLANEOUS.**

**AGREEMENT BINDING ON  
HEIRS AND SUCCESSORS.**

**MAY NOT BE ASSIGNED  
WITHOUT CONSENT OF  
SELLER OR COMPANY**

**DEATH OF PURCHASER  
PRIOR TO CLOSING**

- a. This Agreement is binding upon and shall inure to the benefit of the heirs, legal representatives, successors and assigns of the Parties. The rights of Purchaser pursuant to this Agreement may not be assigned or transferred without the express written consent of Seller or the Company. Any attempt by Purchaser to assign this Agreement without such consent may be deemed by Seller a breach of this Agreement by Purchaser, and Seller shall not be bound by any such assignment. **Notwithstanding the foregoing, in the event of the death of Purchaser prior to Closing, the Purchaser's obligations shall cease, the Agreement shall be automatically terminated, and all deposits returned to Purchaser's estate. In addition, if on account of illness, injury or incapacity, Purchaser would be precluded from occupying the Unit under the terms of the Membership Agreement prior to Closing, Purchaser's obligations shall cease, the Agreement shall be automatically terminated, and all deposits returned to Purchaser's estate. If there is more than one Purchaser, the Agreement will continue to be binding on the surviving Purchaser.**

**TERMS SURVIVE THE  
CLOSING**

- b. The terms of this Agreement shall survive the Closing of the transaction contemplated hereby and shall thereafter continue to bind the Parties and their successors to this Agreement. This Agreement may be executed in duplicate originals.

**IF PART OF AGREEMENT  
UNENFORCEABLE THAT  
SHALL NOT AFFECT  
REMAINDER**

- c. If any provision of this Agreement is held to be invalid or unenforceable, it shall not affect the validity or enforceability of any other provision hereof. All titles or captions in this Agreement are for convenience in reference and in no way define, limit or extend this Agreement.





**WAIVER OF RIGHTS MUST  
BE IN WRITING**

- d. No failure of a Party to exercise any power or right granted hereunder or to insist upon strict compliance with any obligation specified herein, and no practice at variance with the terms hereof, shall constitute a waiver of said power or right unless expressly authorized in writing by the affected Party.

**THIS AGREEMENT  
SUPERSEDES OTHER  
AGREEMENTS**

- e. This Agreement supersedes any and all understandings and agreements between the Parties regarding the Property and constitutes the sole agreement between the Parties regarding the Property. No oral statements or representations shall be deemed to modify this Agreement or bind either Party.

**INDIVIDUAL MAY ACT FOR  
CORPORATION OR  
PARTNERSHIP**

- f. If Purchaser is a trust, corporation or partnership, Purchaser shall provide evidence that the persons executing this Agreement are authorized to act on behalf of the entity.

**ALL REPRESENTATIONS  
MADE BY SELLER ARE  
STATED IN THIS  
AGREEMENT**

- g. By execution of this Agreement, Purchaser agrees that Seller has made no covenants or commitments regarding the Property, except as stated in this Agreement.

**SMOKING RESTRICTION/  
AIR PURIFICATION  
INSTALLATION  
REQUIREMENT**

- h. Purchaser or Purchaser's guests shall not be permitted to smoke cigarettes, pipes, or cigars in Purchaser's Unit unless Purchaser has installed an air purification system (approved by the Company) in the Unit at the Purchaser's sole cost and expense.

**AMENDMENTS MUST BE IN  
WRITING**

**AMENDMENTS MUST BE  
APPROVED BY THE  
COMPANY IN WRITING**

- 26. **AMENDMENTS.** NO AMENDMENT SHALL BE MADE TO THIS AGREEMENT EXCEPT AS EXPRESSLY AUTHORIZED IN WRITING BY SELLER AND ACCEPTED BY PURCHASER. ALL AMENDMENTS MUST BE APPROVED BY THE COMPANY IN WRITING. PURCHASER ACKNOWLEDGES THAT HE HAS READ THIS AGREEMENT AND UNDERSTANDS AND AGREES TO ALL OF ITS TERMS.



**PURCHASER  
ACKNOWLEDGES RECEIPT  
OF DOCUMENTS**

27. **ACKNOWLEDGMENT OF RECEIPT.** By execution of this Agreement, Purchaser acknowledges receipt, review and approval of the form and content of the documents listed below, some of which are packaged in a booklet entitled “The Cypress of Raleigh Project Documentation – Book of Exhibits,” and agrees to be bound by the terms and provisions thereof, together with such amendments as are authorized herein:

- a. Working with Real Estate Agents Brochure
- b. Waiver of Repurchase Option and Consent to Sale
- c. The Cypress of Raleigh Third Party Real Estate Transfer: Representation and Indemnification Agreement
- d. Resale Certificate
- e. Addendum to Resale Purchase and Sale Agreement
- f. Assignment of Villa Garage/Covered Parking Space Agreement
- g. The Cypress of Raleigh Membership Agreement
- h. Receipt of Resale Purchase and Sale Agreement and Other Project Documents
- i. Purchase Process Spreadsheet
- k. Disclosure Statement
- l. Project Documentation – Book of Exhibits
  1. Declaration of Condominium
  2. Bylaws of and Rules of Conduct – The Cypress of Raleigh Owners’ Association, Inc.
  3. Articles of Incorporation – The Cypress of Raleigh Owners’ Association, Inc.
  4. Condominium Management Agreement
  5. Club Management Agreement
  6. Projected Annual Budget for Association
  7. Projected Annual Budget for The Club
  8. Projected Annual Budget for Association and The Club
  9. Permitted Exceptions

**BROKERAGE COMMISSION**

28. **BROKERAGE.** Seller and the resale marketing division of the Company entered into a listing agreement for the sale of the Property (the “Listing Agreement”). The Company has earned its commission under the Listing Agreement (the “Property Commission”), and the Seller agrees to pay the Property Commission to the Company at Closing, in accordance with the terms of the Listing Agreement. If Purchaser defaults hereunder and the Earnest Money is forfeited to Seller in accordance with Paragraph 19 hereof, the Company will be entitled to one-half (1/2) of the forfeited Earnest Money as its full compensation from Seller.

**PURCHASER’S RIGHT TO  
CANCEL**

29. **PURCHASER’S RIGHT TO CANCEL.** (In the event of Purchaser’s cancellation in accordance with the terms of this Agreement, all payments made by Purchaser prior to such cancellation shall be refunded to Purchaser in accordance with N.C.G.S. §58-64-25(a)(3). Notwithstanding the fact that N.C.G.S. §47C-4-108 provides for a seven (7) day cancellation period for condominium acquisitions, this Agreement



**provides for a longer cancellation period as set forth in this Paragraph 29.)** Purchaser shall have the absolute right to cancel this Agreement at any time by delivering written notice to Seller during the thirty (30) calendar day period immediately following the later of the full execution of this Agreement or the receipt of the Disclosure Statement (the “Cancellation Period”). Purchaser’s cancellation of this Agreement during the Cancellation Period is without penalty, and all payments made by the Purchaser before such cancellation shall be refunded by Seller within ten (10) days after the expiration of the Cancellation Period. Purchaser is not required to move into the Unit before the expiration of the Cancellation Period.

**NORTH CAROLINA LAW GOVERNS**

30. **NORTH CAROLINA LAW GOVERNS.** This Agreement will be interpreted in accordance with the laws of the State of North Carolina.

**NORTH CAROLINA INSURANCE LAW REGARDING CONTINUING CARE RETIREMENT COMMUNITIES CONTROLS**

31. **NORTH CAROLINA INSURANCE LAW REGARDING CONTINUING CARE RETIREMENT COMMUNITIES CONTROLS.**

The purchase, sale and ownership of the Unit and membership in the Club are subject to the provisions of the North Carolina Condominium Act (North Carolina General Statutes Chapter 47C) and the North Carolina Insurance Law regarding Continuing Care Retirement Communities (North Carolina General Statutes Chapter 58, Article 64). North Carolina also has a law prohibiting transfer fees (North Carolina General Statutes Chapter 39A). In the event of a conflict among these laws, Purchaser, by execution of this Agreement, evidences Purchaser’s acknowledgement and agreement that the North Carolina Insurance Law regarding Continuing Care Retirement Communities shall control, including specifically North Carolina General Statutes 58-64-85(b) which provides:

(b) Facilities and providers licensed under this Article that also are subject to the provisions of the North Carolina Condominium Act under Chapter 47C of the General Statutes shall not be subject to the provisions of Chapter 39A of the General Statutes, provided that the facility’s declaration of condominium does not require the payment of any fee or charge not otherwise provided for in a resident’s contract for continuing care, or other separate contract for the provisions of membership or services.

**SERVICES INCLUDED IN MONTHLY PAYMENT**

32. **SERVICES INCLUDED IN MONTHLY PAYMENT.** The services and features listed in this section 32 are included in the Monthly Payment. These services encompass meal preparation (personalized for the medical and nutritional needs of the Member), personal safety, socialization, transportation, and monitoring of other activities of daily living, and are part of a coordinated system of care and resources to address both medical and non-medical drivers of health outcomes associated with growing older.

**CLUB ACTIVITIES**

a. **Club Activities.** A full-time Director of Community Life Services is employed by The Club who plans and organizes a variety of events tailored to the special interests of the Members. These programs are focused on wellness to meet the intellectual, physical,



emotional, social and spiritual needs of the Members. Activities include cultural excursions, lecture series, dance and art classes, card games, craft activities, tournaments, and shopping. A full-time Wellness Coordinator is employed who plans and organizes fitness and wellness programs such as Tai-Chi, yoga, aquatic, aerobic and strength and balance classes.

## URGENT CALL SYSTEM

b. Urgent Call System. All Cottages and Villas have a two-way, telephonic urgent call system. The purpose of this system is to summon help in an emergency. The urgent call system is connected to an indicator panel in the Health Care Facility, which identifies the Cottage or Villa from which the signal was initiated. Licensed nursing personnel with emergency training will respond to calls from the urgent call system and will summon any other appropriate emergency personnel that may be required.

## MONTHLY FOOD SERVICE ALLOWANCE

c. Monthly Food Service Allowance. As part of residency at The Cypress of Raleigh, Members receive meal services as described in this section. To assist in tracking meal usage and monitoring the health of Members, Members receive monthly meal points, which may be used for food and beverage selections from a varied menu of favorites, seasonal and daily specials, giving the Members optimal choice and flexibility for their dining experience. A Member's meal points are designed to be allocated in the Member's discretion over the course of each month and are sufficient for one meal per day. With four distinct dining venues, the Members can choose to use meal points on dining experiences in the formal or main dining venues or on quick grab-and-go menu items from the buffet-style bistro and bar menus. Home delivery and take-out meals are also available. A registered dietician is available for consultation. A Member's monthly meal points may not be used to pay for guest meals or for meals for other Members. Charges for guest meals will be published by The Club and subject to change without prior notice based on variable food and labor costs. A Member's meal point allowance is not equivalent to dollars, cannot be exchanged for dollars, and does not reflect the actual cost of food and labor utilized for the delivery of food service as part of a Member's residency at The Cypress of Raleigh. Unused meal points will not carry over to the next month and are not refundable or redeemable for other products or services. Additional meal points cannot be purchased. Any additional meals that may be requested by a Member in excess of their monthly meal points will be charged on a per-item basis to the Member at a dollar amount determined by The Cypress of Raleigh. To the extent required by law, appropriate sales and use taxes will be charged to Members and collected on sales of alcohol, guest meals, and, if prescribed by law, meals served in excess of the monthly point total.

Healthy eating and nutrition are central to a Member's well-being and are interrelated with health, personal safety, socialization,



transportation and monitoring other activities of daily living that may not be apparent absent daily use of Cypress dining in the presence of trained staff. The excellence of The Cypress of Raleigh's dining program supports the coordinated system of care provided by The Club to address both medical and non-medical drivers of health outcomes associated with growing older.

## **PRIVATE DINING ROOM**

d. Private Dining Room. A private dining room is available for use by Members and their guests for special family or social occasions. Special meals and wait staff may be available, upon request, for an additional charge. Advance reservations with the Director of Food & Beverage or Dining Room Manager are required. Standing reservations for groups and/or clubs are not available

## **WEEKLY FLAT LAUNDRY**

e. Weekly Flat Laundry. Members receive weekly flat laundry service, which includes sheets, pillow cases, towels, face cloths and dish cloths. The flat laundry will be washed, dried, folded and returned on a weekly basis at the next scheduled housekeeping visit.

## **WEEKLY HOUSEKEEPING SERVICES**

f. Weekly Housekeeping Services. Members will receive weekly housekeeping services. These services include kitchen and bathroom cleaning, surface cleaning, dusting, and vacuuming. Periodically, window washing, carpet cleaning and other additional housekeeping will be performed.

## **SCHEDULED MAINTENANCE OF COTTAGE OR VILLA AND COMMON AREA**

g. Scheduled Maintenance of Cottage or Villa and Common Area: Maintenance, as more particularly described in the Declaration of Condominium, will be provided for each Cottage and Villa, and The Cypress common areas. If a Member needs maintenance service, the Member may submit a request with the Facilities Coordinator or concierge.

## **GROUNDS CARE AND GARDENING**

h. Grounds Care and Gardening. The Club's lawns, trees and shrubs will be maintained, as well as the interior and exterior of the club house, the parking areas, walks and exercise trails. In addition, gardening areas are available for Members' use and will be under the direction of the Director of Community Life Services on a first-come, first-serve basis.

## **CERTAIN UTILITIES**

i. Certain Utilities. Electric, gas (if applicable), water, sewer, and basic cable services will be included in the Monthly Payment for owners of villa Units. Owners of cottage Units must pay a separate charge for electric and gas.

## **SCHEDULED**

j. Scheduled Transportation. Scheduled transportation is



## **TRANSPORTATION**

available for The Cypress Members. Scheduled trips include nearby grocery stores, banks, and shopping centers. Special trips may be periodically scheduled at an additional cost to each participant.

## **CAMPUS SECURITY**

k. Campus Security. The Cypress is a gated community with security staff personnel onsite twenty-four (24) hours a day. Additionally, security cameras and a card access system provide security to all buildings and the community.

## **MAIL DELIVERY**

l. Mail Delivery. Once each business day, the U.S. Postal Service collects and distributes mail to each Member's personal mailbox. At the request of a Member, mail can be forwarded during the Member's absence from his/her Villa or Cottage.

## **ABSENCE CREDIT**

m. Absence Credit. If a Member provides prior written notice to the Club that the Unit will be unoccupied for a period of not less than fourteen (14) consecutive days, the Member may be entitled to an "absence credit" in an amount determined by the Club to be applied against the Monthly Payment.

## **HEALTH CARE FACILITY**

n. Health Care Facility. The Cypress has secured a license from the North Carolina Department of Health & Human Services, Division of Facility Services to operate thirty-six (36) skilled nursing beds and four (4) assistance-in-living adult home beds. The skilled nursing care facility and the assistance-in-living facility are collectively referred to as the Health Care Facility. For a period of ninety (90) lifetime cumulative days, each Member will be entitled to receive nursing care in the nursing care facility in a semi-private room in the Health Care Facility, without extra charge, at the current Monthly Payment. During this ninety (90) day period, the Member will continue to pay his/her Monthly Payment, plus the cost of two (2) extra meals per day, nursing supply charges, and those costs outlined in Paragraph 9 hereof. A private room will be available for an additional charge. If the Member needs further care after the ninety (90) cumulative lifetime days of care, the Member will pay, in addition to the Monthly Payment, the applicable Member rate for such care. This rate will include meals and a semi-private room (at the request of a Member, a private room will be provided on an "as available" basis for an additional charge).

If two (2) Members occupy a Unit and one (1) of them becomes a permanent resident of the Health Care Facility, then the Monthly Payment for the Member continuing to occupy the Unit will be reduced to the single occupancy rate. The Member residing in the Health Care Facility will pay the applicable Member rate.



In the unlikely event that accommodations are not immediately available in the Health Care Facility, the Member agrees to relocate to another health care facility with which the Medical Director of The Cypress arranges to provide such care until accommodations at the Health Care Facility are available. The Club shall be responsible for any increased charge associated with the alternate health care accommodations.

It should be noted that, due to the licensing requirements for the Health Care Facility, the facility cannot provide treatment for all conditions (e.g., no psychiatric care will be available). In addition, occupancy at the Health Care Facility may be terminated in accordance with Paragraph 12 hereof.

In no event will a Member be admitted to or treated in the Health Care Facility if such Member requires care that cannot lawfully be provided at the Health Care Facility and/or the Medical Director determines in his or her reasonable opinion that such Member's mental or physical condition is such that his or her admittance or treatment at the Health Care Facility would present an unreasonable risk of injury or detriment to that Member or any other Member receiving treatment or residing at the Health Care Facility, including but not limited to, a situation in which the Member seeking admittance or treatment at the Health Care Facility has been or is suspected to have been infected with a communicable disease for which there is no readily available cure and/or vaccine.

The operation of the Health Care Facility shall be subject to the applicable regulations and licensing standards of the State of North Carolina, including the N.C. Department of Insurance ("NCDI") and the North Carolina Department of Human Resources ("NCDHR").

## **HEALTH CENTER ACTIVITIES**

o. Health Center Activities. An activities director is responsible for coordinating and directing the arts, crafts, social and recreational activities for the Members in the Health Care Facility. The focus of these activities will be restorative care by enhancing the quality of life through physical, emotional, psychological and spiritual programs while catering to the individual needs of each Member.

## **MEMBER COMMITTEES**

p. Member Committees. Member committees hold regularly scheduled meetings to promote communication between the Members and The Cypress' administration. The six (6) Member committees are finance, buildings and grounds, food and beverage, health and safety, library, and social and activities.



**MONTHLY BILLING SERVICE**

q. Monthly Billing Service. Monthly statements are placed in each Member's mailbox or other appropriate location on or before the fifth (5th) day of the month. Each monthly statement must be paid within ten (10) days after the delivery date of the statement. Payment may be made at the accounting office, accounting drop box or by mail. Payments made after the ten (10) day period may be subject to a late fee.

**UNCOVERED SURFACE PARKING FOR MEMBERS AND GUESTS**

r. Uncovered Surface Parking for Members and Guests. The Cypress has ample surface parking for both the Members and their invited guests. In addition, all Cottages have a two-car garage. Limited assigned covered parking and garage parking is available to Villa Members at an extra charge.

**INTERRUPTION OR DELAY OF SERVICES**

s. Interruption or Delay of Services. If the Club is delayed, hindered, or prevented from delivering or performing any of the services described in the Membership Agreement by reason of any event or circumstance, whether or not foreseeable, not under The Club's reasonable control, including without limitation any governmental restriction, scarcity of labor or materials, strike, riot, civil disorder, fire, natural disaster, extreme weather event, disease, medical epidemics or outbreaks, curtailment of transportation facilities or infrastructure, and/or threats or acts of terrorism, the delivery or performance of such services shall be excused for the period of delay, and the delivery or performance of any such services shall be extended as necessary to complete performance after the delay period.

**OWNER MUST SELL UNIT IF MEMBERSHIP AGREEMENT TERMINATED FOR JUST CAUSE**

33. OWNER MUST SELL UNIT IF MEMBERSHIP AGREEMENT TERMINATED FOR JUST CAUSE. If a Unit Owner or his approved designee's Membership Agreement is terminated for just cause in accordance with Section 12 of The Cypress Membership Agreement, such Owner will be obligated to promptly sell his/her Unit.

**COUNTERPARTS; ELECTRONIC SIGNATURES**

34. COUNTERPARTS; ELECTRONIC SIGNATURES. This Agreement may be executed in one or more counterparts or counterpart signature pages attached to one copy of this Agreement, each of which shall constitute an original and all of which taken together shall constitute one agreement. Documents executed, scanned (in .PDF or similar reprographic format), and/or executed (and, as appropriate, witnessed and/or notarized) electronically using electronic signature software (e.g., DocuSign or similar software), or similar methods (each a method of "Electronic Execution") and transmitted electronically shall be deemed original signatures for purposes of this Agreement and all matters related thereto, with such Electronic Execution having the same legal and binding effect as original signatures. The parties hereto agree that this Agreement may be accepted, executed and/or agreed to through the use of an electronic signature in accordance with the Electronic Signatures in Global and National Commerce Act (E-Sign Act), Title 15,





United States Code, Sections 7001 et seq., the Uniform Electronic Transaction Act (UETA) and any applicable state law. Any document accepted, executed or agreed to in conformity with such laws will be binding on all parties the same as if it were physically executed. The parties (a) consent to the Electronic Execution of the Agreement and the use of electronic signatures, (b) intend to be bound by the signatures on any document delivered via Electronic Execution; (c) are aware that the other party(ies) will rely on such Electronic Execution and electronic signatures; and (d) waive any defenses to the enforcement of the terms of this Agreement based on Electronic Execution or electronic signatures.

(The remainder of this page is intentionally left blank. The next page is the signature page.)



**SIGNED and SEALED** by Purchaser in duplicate originals as of the day and year first above written.

**WITNESSES:**

**PURCHASER:** *(If more than one, each should sign)*

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

**SIGNED and SEALED** by Seller in duplicate originals this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**WITNESSES:**

**SELLER:** *(If more than one, each should sign)*

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

**EXHIBIT V**  
**AGENCY DISCLOSURE**

**{ATTACHED}**

AGENCY DISCLOSURE AND NON-EXCLUSIVE BUYER AGENCY AGREEMENT

Buyer:

(referred to below as "Buyer")

Firm: \_\_\_\_\_ (referred to below as "Firm")

The purpose of this form is to properly establish a buyer agency relationship. Historically, in a real estate transaction, the listing and selling firms have been paid by and were the agents of the seller. Today, many firms represent the buyer. When entering into a discussion with a real estate agent regarding a real estate transaction, Buyer should understand what type of agency relationship or representation Buyer has with the agent's firm. The various forms of agency relationships are discussed in the "Working with Real Estate Agents" brochure, a copy of which Buyer has received and reviewed with the agent. In North Carolina the existence of a buyer agency relationship with a real estate agent for a period of time must be in writing to be recognized as valid. Buyer's execution of this form confirms that Buyer has read and understands the contents of that brochure, and is making a decision to request buyer agency for the period of time set forth below. Buyer represents that, as of the commencement date of this Agreement, Buyer is not a party to an exclusive buyer representation agreement with any other real estate firm.

Firm agrees to act as a non-exclusive buyer's agent representing Buyer in the acquisition of real property by [check all that apply]:

- locating suitable real estate  showing the following specific property

for the period from \_\_\_\_\_ to \_\_\_\_\_.

This agreement does not obligate Buyer to pay a brokerage fee or assure the payment of a brokerage fee to Firm, which will be compensated under an offer of compensation from a cooperating seller/listing firm. If a selling incentive (bonus, trip, money, etc.) is offered through the MLS or otherwise, Buyer will permit Firm to receive it, in addition to any offer of compensation. In the event Buyer wishes to consider the purchase of a property offered for sale privately, or through sources other than a cooperating seller/listing firm, Buyer and Firm may enter into an agreement establishing the details of, and Buyer's liability for, compensating Firm in the transaction.

- Buyer acknowledges receipt of a sample copy of an Offer to Purchase And Contract for review purposes.
 Buyer acknowledges receipt of a copy of the brochure Questions and Answers on: Home Inspections
 Buyer acknowledges receipt of a sample copy of a Professional Services Disclosure and Election form (form #760) for review purposes.

NOTE: Real estate brokers are prohibited by N.C. Real Estate Commission rule from disclosing the price or other material terms contained in a party's offer to purchase, sell, lease, rent or option real property to a competing party without the express authority of the party making the offer. However, sellers may elect not to treat the existence, terms, or conditions of any offers Buyer may make as confidential.

DUAL AGENCY: Buyer has received a copy of the "Working With Real Estate Agents" brochure and has reviewed it with Firm. Buyer understands that the potential for dual agency will arise if Buyer becomes interested in viewing property listed with Firm. Firm may represent more than one party in the same transaction only with the knowledge and informed consent of all parties for whom Firm acts.

(a) Authorization (initial only ONE).

\_\_\_\_\_ Buyer authorizes the Firm to act as a dual agent, representing both the Buyer and the seller, subject to the terms and conditions set forth in this paragraph below.

\_\_\_\_\_ Buyer desires exclusive representation at all times during this agreement and does NOT authorize Firm to act in the capacity of dual agent. If Buyer does not authorize Firm to act as a dual agent, the remainder of this paragraph shall not apply.

(b) Disclosure of Information. In the event Firm serves as a dual agent, Buyer agrees that without permission from the party about whom the information pertains, Firm shall not disclose to the other party the following information:

- (1) that a party may agree to a price, terms, or any conditions of sale other than those offered;
(2) the motivation of a party for engaging in the transaction, unless disclosure is otherwise required by statute or rule; and
(3) any information about a party which that party has identified as confidential unless disclosure is otherwise required by statute or rule.

(c) Firm's Role as Dual Agent. If Firm serves as agent for both Buyer and a seller in a transaction, Firm shall make every reasonable effort to represent Buyer and seller in a balanced and fair manner. Firm shall also make every reasonable effort to encourage and effect communication and negotiation between Buyer and seller. Buyer understands and acknowledges that:

- (1) Prior to the time dual agency occurs, Firm will act as Buyer's exclusive agent;
(2) In its separate representation of Buyer and seller, Firm may obtain information which, if disclosed, could harm the bargaining



Buyer(s)



position of the party providing such information to Firm;

(3) Firm is required by law to disclose to Buyer and seller any known or reasonably ascertainable material facts.

Buyer agrees Firm shall not be liable to Buyer for (i) disclosing material facts required by law to be disclosed, and (ii) refusing or failing to disclose other information the law does not require to be disclosed which could harm or compromise one party's bargaining position but could benefit the other party.

(d) Buyer's Role. Should Firm become a dual agent, Buyer understands and acknowledges that:

- (1) Buyer has the responsibility of making Buyer's own decisions as to what terms are to be included in any purchase and sale agreement with a seller client of Firm;
- (2) Buyer is fully aware of and understands the implications and consequences of Firm's dual agency role as expressed herein to provide balanced and fair representation of Buyer and seller and to encourage and effect communication between them rather than as an advocate or exclusive agent or representative;
- (3) Buyer has determined that the benefits of dual agency outweigh any disadvantages or adverse consequences;
- (4) Buyer may seek independent legal counsel to assist Buyer with the negotiation and preparation of a purchase and sale agreement or with any matter relating to the transaction which is the subject matter of a purchase and sale agreement.

Buyer agrees to indemnify and hold Firm harmless against all claims, damages, losses, expenses or liabilities, other than violations of the North Carolina Real Estate License Law and intentional wrongful acts, arising from Firm's role as a dual agent. Buyer shall have a duty to protect Buyer's own interests and should read any purchase and sale agreement carefully to ensure that it accurately sets forth the terms which Buyer wants included in said agreement.

(e) Designated Agent Option (Initial only if applicable).

\_\_\_\_\_ Buyer hereby authorizes the Firm to designate an agent(s) to represent the Buyer, to the exclusion of any other agents associated with the Firm. The agent(s) shall not be so designated and shall not undertake to represent only the interests of the Buyer if the agent(s) has actually received confidential information concerning a seller client of the Firm in connection with the transaction. The designated agent(s) shall represent only the interests of the Buyer to the extent permitted by law.

**THE AGENT (FIRM) SHALL CONDUCT ALL BROKERAGE ACTIVITIES IN REGARD TO THIS AGREEMENT WITHOUT RESPECT TO THE RACE, COLOR, RELIGION, SEX, NATIONAL ORIGIN, HANDICAP OR FAMILIAL STATUS OF ANY PARTY OR PROSPECTIVE PARTY TO THE AGREEMENT.**

THE NORTH CAROLINA ASSOCIATION OF REALTORS®, INC. MAKES NO REPRESENTATION AS TO THE LEGAL VALIDITY OR ADEQUACY OF ANY PROVISION OF THIS FORM IN ANY SPECIFIC TRANSACTION.

Buyer E-mail: \_\_\_\_\_

FIRM: \_\_\_\_\_ Phone \_\_\_\_\_

Real Estate Firm Name

By: \_\_\_\_\_ Individual license # \_\_\_\_\_

Individual agent signature

**EXHIBIT W**  
**HEALTH CARE LICENSES**

**{ATTACHED}**

# State of North Carolina

Department of Insurance

## Continuing Care Retirement Community

### License

License Number:

**52-01**

Effective:

**August 15, 2008**

This license is issued to:  
**The Cypress of Raleigh, LLC**  
**The Cypress of Raleigh Club, Inc.**  
**The Cypress of Raleigh Owners Association, Inc.**  
(Provider)

to offer and provide continuing care, as defined by N.C.G.S. §58-64, at the continuing care retirement community (facility) located at:

**9951 Strickland Road**

in Raleigh, North Carolina, Wake County.

This license is issued subject to the statutes of North Carolina, is not transferable and shall remain in effect until revoked by the Commissioner of Insurance. Witness my hand and official seal, this 1st Day of August, 2011.

  
Wayne Goodwin, Commissioner of Insurance

# State of North Carolina

Department of Health and Human Services  
Division of Health Service Regulation

*Effective January 01, 2020, this license is issued to*

*The Cypress of Raleigh Club Inc*

*to operate a nursing facility known as*

*The Rosewood Health Center*

*located in Raleigh, Wake County*

*This license is issued subject to the statutes of the  
State of North Carolina, is not transferable and shall expire  
midnight December 31, 2020.*

*Facility ID: 050891*

*License Number: NH0622*

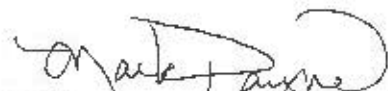
**Bed Capacity:** 40

*Nursing Facility Beds 36 / Adult Care Home Beds 4*

Authorized by:



Secretary, N.C. Department of Health and  
Human Services



Director, Division of Health Service Regulation



# State of North Carolina

Department of Health and Human Services  
Division of Health Service Regulation

*Effective January 01, 2020, this license is issued to*

*The Cypress of Raleigh Club, Inc.*

*to operate an agency known as*

*The Cypress of Raleigh Home Care*

*located at 8801 Cypress Lakes Drive*

*City of Raleigh, North Carolina.*

*This license is issued subject to the statutes of the  
State of North Carolina, is not transferable and shall expire  
midnight December 31, 2020.*

*Facility ID: 090658*

*License Number: HC3875*

*Home Care Services: Nursing Care, In-home Aide, Companion, Sitter, Respite*

Authorized by:



Secretary, N.C. Department of Health and  
Human Services



Director, Division of Health Service Regulation

**EXHIBIT X**

**CHARGES FOR ADDITIONAL SERVICES AVAILABLE TO MEMBERS**

**{ATTACHED}**

## **Additional Charges (Effective 1/1/2020)**

### **Dining:**

Member meals	Per menu
Additional surcharge for guest meals	\$ 3.00
Additional surcharge for buffet meals	\$ 5.00
Catering/Private Parties	As agreed upon
Bar Charges (beer, wine, mixed drinks)	\$ 3.00 & up
Additional meals during temporary stay in Rosewood	\$ 25.00 per day

### **Housekeeping Services:**

Additional Housekeeping Services	\$ 40.00 per hour
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### **Transportation Services:**

Transportation to Airport	\$ 25.00 per trip
Valet Transportation	\$ 20.00 per half hour
Medical Appointments-10 mile radius	No Charge
Valet Transportation After Hours (4:00 pm)	\$ 40.00 per hour
Bus Rental-Large Bus	\$ 80.00 per hour
Bus Rental-Mini Bus	\$ 60.00 per hour

### **Maintenance Services:**

Additional Maintenance Services	\$ 20.00 per half hour
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### **Home Care Services:**

Admission Visit	\$125.00 each
CNA Services	\$ 24.00 per hour
	\$ 36.00 per hour holiday/overtime
Skilled Nurse Visit	\$ 50.00 per visit
Assistance in Living	\$ 30.00 per hour
Medication Management	\$ 50.00 per visit

### **Miscellaneous:**

Activities Charges	As presented
Salon Services	As presented
Massage Services	As presented
Replacement Name Badge	\$ 20.00 each
Replacement Magnets	\$ 5.00 each
Replacement FOB	\$ 12.00 each
Replacement PERS Pendant	\$ 80.00 each
Additional/Replacement House Key	\$ 10.00 each
Additional/Replacement Mailbox Key	\$ 10.00 each
Additional/Replacement Transponder	\$ 45.00 each
Medical & Personal Supplies	Per Medical Supply List
Rehabilitation Therapy Services	As presented

**EXHIBIT Y**  
**CORE WELLNESS BROCHURE**

**{ATTACHED}**



# CORE wellness

LONGEVITY THROUGH BALANCED LIVING  
AT THE CYPRESS OF RALEIGH



Emotional



Health Services



Physical



Intellectual



Social



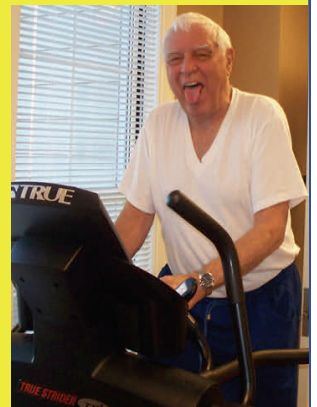
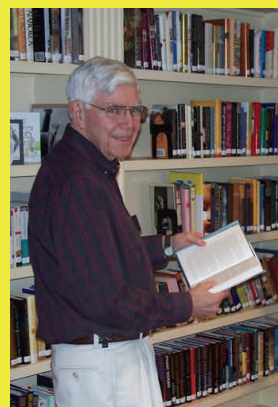
Vocational



Spiritual



Environmental





## **CORE Wellness Services**

**At the Cypress of Raleigh we strive to keep you as active and fulfilled socially as you want to be by planning a wide range of activities each day to keep you engaged in the community. The following CORE Wellness Services are available to all Members and are included in your monthly fees.**

- **A full range of social activities on and off campus , organized by the Director of Community Life Services, planned with Members interests and suggestions encouraging active lifestyles**
- **Organized programming for Members to join social and intellectual clubs that include, Book Clubs, Walking Club, Wood Working Club, Bridge Club, Computer Club, Investments Club and Current Events Club to Name a few**
- **A fully organized and stocked Member Library with all the amenities of your local library that include fiction ,non fiction, reference, biographies, magazines, books on tape, VHS and DVD's**
- **Computer lounge with Internet access, printer, fax machine, copier and featuring Dakim Brain Fitness Software available for Members to exercise their brains.**
- **Monthly social events to socialize with neighbors and friends**
- **Published transportation to local shopping and services**
- **Game room furnished with a billiards table, ping pong table, chess table, board games, puzzles and Nintendo Wii sports gaming system**
- **Coordination for Volunteer opportunities**
- **Life Long Learning Classes**
- **Scheduled duplicate and standard bridge games**
- **A variety of interesting educational and informative guest speakers**
- **Outdoor amenities include walking and nature paths throughout community, sitting areas around lakes and falls, raised garden beds for Members to grow their own plants and vegetables**
- **Art studio with classes that range from beginner to expert levels in Sculpting, Water Color, Acrylics, Drawing, Designs in Metal and Jewelry Making**
- **Member Wood Shop**
- **Concierge services**

**The Following CORE Wellness Services are available at an Additional fee:**

- **Salon, spa and massage services**
- **Tickets or admission to outings and cultural events**
- **Requested chauffeur or group transportation “when available”**
- **Life long learning Classes through NCSU Encore**



## Fitness

**At the Cypress of Raleigh, Members are provided with options of physical fitness in order to reach or maintain their fitness goals. The following fitness Programs and Amenities are available to Cypress Members included in their monthly fee:**

- Indoor salt system pool , hot tub and locker rooms
- Fitness and Cardio Equipment by True, Sci Fit, Tuff Stuff, Landice, Nustep, and Biodex
- Member orientation to fitness center including equipment training and prescription
- Outdoor paved walking paths with no greater than a 4% incline
- A minimum of 2 fitness classes each day focusing on Gait, Balance, Strength, Stretch, Meditation, Aerobic and Recreational Fitness and Water fitness.
- Regularly scheduled education on fitness and wellness featuring guest speakers
- Yoga, Tai Chi, Pilates instruction
- Daily exercise prescription from our Wellness Coordinator
- Balance Assessment and Training using the BIO-Dex Balance Trainer

**The Following Fitness Services are offered at an additional fee:**

- Personal Training

## Nutrition

**At The Cypress of Raleigh we know that in order to live a healthy active lifestyle proper nutrition is a necessity. We offer our Members many options that incorporate balanced nutritional meals with our**



**focus of offering seasonal regional ingredients prepared from scratch. The following Nutritional services are available to all Members included in their Monthly Fee:**

- Healthy dining selections prepared by our executive chef and culinary team with menus designed by suggestions and input from our Member Food and Beverage Committee
- Lunch and Learn events focusing on Health related topics
- Licensed Dietician available to make healthy eating consultations and recommendations
- Preferred Choice Dining Program designed to let you choose when and what you want to eat
- Convenient home delivered meals to your door.
- Choices in dining venues : Emerald Room, Cascade Room, Veranda Bar, 1840 Bistro, and The Oaks Room
- Daily chefs specials as well as three menus to choose from for Members discerning palates
- Themed dinners and celebratory events throughout the year
- Heart healthy options designated on the menus
- Dining allowance may be used for guest meals, entertaining , or group catering events
- 

**The Following Nutritional Services are available for additional fee:**

- Catering Services for Groups and special occasions



## **Well-Being** **(Member Health Services)**

**At the Cypress of Raleigh, we emphasize the importance of wellness on the mind body and soul as a part of staying healthy and vibrant. The following services are available to Cypress Members included in their monthly fee:**

- Full time and part-time nurse case manager to coordinate home care service
- Assistance in dealing with life changes
- Liaison with Medicare agency for the provision of services under Medicare
- Assistance provided with medical appointments
- Weekly blood pressure clinics
- Annual flu clinic
- Quarterly podiatry clinic
- Assistance in coordinating physician ordered lab work
- Assistance in coordinating physician ordered physical, occupational, and speech therapy
- Assistance in coordinating diagnostic studies and driving evaluations

**The following services are available at an additional fee:**

- Personal care assistance
- Medication Management
- Assisting client to medical appointments
- Wound care not covered by Medicare
- Nursing visits not covered by Medicare
- Travel companion to beach or mountain homes



**EXHIBIT Z**  
**ACTUARIAL POPULATION PROJECTIONS**  
**{ATTACHED}**

October 3, 2018

Shane Gabis  
Executive Director  
The Cypress of Raleigh  
8801 Cypress Lakes Drive  
Raleigh, NC 27615

via Email

**RE: Cypress of Raleigh 12/31/2017 Actuarial Population Projections**

The actuarial population projections for The Cypress of Raleigh (COR) are based on the historical resident data at COR through 12/31/17 and on prior experience with other communities managed by Life Care Services. These projections indicate that additional health center beds are needed by 2021 in order to meet the needs of the expanded 319 unit campus.

Projected bed need: The table below estimates future bed need.

Yr End (a)	Occ IL Apts (b)	IL Res (c)	Perm (d)	Temp (e)	P&T (f)	P Pay (g)	Total Occ HC (h)	Capacity (i)	Vacant (j)
2017	203	281.00	24.00	4.21	28.21	6.00	34.21	36.00	1.79
2018	259	364.50	25.89	3.65	29.54	3.60	33.14	36.00	2.86
2019	259	360.62	28.26	4.51	32.77	1.40	34.17	36.00	1.83
2020	259	357.60	29.95	5.36	35.31	0.00	35.31	36.00	0.69
2021	315	441.30	31.85	6.62	38.47	6.23	44.70	57.00	12.30
2022	315	438.04	34.05	6.57	40.62	9.33	49.95	57.00	7.05
2023	315	435.49	35.72	6.53	42.25	10.85	53.10	57.00	3.90
2024	315	433.54	37.00	6.50	43.50	9.60	53.10	57.00	3.90
2025	315	432.08	37.98	6.48	44.46	8.64	53.10	57.00	3.90
2026	315	430.99	38.73	6.46	45.19	7.91	53.10	57.00	3.90
2027	315	430.19	39.31	6.45	45.76	7.34	53.10	57.00	3.90
2028	315	429.60	39.75	6.44	46.19	6.91	53.10	57.00	3.90
2029	315	429.17	40.09	6.44	46.53	6.57	53.10	57.00	3.90
2030	315	428.84	40.36	6.43	46.79	6.31	53.10	57.00	3.90
2031	315	428.59	40.57	6.43	47.00	6.10	53.10	57.00	3.90
2032	315	428.40	40.74	6.43	47.17	5.93	53.10	57.00	3.90
2033	315	428.26	40.88	6.42	47.30	5.80	53.10	57.00	3.90
2034	315	428.17	41.00	6.42	47.42	5.68	53.10	57.00	3.90
2035	315	428.13	41.10	6.42	47.52	5.58	53.10	57.00	3.90

(a) Year End = from 12/31/2017 to stabilization (12/31/2035).

(b) IL Occ = Occupied IL units assuming 99% in all years, with total inventory increasing from 205 to 262 in 2018 and to 319 in 2021.

*COR is a condominium community where occupancy for monthly fee revenue purposes is 100% at all times. For purposes of the population projections, occupancy excludes units in transition.*



- (c) IL Residents.
- (d) Perm = life plan residents permanently assigned to the health center.
- (e) Temp = life plan residents temporarily assigned to the health center.
- (f) P&T = sum of Perms (d) and Temps (e).
- (g) Private Pay = HC beds occupied at year-end from residents that originated in one of the four adult care home (ACH) beds. These patients are not included in the actuarial population projections. Private pay occupancy is based on 12/31/17 actual and estimated by management thereafter.
- (h) Total Occupied HC beds = Sum of Perm, Temp, and Private Pay patients (f)+(g).
- (i) Capacity = 36 HC beds, increasing to 57 in 2021.
- (j) Vacant = Total HC capacity (i) less Total Occ HC (h).

Double occupancy: 55% of all new closings are assumed to be couples. This assumption is based on historical closings at COR and on initial Villa D expansion residents. The same move-in double occupancy rate is assumed for Villa E entrants.

Timing and size of expansion: Occupancy of the 57 unit Villa D expansion is anticipated to occur September and October of 2018. Occupancy of the 57 unit Villa E independent living expansion is anticipated to occur in 2021.

Average age of residents: The average age at entry of new residents is assumed to be 78.6 (81.0 for singles and 78.0 for couples).

Sincerely,

Christina J. Buckrop  
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