

DISCLOSURE STATEMENT

March 1, 2015

The Forest at Duke

2701 Pickett Road
Durham, NC 27705

919-490-8000

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

- **this Disclosure Statement may be delivered until revised, but not after July 27, 2016;**
- **delivery of the Disclosure Statement to a contracting party before execution of a contract for continuing care is required;**
- **this Disclosure Statement has not been reviewed or approved by any government agency or representative to ensure accuracy or completeness of the information set out.**

I. ORGANIZATION INTRODUCTION AND INFORMATION

The provider of services is The Forest at Duke, Inc. an independent, not-for-profit corporation formed solely to develop, own, and manage The Forest at Duke. The Forest at Duke, Inc. has no formal affiliations with any religious, charitable, or other not-for-profit organization. The community has programmatic affiliations with Duke University and Duke University Medical Center to provide services and activities to the residents of The Forest at Duke. The Forest at Duke, Inc. has received recognition of income tax exemption under section 501(c)(3) of the Internal Revenue Code. The Forest at Duke is pledged to the letter and spirit of U.S. policy for the achievement of equal housing opportunity throughout the nation. We encourage, support, and are committed to operating a community where there are no barriers or discrimination because of race, color, religion, sex, handicap, familial status or national origin. The community address is 2701 Pickett Road, Durham, NC 27705.

In 2007, The Forest at Duke was awarded a BBB+ credit rating by Fitch Ratings, which was reaffirmed in 2014. The Forest also achieved accreditation from CCAC/CARF (Continuing Care Accreditation Commission/Commission on Accreditation of Rehabilitation Facilities) in 2007. In 2012, The Forest earned another five year accreditation term.

The Forest at Duke is Medicare Part A certified.

II. FACILITY INTRODUCTION AND INFORMATION

The Forest at Duke is located on 47 acres just south of Duke University on Pickett Road. The community consists of 160 apartments in three and four-story buildings, 80 one-story cottages, a community center of approximately 40,000 square feet, and a Health and Wellness Center of approximately 98,365 square feet all designed to accommodate approximately 380 residents. As of December 31, 2014, 290 residents live in the independent living residences, 51 residents receive skilled nursing care and 26 residents receive adult care services. The community center houses a formal dining room, café, living room and social lounge, an arts and crafts studio, an auditorium, library, classroom, bank, beauty and barber shop, swimming pool, fitness areas and gift shop. The Health and Wellness Center currently consists of an outpatient clinic, 34 licensed adult care beds (assisted living), and 58 licensed nursing beds (skilled nursing care). Construction began in August 1990 and the building opened for occupancy on September 1, 1992. An expansion and renovation of the facility was completed in 2004 and included the construction of a 34 bed adult care addition, renovation and reconfiguration of the community center, dining room and common areas, redecoration of existing adult care and skilled nursing areas and the phased reclassification of existing adult care beds to skilled nursing beds. The Forest at Duke is owned by The Forest at Duke, Inc., a not-for-profit, independent corporation managed by a Board of Directors and a professional management staff.

A. The Board of Directors and Officers**1. Gretchen Slick Cooley**

8 Daile Court
Durham, NC 27712
POSITION: Director

Ms. Cooley was most recently the Assistant to the Executive Director and liaison to the Board of Directors at the Freeman Center for Jewish Life at Duke University. Prior to her work with the Freeman Center for Jewish Life, she worked for the Duke University Development Office performing fundraising and donor stewardship for the Center for Jewish Life. She has a long and active history with the Durham community including involvements with the Osher Lifelong Learning Institute (OLLI), Duke University Retirees Outreach, Durham County Democratic Women, Durham Convention and Visitors Bureau Board of Directors, Durham County Hospital Corporation's Home Treatment and Life Care Board of Directors, Meals on Wheels Board of Directors, and other local agencies. Ms. Cooley has a B.S. in Communications from the University of Illinois at Urbana and did graduate work at Northwestern University.

2. Diane K. Corcoran

2708 Montcastle
Durham, NC 27705
POSITION: Director

Dr. Corcoran is a health care consultant specializing in technology and Smart card use in health care. She was the Director of Medical Services for a Smart card company after her retirement from the military services in 1992. She served in the Army Nurse Corps for 25 years, starting in Vietnam and ending as the Chief Administrator in Frankfurt Army Medical Center during Desert Storm. During the 25 years she served in the military, she held a variety of positions from Staff Nurse, to Chief of Education, Special Consultant to develop the field force, Supervisor, and a number of other positions. She served overseas and worked in a variety of different environments, while serving in the US military. She has provided direct patient care, education, consultation, supervision, health care administration, and project management.

3. Robinson O. Everett, Jr.

Triple E Apartment Management ("TEAM") Inc.
2716 Campus Walk Avenue
Durham, NC 27705
POSITION: Director

Mr. Everett is a graduate of the UNC School of Law, and is the President and CEO of Triple "E" Apartment Management, Inc., a property management company that manages real estate assets in Durham, Wilmington and Fayetteville. He also serves as counsel to the Raleigh law firm of Everett, Gaskins, and Hancock, and is active in the Wake County Bar Association. Mr. Everett is also President of the Durham Academy Alumni Board and ex-officio member

of the school's Board of Trustees. He also serves as a deacon of the First Presbyterian Church of Durham.

4. Kenneth D. Gibbs, CPA

Thomas & Gibbs, CPAs
6114 Fayetteville Road, Suite 101
Durham, NC 27713
POSITION: Director, Chairman

Mr. Gibbs is the Tax Partner at Thomas & Gibbs, CPAs, PLLC in Durham. He received a B.S. degree and a Juris Doctor degree from North Carolina Central University and a Master of Taxation degree from the University of New Haven. He is a Certified Public Accountant and a Member of the North Carolina State Bar, with over twenty years' experience in corporate taxation including compliance, planning, audits, with emphasis on inbound transactions for multi-national conglomerates. Mr. Gibbs served as Director of Taxes and Financial Controller for Glaxo Wellcome, Inc. Mr. Gibbs currently holds a position as a member of the North Carolina Association of Certified Public Accountants, and served on the Board of Trustees for North Carolina Central University, Board of Directors of the Carolina Theater, and the Raleigh Durham Airport Authority Board, where he also served as Chairman.

5. Dale Harris

65 Forest at Duke Drive
Durham, NC 27705
POSITION: Director
President of the Residents' Association

Ms. Harris has been a resident at The Forest since September 2011. She earned her Bachelor of Arts from Sweet Briar College (1953), Master of Education in Guidance and Counseling from Lynchburg College, (1970), and her Juris Doctor at the University of Virginia School of Law (1978). Ms. Harris served as a member of the adjunct faculty at the Adjunct Faculty, University of Virginia School of Law from 1986-1998, while also serving as Judge in Virginia's 24th District Juvenile and Domestic Relations Court from 1982-2003. Additionally, she served as Judge in Pilot Family Court in Virginia in 1990 and 1991, and as a "recall" Judge until January 2010. Judge Harris was involved with the National Council of Juvenile and Family Court Judges (Board Member, 1998-2001), Child Custody and Visitation Committee (Chair, 1999-2001), Family Violence Committee (Chair, 1998-1999), Model State Laws for Domestic Violence (Co-Chair, Advisory Committee, 1993-1994), Resource Center on Domestic Violence: Child Protection and Custody (Chair, Policy Working Groups 1994-1997), and Board of Governors, Family Law Section, VA State Bar (1989-1993). Mrs. Harris has an extensive history of civic work as a volunteer for numerous non-profits in Virginia including hospitals, colleges, Fine Arts Center, United Fund, Sheltered Workshop and Youth Services.

6. Philip W. Hutchings, III CPA

Hutchings & Hutchings, CPA
3620 Shannon Road, #200
Durham, NC 27707
POSITION: Director

Mr. Hutchings is the President of Hutchings and Hutchings Certified Public Accounts, PA., where he has been in practice for 35 years. He received his B.S. in Accounting from the University of North Carolina at Chapel Hill. Mr. Hutchings is a member of the American Institute of Certified Public Accountants and the North Carolina Association of Certified Public Accountants. Mr. Hutchings serves on the Board of Directors for First Citizens Bank of Durham, was the 2008-2009 President of the Durham Rotary Club, and also serves on the Durham Public Library Foundation Board.

7. Tom Keller

39 Gardenia Court
Durham, NC 27705
POSITION: Director
Resident of The Forest at Duke

Dr. Keller, Dean Emeritus and RJ Reynolds Professor Emeritus, Fuqua School of Business, Duke University has been a resident at The Forest at Duke since August 2008. He has become very involved in The Forest resident life prior to being elected to the Board of Directors. He has served on the following committees: 2701 Committee, Resident Association Board Director and Chairman of the Marketing Committee, Campus Master Plan Task Force and the Community Relations Committee. He was on the Faculty of Duke University since 1959 and served as the Dean of the Fuqua School of Business (1974-1996), as Dean of the Fuqua School of Business Europe (1999-2001), and was named Dean Emeritus and RJ Reynolds Professor emeritus in 2004. Dr. Keller has been active locally with the Triangle Community Foundation, NC Zoological Society, Museum of Life and Science, Child Care Services Association and Durham County Library Foundation in addition to various corporate boards. Dr. Keller received his BA from Duke University; MBA and PhD from the University of Michigan, he is a CPA and he served in the US Army.

8. Arnie Lerman

57 Forest at Duke Drive
Durham, NC 27705
POSITION: Director
Resident of The Forest at Duke

Mr. Lerman has been a Forest resident since December 2010. He received his BA from Hamilton College, and an LL.B from Yale Law. Mr. Lerman spent his professional career practicing law in Washington D.C. with Washington DC Law Practice (1955-1993) and as partner at Partner, Wilmer, Cutler & Pickering (1962-1993). He practiced in diverse areas including banking, finance, regulatory and legislative issues, structuring businesses, funding development, strategic planning and commercial transactions. His expertise was also used

advising business executives and boards, engaging in business transactions, and making appearances before courts, agencies and Congress. Mr. Lerman has also enjoyed working with non-profit organizations at various times since 1992, including Academy Art Museum (trustee), Delmarva Foundation for Medical Care (Director), Quality Health Foundation (Director, Chair), Chesapeake Chamber Music, Inc. (Director), Chesapeake Music Chamber Competition (Director, Chair & Founder), Temple B'nai Israel—Finance and Long Range Planning (Director) and Judea Reform Congregation Durham—Finance Committee. He served in the US Army between 1953 and 1955.

9. John Mallard

15 Knightsbridge Court
Durham, NC 27707
POSITION: Director

Mr. Mallard is retired from the Durham-based Cardinal State Bank, of which he was the founder, following a 35 year career in banking. Mr. Mallard has been active in the Durham community, serving in multiple capacities with the Durham Chamber of Commerce, the Duke Home Care and Hospice and with numerous other community organizations. He is a graduate of Ferrum College in Virginia and North Carolina State University.

10. Beth Maxwell

3900 Wentworth Drive
Durham, NC 27707
POSITION: Director, Vice Chair

Ms. Maxwell was formerly the Executive Director of the Volunteer Center of Durham. A long-time Durham resident, she has served on various boards of directors, including Durham Regional Hospital, the Food Bank of Central and Eastern North Carolina, and Big Brothers Big Sisters of the Triangle. She has been president of the Durham United Way, The Junior League of Durham and Orange Counties, Pearsonstown PTA and the Orange/Durham Coalition for Battered Women. Currently she serves as a volunteer consultant for the Executive Service Corps of the Triangle, and is on its board of directors.

11. Eleanor S. McConnell, RN, MSN, PhD, GCNS, BC

Duke University Medical Center
Duke School of Nursing
Box 3322 DUMC
Durham, NC 27705
POSITION: Director

Dr. McConnell is Director of the Center of Excellence in Geriatric Nursing Education and Lead Faculty for the gerontology specialties in the MSN Program. She has a joint appointment at the Geriatric Research, Education and Clinical Center of the Department of Veterans Affairs Medical Center, where she is both clinical nurse specialist and nurse scientist. Dr. McConnell is also a Senior Fellow at the Duke Center for the Study of Aging

and Human Development. She earned her Master's degree in Nursing at Duke University and her PhD in Nursing at the University of North Carolina at Chapel Hill.

12. Kevin Montgomery, FAIA

O'Brien/Atkins Associates
PO Box 12037
RTP, NC 27709
POSITION: Director, Secretary

For three decades, Kevin Montgomery, FAIA has served this nation's architectural profession with unyielding dedication, determination and distinction. As the first African-American President of the North Carolina Board of Architecture, Montgomery has championed collaboration between educators, practitioners and the profession's governing bodies. Montgomery has worked tirelessly in the interest of the profession, serving critical leadership roles with the National Council of Architectural Registration Boards, National Association of Accreditation Boards and the North Carolina Board of Architecture. For Mr. Montgomery, mentoring young architects is the product of a deeply held, personal commitment to the advancement of the next generation. He is a powerfully nurturing role model for hundreds of intern architects in North Carolina. His sage advice and support has been particularly valued by those emerging professionals presently underrepresented in the practice: minorities and women. Kevin G. Montgomery, FAIA, is a dedicated advocate for the practice of architecture. Through his unstinting service and leadership, he has envisioned a future for the profession that is ever more collaborative, accountable and accessible.

13. David H. Pottenger

Morgan Stanley Wealth Management
3511 Shannon Rd., Suite 300
Durham, NC 27707
POSITION: Director

Mr. Pottenger is the Senior Vice President/Portfolio Manager with Morgan Stanley Smith Barney. He holds a BA from Davidson College, 1979. He has been very active in the greater Durham community through his current and past board work with Urban Ministries of Durham (Board Chair), YMCA of Durham, Lakewood YMCA (Board Chair), Hope Valley Country Club (President), Executive Service Corps, Westminster Presbyterian Church.

14. Janet Ramsey

Premier Advisor Group, LLC
3100 Tower Blvd. Suite 1610
Durham, NC 27707
POSITION: Director

Ms. Ramsey is a Certified Financial Planner Professional™, Advisory Representative of Lincoln Financial Securities Corporation and the founder (2001) and President of Premier Advisor Group LLC, in Durham, NC. She was a Managing Director and V.P. with MetLife

Insurance Co. for over 17 years, and a Sales V.P. with Jefferson Pilot Financial. She provides comprehensive planning strategies for securing lifestyles and meaningful family wealth transfer and preservation. She is a graduate of the BSBA and MBA programs at UNC Kenan-Flagler Business School and is a founding member and former chair of the UNC Kenan-Flagler Business School Alumni Council. She has taught wealth planning courses through OLLI at Duke. She has served as chair of the Durham/Orange Estate Planning Council and served on the board for the NC Planned Giving Council. She founded the gift planning program at St. Luke's Episcopal Church and currently serves as the treasurer there.

15. Alice Sharpe

208 Rigsbee Avenue, Unit 106
Durham, NC 27701
POSITION: Director

Ms. Sharpe, a Durham native and '71 Duke graduate, is the Development Officer for the Durham County Library and serves as the staff liaison to the Durham Library Foundation. Ms. Sharpe has a background in retail management having worked 13 years for a major retailer. She then formed and operated her own events planning company after returning to Durham. She became actively involved in the revitalization of downtown Durham, serving as the Downtown Events Coordinator for the City of Durham prior to being named the Economic Development Coordinator for the City working in the Office of Economic and Employment Development. Ms. Sharpe is a past president of the Junior League of Durham and Orange Counties, a past chair and current board member of Downtown Durham Incorporated (DDI), and past president and current board member of Durham Central Park.

16. Charlie T. Wilson, III

CT Wilson Construction
P.O. Box 2011
Durham, NC 27703
POSITION: Director

Mr. Wilson is the Vice President of CT Wilson Construction where he is responsible for new client acquisitions, managing existing client relationships, as well as construction management. Mr. Wilson serves on the Board of the following Durham based organizations: Housing for New Hope, the North Carolina Museum of Life and Science, and the Durham Academy. He holds a BS in Civil Engineering from North Carolina State University and a Master's of Science in Civil Engineering and Construction Management from the University of Texas at Austin.

17. Phail Wynn

Durham and Regional Affairs
Duke University
205B Allen Building
Durham, NC 27708
POSITION: Director

Dr. Wynn holds a Master's degree from the College of Education and Psychology at North Carolina State University at Raleigh, a doctorate from the College of Education and Psychology at North Carolina State University and a Master of Business Administration (MBA) degree from the Kenan-Flagler School of Business at the University of North Carolina at Chapel Hill. Dr. Wynn served as Assistant to the President and Vice President, Support Services at Durham Technical Institute (now Durham Technical Community College) before being appointed President of Durham Technical Institute. He was the first African-American community college president in the North Carolina System. He retired as President of Durham Technical Community College on December 31, 2007 and was named President Emeritus by the Board of Trustees. Dr. Wynn has served as Vice President for Durham and Regional Affairs at Duke University since January 2008.

The Forest at Duke, Inc. is a non-profit corporation. No member of the Board of Directors or of the management staff owns an equity interest in the Corporation. No member of the Board of Directors or of the management staff is expected to provide goods, leases or services to Corporation or to the residents, presently or in the future, and no member of the Board of Directors or of the management staff owns an interest in a professional service firm, association, trust, partnership, corporation or other entity that is expected to provide goods, leases or services to Corporation or to the residents, presently or in the future.

B. Professional Staff and Consultants

The Forest at Duke is managed on a day-to-day basis by the following professional management staff:

- 1. Anita L. Holt, Interim Executive Director:** Ms. Holt joined The Forest at Duke as the Interim Executive Director in January 2015. Ms. Holt is a seasoned professional in the field of aging services with more than 25 years of executive leadership in continuing care and senior living communities. Anita is an advocate of innovation and strategic service and program development which responds to the emerging needs of older adults. Ms. Holt holds a Master of Public Health from Boston University/SPH and is a proud graduate of Northeastern University.
- 2. Gwendolen Buhr, M.D., M.H.S., C.M.D. Medical Director:** Dr. Buhr has served as the Medical Director at The Forest since July, 2005. Dr. Buhr is an Associate in Medicine in the Division of Geriatrics at Duke University Medical Center. She is a Certified Medical Director in Long Term Care as designated by the Board of Directors of the American Medical Directors Certification Program (AMDCP). Following her residency in Internal Medicine at the Moses H. Cone Memorial Hospital in Greensboro, NC, Dr. Buhr completed a Fellowship in Geriatric Medicine (July 2001 – January 2004) at Duke University Medical Center, as well as serving as Medical Director, Attending Physician (January 2004-October 2004) at Physicians Eldercare in Winston Salem, NC. Dr. Buhr is currently a member of The American Medical Directors Association and was the recipient of its Quality Improvement Award in 2003. Dr. Buhr is also currently a member of the North Carolina Medical Directors Association and serves as Secretary/Treasurer, the American Geriatrics Society, the American College of Physicians and the Christian Medical and Dental Associations. Dr. Buhr is licensed by the North Carolina Board of Medical Examiners.

- 3. Anthony (Tony) Ellis, Director of Dining Services, Certified Dietary Manager, Certified Food Protection Professional:** Mr. Ellis has over 30 years of experience in the hotel and restaurant industry. Prior to joining The Forest in 2010, he was the Director of Food and Beverage for the International Hotel Chain Millennium Hotels at its Durham location, which serves visitors from all over the world due to the proximity to the internationally recognized Duke University and Duke University Medical Center. Mr. Ellis was responsible for operating all of the hotels restaurants, room service, and the catering department. Mr. Ellis previously served as the Director of Food and Beverage at the Crowne Plaza Atlanta Airport, and is a Certified Hotel Administrator.
- 4. Karen E. Henry, Director of Finance, CFO and Treasurer:** Ms. Henry has served as the Director of Finance since June, 2005 and also serves as the Treasurer and the Assistant Secretary to the Corporation's Board of Directors. As Director of Finance, Ms. Henry is responsible for the accounting and financial administration of The Forest, as well as assisting the Executive Director with budgeting and long-range planning. Ms. Henry has a Bachelor of Science in Business Administration with a major in Accounting from Shippensburg University of Pennsylvania and is a Certified Public Accountant. She began her career as an audit professional with KPMG LLP, Harrisburg, PA and continued in internal audit with Hershey Foods Corporation, Hershey, PA. She then spent five years in the clinical research industry at Quintiles Transnational Corporation in increasing roles of responsibility (Financial Analyst, Senior Manager, Associate Director) in the Consolidation/SEC/Financial Reporting Department and most recently as Senior Manager/Controller at Constella Group. Ms. Henry is also a member of the NC Association of Certified Public Accountants.
- 5. Leslie C. Jarema, Director of Health Services:** Ms. Jarema has served as the licensed health care administrator and Director of Health Services since February, 1994. Ms. Jarema has a Bachelor of Arts degree in Social Work from Lenoir-Rhyne College and is a licensed Nursing Home and Health Care Administrator. Ms. Jarema has extensive experience in the health care field generally and in long-term care specifically. She currently serves as the Chair for The N.C. Coalition for Long Term Care Enhancement. During her career, Ms. Jarema has licensed and monitored numerous domiciliary facilities and has surveyed numerous nursing homes and state institutions for quality of care and compliance with state and federal regulations. Ms. Jarema serves as a certified preceptor for the State of North Carolina Board of Examiners for Nursing Home Administrators. She also serves as a preceptor and Faculty Associate for UNC Chapel Hill Department of Health Policy and Administration in the School of Public Health. She serves as a mentor for Duke University in the Leadership in Aging Program. Ms. Jarema remains active in state associations and currently serves on the Public Policy Committee for the North Carolina Association of Non-Profit Homes for the Aging, the Steering Committee for the Society for the Advancement of Gerontological Environments (SAGE), and the Provider Relations Committee for the North Carolina Health Care Facilities Association. She previously served on the Governor's Committee to rewrite the Adult Care Home regulations. Ms. Jarema is the recipient of the Special Services Award for Outstanding service on behalf of LeadingAge, formerly the North Carolina Association of Non-Profit Homes for the Aging (NCANPHA), to shape and implement rational and successful public policy.

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- 6. Charlene Keith, Director of Human Resources:** Ms. Charlene Keith joined The Forest at Duke as Director of Human Resources in August 2011. Most recently, Charlene served as the Director of Human Resources for Abbotswood at Stonehenge, an independent living facility with supportive care provided by an on-site Home Care agency located in Raleigh, NC. Charlene has over 12 years of Human Resource experience, a PHR Certification (Professional in Human Resources) awarded by the Human Resource Certification Institute, as well as a Facilitator Certification with an emphasis in Leadership Development received through AchieveGlobal. During her tenure with Abbotswood at Stonehenge, Charlene also obtained her Assisted Living Administrator License. Charlene is intimately connected with professional Human Resource associations such as SHRM (Society of Human Resource Management), and TSHRM (Triangle Society of Human Resource Management).
 - 7. Jim Normandin, Director of Facility Services:** Mr. Jim Normandin joined The Forest at Duke as Director of Facility Services in June 2011. He is responsible for the overall operations of The Forest's maintenance, housekeeping, laundry, grounds, and security departments, and oversees all capital improvements and construction projects. Jim has served in the capacity of Director of Facility Services in the healthcare industry for over 19 years. Most recently, Jim served as the Regional Director of Facility Services, for Horizon Bay Retirement Living in Tampa, Florida. During his tenure, the facility was recognized with the Assisted Living Federation of America (AFLA) 2011 Best of the Best Award for "Physical Plant & Environmental" services. Prior to working with Horizon Bay, he held the position of Director of Facility Services for St. Joseph of the Pines, a non-profit Catholic Health East Organization in Southern Pines, NC. Jim started his career as owner, operator and president of a historic restoration company, Normandin & Sons, Steeplejacks Inc., in Dracut, Massachusetts. He was responsible for the restoration of numerous historic building in the state including the Clock Tower at The Boott Cotton Mills located in Lowell in 1990 and in 1991 the Ayre Mill Clock Tower Restoration located in Lawrence. Jim was also a frequent contributor on Norm Abram's "This Old House" television show which aired on the Public Broadcasting System (PBS).
 - 8. Joan Welch, Director of Marketing:** Ms. Joan Welch joined The Forest at Duke as Director of Sales and Marketing in May 2014 and has over 11 years of experience in Senior Living. Prior to joining The Forest leadership team, she served as a Founding Director at The Cedars of Chapel Hill, in the department of Programs and Events, for nearly 8 years. Ms. Welch spent 3 years at a full-service Durham Independent and Assisted Living Community, as Director of Sales and Marketing, strengthening census and occupancy through planning and hosting tours, and building relationships. Earlier in her career, Ms. Welch gained valuable experience in advertising and media relations while working with J. Walter Thompson, CBS and NBC, residing in Los Angeles. She has served on the Board of both Extraordinary Ventures and Division TEACCH, furthering the cause of children with developmental disabilities and special populations. She is a member of LeadingAge, LeadingAge NC, and the Durham and Chapel Hill Chambers of Commerce.
 - 9. Ibbly Wooten, Director of Activities and Community Relations:** Ms. Wooten has served as Director of Activities since May 2008, after working as Assistant Activities Director at The Forest for two years. Prior to embarking on a career in the continuing care field, Ms.

Wooten worked as a conference planner/manager in the continuing medical education field. Ms. Wooten also ran her own antiques business for 9 years, and has other experience in advertising and public relations. She has a Bachelor's Degree in Journalism and Mass Communication from the University of North Carolina at Chapel Hill.

Consulting Professionals:

A.V. Powell and Associates, Inc.: Actuary, Suite 209, 6055 Barfield Road, NE, Atlanta, GA, 30328-4403.

Progressive Computer Systems: Computer Consultants, 615 Eastowne Drive, Chapel Hill, NC 27514.

Dixon Hughes Goodman LLP: Audit and accounting services, 2501 Blue Ridge Road, Suite 500, Raleigh, NC 27607.

Hendrick Murray Bryson Kennett Mauch PLLC: General legal counsel, 3511 Shannon Road, Suite 200, Durham, NC 27707.

Sanders, Walsh & Eaton, LLP: Accounting services, P.O. Box 1427, West Chatham, MA 02269-1427.

Ziegler Capital Management, LLC: 70 West Madison Street, Suite 2400, Chicago, IL 60602.

Neither the professional staff, the Board of Directors, nor the consulting professionals, has a financial interest in The Forest at Duke. No member of the professional staff nor the Board of Directors 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; or is subject to a currently effective injunctive or restrictive court order, or within the past five years, had any State or federal license or permit suspended or revoked as a result of an action brought by a governmental agency or department, if the order or action arose out of or related to business activity of health care, including actions affecting a license to operate a foster care facility, nursing home, retirement home, home for aged, or facility subject to this Article or a similar law in another state.

III. POLICIES

A. Admission – Health and Financial Criteria

Generally, all residents of the independent living units at The Forest at Duke are required to live independently at the time of admission and to have the financial resources to pay the Entry and Monthly Service Fees. Residents must be 65 years of age at the time of admission. In the case of co-residents, one resident may be as young as 62 years old. Residents are also required to subscribe to Medicare Parts A and B and to maintain supplemental health insurance acceptable to The Forest. The process for admission, and the financial and medical requirements are specifically outlined in the forms for admission given to every person interested in applying.

Once an individual is approved for admission, has paid a 15% deposit on the Entry Fee, and signed the Residence and Care Agreement, admission is guaranteed regardless of a change in the resident's health status between the time of the signing of the Agreement and the Date of Occupancy. The Forest always maintains the right to reevaluate a prospective resident's health or financial status prior to admission. Residents whose health status changes prior to occupancy such that they require direct admission to the Health and Wellness Center (as determined by The Forest) will be required to pay the fees in Section V.D. 2 and 3 of the Disclosure Statement. Prospective residents should review all admission forms and the Residence and Care Agreement (contract for services) prior to making a deposit for admission.

The Forest does not automatically deny residents for admission who have chronic health conditions. All resident applications are reviewed individually. Judgment for admission is based on the resident's ability to perform basic daily living activities on an ongoing basis. The Forest at Duke may also admit residents under certain conditions which are added as addenda to the Residence and Care Agreement. North Carolina regulations state that skilled nursing beds are for the use of persons who have been residents of the independent living units, or assisted living units for at least 30 days, with some exceptions. Admission for skilled nursing care is available if the resident has a spouse or sibling in the independent living section, or if the individual was under contract to enter The Forest prior to the time the condition requiring skilled nursing care was known to exist. Assisted living units are not subject to these state restrictions and are, therefore, available to persons who have not previously lived in an independent living unit.

B. Cancellation/Termination

- 1. Cancellation of Contract Prior to Occupancy:** The \$1,000 priority deposit, without interest, is always refundable in the event the resident decides not to move into The Forest at Duke. The Residence and Care Agreement, Section VI makes the following provisions regarding cancellation:

Withdrawal Within the 30 Day Right of Rescission Period: The resident may rescind this agreement prior to the Date of Occupancy, or after occupancy, by giving written notice to The Forest within the later of thirty (30) days of the execution of the Residence and Care Agreement or of the date that you received the Disclosure Statement as required by Section 58-64-1, et. seg. of the North Carolina General Statutes. Resident will receive a full refund equal to all funds paid toward the Entry Fee without interest, less any non-standard costs incurred by The Forest at the resident's request. Resident will be paid within sixty (60) days of receipt of the written notice to terminate. The resident is not required to take occupancy before the end of the 30 day trial period.

Withdrawal After the Thirty Day Right of Rescission Period: After the thirty day rescission period (and prior to Date of Occupancy), if the resident withdraws from the Residence and Care Agreement, the resident will receive a refund equal to the funds paid toward the Entry Fee (without interest) less an Administrative Fee equal to 2% of the Entry

Fee based on the Amortized Plan for the independent living residence selected, less any non-standard costs incurred by The Forest at the request of the resident. The refund will be paid within sixty (60) days of receipt of the written notice to terminate.

Termination by The Forest: The Residence and Care Agreement may be terminated by The Forest prior to the Date of Occupancy if it is found that the resident has misrepresented or omitted medical, financial, or other information given to The Forest during the application process or if the resident's financial status changes such that the resident no longer meets The Forest's financial requirements for admission. In such event, the resident will be due a refund equal to the total amount of funds paid toward the Entry Fee (without interest) less an Administrative Fee equal to 2% of the Entry Fee based on the Amortized Plan for the independent living residence selected, less any non-standard costs incurred by The Forest at the request of the resident.

Termination as a Result of Death or Illness of Resident: Prior to the Date of Occupancy should the resident (or in the case of co-residency, either resident) die, become ill, be injured or otherwise incapacitated such that The Forest determines that independent living is not possible, this Agreement will automatically be cancelled and a refund shall be due to the resident/resident's estate or resident's designee within sixty (60) days, equal to all funds paid toward the Entry Fee without interest, less any non-standard costs incurred by The Forest at the request of the resident. In lieu of terminating the Residence and Care Agreement, the resident may elect to enter The Forest's Health and Wellness Center under the terms of the direct admissions policy outlined in Section V.C. of the Residence and Care Agreement, subject to availability of accommodations.

2. Cancellation of Contract After Occupancy:

The Residence and Care Agreement makes provisions for cancellations and terminations after the resident occupies a unit in Section VII, "Conditions of Termination After Occupancy," and Section VIII. "Conditions for Refund After Occupancy" as outlined below:

Conditions of Termination After Occupancy

A. Termination by the Resident: The terms of this section apply only after the thirty-day right of rescission period, and after the Date of Occupancy. The Agreement may be terminated by you in accordance with the following conditions:

1. The Agreement will be terminated upon your death, or the death of the surviving resident in the case of co-residency. A permanent move to the Health and Wellness Center is not considered a contract termination, and therefore a refund is not applicable.

Refunds may only apply upon the termination of the contract. The Termination Date will be determined in accordance with Paragraph C below.

2. Except in the case of death, you must give The Forest sixty (60) days written notice of your intent to terminate the Agreement.
 3. You must leave the Residence in a condition satisfactory to The Forest. The Forest may charge you for the cost of work required to restore the Residence to its standard condition, with the exception of reasonable wear and tear.
 4. Refunds to you shall be reduced by the amount of your outstanding charges due to The Forest.
- B. Termination by The Forest:** The Forest may terminate the Agreement with you if you fail to pay the Monthly Service Fee and any other ancillary charges, or fail to follow the standard policies of The Forest, or refuse to relocate as required by this Agreement, or engage in activities or conduct disruptive to the community, or if you have misrepresented or omitted medical, financial or other information given to The Forest during the application process. The Forest will be required to give you at least sixty (60) days written notice to vacate your residence.
- C. Termination Date:** The Termination Date of this Agreement will be the date on which your personal property has been removed from the residence or 60 days following written notice, whichever is later. You will be required to continue paying the Monthly Service Fee until the Termination Date or until your personal belongings have been removed and a walk through has been completed by you or your designee and management, whichever is later.

Conditions for Refund After Occupancy

- A. Termination of Agreement by Resident:** You are entitled to a refund of the Residence Fee less an amount calculated in accordance with the Residence Fee Refund Plan chosen by you. For purposes of computing the refund amount, the termination date will be the date your residence is vacated by you, and all of your personal property has been removed from the residence, and a walk-through has been completed by you or your designee and management. Residence Fees will not be pro-rated for a period less than one month.
- B. Termination of Agreement by The Forest:** If The Forest terminates this Agreement pursuant to Paragraph B above, you shall be entitled to a refund of the Residence Fee less an amount calculated in accordance with the Residence Fee Refund Plan chosen by you. For purposes of computing the refund amount, the termination date will be the date that your residence is vacated by you, and all of your personal property has been removed from the residence, and a walk-through has been completed by you or your designee and management. Residence Fees will not be pro-rated for a period less than one month.

- C. Payment of Refunds:** Any refund of the Residence Fee will be paid after all outstanding charges due to The Forest by you have been paid, your personal belongings have been removed, and a final walk-through has been completed. Such payment shall be deferred until thirty (30) days after the independent living residence formerly occupied by you is re-occupied and a full Entry Fee is received for the residence. Refunds will be paid to you, or in the event of your death, to your estate.
- D. Release upon Termination:** Upon termination of this Agreement, The Forest is released from any further obligations to you except for the payment of any refund which may be due under this paragraph.

With respect to the calculation of refunds, Section II.D of the Residence and Care Agreement makes the following provisions:

Residence Fee Refund Plans: Three Residence Fee Plans are available to the resident according to the terms listed below. A Residence Fee Refund Plan must be declared by the resident when the 15% deposit is paid, but may be changed up to the date of payment of the final balance. The terms in this section apply to refunds made after the Date of Occupancy.

1. The **Amortized Residence Fee** accrues to The Forest at a rate of 2% per month beginning with the first day of the month of the Date of Occupancy or portion thereof. The resident may be due a refund of the Residence Fee paid less a sum equal to 2% times the number of months (or partial months) of occupancy less any costs owed The Forest by the resident, and less any amount necessary to restore the residence to an acceptable condition (except for reasonable wear and tear). Refunds will be payable to the resident only after all outstanding charges due to The Forest by the resident have been paid, and after the residence has been vacated and the resident has removed all personal belongings. Additionally, any refund of the Residence Fee is deferred until thirty (30) days after the independent living residence formerly occupied by the resident is re-occupied and a full Entry Fee is received for the unit. Refunds are paid to the resident or in the event of the resident's death, to the resident's estate.
2. The **50% Refundable Residence Fee** will accrue to The Forest at a rate of 2% per month beginning with the first day of the month of the Date of Occupancy or portion thereof until 50% of the Residence Fee has been accrued by The Forest. Thereafter, any refund to the resident will be limited to 50% of the Residence Fee originally paid less a sum equal to any costs owed The Forest by the resident, and less any amount necessary to restore the residence to an acceptable condition (except for reasonable wear and tear). Refunds will be payable to the resident only after all outstanding charges due to The Forest by the resident have been paid, and after all outstanding charges due to The Forest by the resident have been paid, and after the residence has been vacated and the resident has removed all personal belongings. Additionally, any refund of the Residence Fee is deferred until thirty (30) days after the independent residence formerly occupied by the resident is re-occupied and a full Entry Fee is received for the unit.

3. The **90% Refundable Residence Fee** will accrue to The Forest at a rate of 2% per month beginning with the first day of the month of the Date of Occupancy or portion thereof until 10% of the Residence Fee has been accrued by The Forest. Thereafter any refund to the resident will be limited to 90% of the Residence Fee originally paid less a sum equal to any costs owed The Forest by the resident, and less any amount necessary to restore the residence to an acceptable condition (except for reasonable wear and tear). Refunds will be payable to the resident only after all outstanding charges due to The Forest by the resident have been paid, and after the residence has been vacated and the resident has removed all personal belongings. Additionally, any refund of the Residence Fee is deferred until thirty (30) days after the formerly occupied independent living residence is re-occupied and a full Entry Fee is received for the unit.

The Monthly Service Fee and the one-time, Health Care Reserve Fee are not refundable.

C. Moves/Transfers

The Residence and Care Agreement outlines the policies for moves and transfers in Section IV, "Resident Moves and Transfers," and should be consulted for a complete description of this policy. In part, Section IV makes the following provisions:

The resident may transfer from one independent living residence to another, or from an independent living residence to the assisted living or nursing section of the community, on a permanent or temporary basis. All changes in the living accommodations of the resident are based on availability and appropriateness as determined by The Forest, and must be authorized by The Forest. Residents may be assessed an internal move fee when moving from one independent living residence to another independent living residence. The decision made by The Forest concerning transfers shall be binding. If the resident's physical or mental condition deteriorates so that it precludes the resident from living independently in an independent living residence, or if the resident cannot live in an independent living residence without endangering the resident or others, The Forest may transfer the resident to an accommodation that can best provide for the safety and care of the resident. The Forests' Health Maintenance Committee may determine such changes (if not at the request of resident) shall be made only to protect the health or safety of the resident, or the general welfare of all of the residents of The Forest. Residents may request a meeting with the Health Maintenance Committee for the discussion and consideration of any actions taken by the Committee.

If transfer has been deemed by The Forest to be permanent, The Forest may assign the resident's independent living residence to another resident. Upon recovery to independent living status, the resident may apply for an independent living residence upon the same basis as existed before the transfer. The resident shall bear all costs of moving and storing resident's furniture and belongings in case of such transfer. Additionally, if The Forest determines that the resident can resume occupancy in an independent living residence, the

resident will have a priority right to such an independent living residence equivalent to that previously occupied as soon as one is available.

D. New Double Occupants

If a resident marries while at The Forest, or wishes to have a second person share their residence, the new resident must be approved for occupancy by The Forest just as any other resident is approved. Section II.L. of the Residence and Care Agreement states the terms under which a person may share occupancy with a prior resident.

Addition of a Second Resident to Share a Living Accommodation with a Current Resident: If, after the Date of Occupancy indicated in Exhibit A of the Residence and Care Agreement, the resident chooses to have a second resident share his or her residence, The Forest may charge the second resident an Entry Fee equal to the current applicable Single Occupancy Entry Fee for such living accommodation, or such lesser amount as The Forest may determine in its discretion. Thereafter the residents will be responsible for the applicable current Double Occupancy Monthly Service Fee for the residence. Second residents are subject to the same entrance requirements as initial residents, must elect the same refund plan as the initial resident, and must sign a Residence and Care Agreement. If second resident is existing resident, second resident is subject to same entrance requirements as initial residents, except in regards to health status evaluation. If the spouse or second resident does not meet all of the entrance requirements, The Forest at Duke may grant admission subject to limited financial and/or service responsibilities on the part of The Forest at Duke. Additionally, neither resident is eligible for a refund of the Residence Fee until both residents have died or both Residence and Care Agreements have been terminated.

E. Financial Hardship

Section II.H. of the Residence and Care Agreement makes the following provision for financial hardship:

It is the intent of The Forest to admit only those persons who are able to pay its current and projected Entry Fee, Monthly Service Fee and any additional charges. Once a Residence and Care Agreement has been executed by both parties, The Forest is committed to its policy that you will not be required to leave The Forest solely due to your inability to pay the Monthly Service Fee. If upon reviewing your financial resources, it is determined that through no fault of your own, you are unable to continue to pay a part or all of the Monthly Service Fee, The Forest may elect to subsidize your Monthly Service Fee. A Benevolent Fund was established to assist those residents who encounter financial hardship through no fault of their own. The Benevolent Fund and the other resources of The Forest however, are limited, and The Forests' policy to subsidize residents who have encountered financial hardship is expressly limited by its obligation to meet its commitments to all residents, and to operate on a sound financial basis. If it is apparent to The Forest that you have voluntarily divested assets and resources, or have used resources in a manner other than to meet ordinary and customary living expenses,

The Forest may refuse to subsidize your Monthly Service Fee, and may elect to terminate this Agreement if payments for all fees and charges are not received in a timely manner. The use of the Benevolent Fund to subsidize residents who have encountered financial hardship is at the sole discretion of The Forest. Contributions to the Benevolent Fund are tax deductible, and residents and others may support this Fund with gifts, bequests and other fund-raising activities.

Under the terms of the Residence and Care Agreement, residents agree that they have not and will not make gifts of real or personal property for the purpose of evading their financial obligations to The Forest.

IV. SERVICES

A. Standard Services Available

The Forest at Duke is a full-service life care retirement community. Residents pay an Entry Fee and a Monthly Service Fee. The fees are designed to cover virtually all living expenses incurred by residents of The Forest. The Monthly Service Fee covers the following basic services:

- dining services as determined by chosen meal plan
- weekly housekeeping
- scheduled transportation
- all utilities except telephone service
- 24 hour emergency response service
- 24 hour security service patrols
- trash removal
- parking
- assistance with filing insurance claims for services rendered by The Forest
- primary physician care availability delivered at The Forest
- regular physical examination availability delivered at The Forest
- availability of physical therapy/occupational therapy/speech therapy service provided at The Forest
- meal delivery to apartments/cottages when resident is ill, on a short-term basis when ordered by a Forest physician
- extensive educational, cultural and recreational activities
- basic cable television and wireless internet services

B. Services for an Extra Charge

Services which will require additional payment include:

- meals outside the chosen meal plan
- guest meals
- charges for some special activities or trips

- personal parties or group events in the community center
- guest room accommodations at The Forest
- companion services for persons needing regular assistance in their residence
- extra maintenance or housekeeping assistance at an hourly rate
- dry cleaning services
- individual laundry service
- beauty and barber shop services
- specialty care services, i.e.: podiatry, dentistry and gynecology

C. Amenities

Amenities available at The Forest:

- on-site banking services through Wells Fargo Bank
- Gift Shop
- personal gardening beds
- greenhouse
- woodworking shop
- indoor swimming pool
- well-equipped fitness room
- extensive library
- tranquil English garden
- art studio
- billiards room
- walking paths
- croquet court
- multiple secured outdoor gardens
- scenic fish stocked pond
- wireless internet service

As needs are identified, other services may be offered.

D. Away Allowance

Independent residents who elect Meal Plan One and are away from The Forest for fourteen (14) consecutive days or more for any reason are eligible to request an Away Allowance. The Away Allowance is only available to independent residents upon written, advance request, and is not available for stays in The Forest's Health and Wellness Center. The Away Allowance is specifically excluded from Meal Plan Two. The credit will be the current published Away Allowance, per person per day, as determined by The Forest and listed on the "Schedule of Ancillary Charges" as noted in the Resident Handbook.

V. FEES

A. Application/Registration Fees

Persons applying for residency pay a \$300 non-refundable application fee. Upon preliminary approval of their application, prospective residents pay a \$1,000 refundable priority deposit to join the waiting list. When the preferred residence is available, the prospective resident's application is updated, documented, and reviewed. Prospective residents are screened by the Medical Director prior to final approval for residency, and also are reviewed to determine that adequate resources are available to meet the financial requirement to live at The Forest.

The Future Resident makes a 15% deposit of the Amortized Refund Plan Entry Fee upon final approval. The 15% deposit reserves the selected residence and the Residence and Care Agreement is signed and executed at this time. From the time of the signing of the Agreement until the Date of Occupancy, Future Residents are guaranteed admission to The Forest regardless of change in their health status. If residents require assisted living or skilled nursing services subsequent to signing the Residence and Care Agreement and prior to occupancy, they will be subject to the terms outlined in V.C. of the Residence and Care Agreement "Direct Admission to the Health and Wellness Center." All fund deposits are held in escrow, and are refundable under the terms described in the Residence and Care Agreement. Applicants may choose not to select available residences and remain on the waiting list without penalty until they are ready to apply for a residence.

B. Entry Fee

The Forest at Duke requires that the balance of the Entry Fee be paid two weeks prior to the Date of Occupancy. Entry Fees vary according to the residence chosen, and double occupancy fees include a second person Entry Fee. The Entry Fee is comprised of two parts: a non-refundable Health Care Reserve Fee of \$10,000 per person and a Residence Fee. The Health Care Reserve Fees provide additional resources which allow The Forest to establish and charge discounted fees for health care services.

The Board of Directors reviews the financial performance of The Forest each year to determine the required fee levels. Effective October 1, 2014, Entry Fees are as displayed in Schedule "A":

Schedule A

SINGLE OCCUPANCY 2014 ENTRY FEES

<u>Unit Type</u>	<u>Amortized Plan Entry Fee</u>	<u>50% Refundable Plan Entry Fee</u>	<u>90% Refundable Plan Entry Fee</u>
Apartments:			
Ash (1 BDR)	87,900	119,060	150,220
Beech (1 BDR exp)	116,000	158,400	200,800
Cedar (1 BDR w/den)	168,545	231,965	295,380
Dogwood (2 BDR)	221,295	305,815	390,330
Elm (2 BDR w/den)	236,690	327,365	418,045

Cottages:

Alder (1 BDR w/den)	249,415	345,185	440,950
Birch (2 BDR)	294,795	408,715	522,635
Chesnut (2 BDR w/den)	338,085	469,320	600,555
Pine (2 BDR w/study)	468,000	651,200	834,400
Holly (2 BDR w/study)	488,000	679,200	870,400
Magnolia (2 BDR w/study)	508,000	707,200	906,400

**DOUBLE OCCUPANCY
2014 ENTRY FEES**

<u>Unit Type</u>	<u>Amortized Plan Entry Fee</u>	<u>50% Refundable Plan Entry Fee</u>	<u>90% Refundable Plan Entry Fee</u>
Apartments:			
Ash (1BDR)	115,900	154,260	192,620
Beech (1BDR exp)	144,000	193,600	243,200
Cedar (1 BDR w/den)	196,545	267,165	337,780
Dogwood (2 BDR)	249,295	341,015	432,730
Elm (2 BDR w/den)	264,690	362,565	460,445
Cottages:			
Alder (1 BDR w/den)	277,415	380,385	483,350
Birch (2 BDR)	322,795	443,915	565,035
Chesnut (2 BDR w/den)	366,085	504,520	642,955
Pine (2 BDR w/study)	496,000	686,400	876,800
Holly (2 BDR w/study)	516,000	714,400	912,800
Magnolia (2 BDR w/study)	536,000	742,400	948,800

All Entry Fees are composed of a Health Care Reserve Fee of \$10,000 per person plus a Residence Fee. The Residence Fee portion of the Entry Fee is refundable according to three different plans:

Amortized Plan:

2% of the Residence Fee accrues to The Forest each month. The refund thus decreases to zero over 50 months.

50% Refundable Plan:

2% of the Residence Fee accrues to The Forest each month for 25 months after which the refund remains at 50%.

90% Refundable Plan:

2% of the Residence Fee accrues to The Forest each month for 5 months after which the refund remains at 90%.

Prices subject to change without notice

C. Monthly Service Fees

Monthly Service Fees vary according to the unit chosen. Generally, Monthly Service Fees cover the services outlined above under "Standard Services Available" Section IV.A. Current Monthly Service Fees, effective October 1, 2014 are shown in Schedule B below. Note that double occupants pay a Second Person Monthly Service Fee of \$1,437 which is included in the fees for "Double Occupancy."

Schedule B

SINGLE OCCUPANCY 2014 MONTHLY SERVICE FEES

Apartments:

Ash (1BDR)	\$2,805
Beech (1BDR exp)	\$3,250
Cedar (1 BDR w/den)	\$3,679
Dogwood (2 BDR)	\$4,184
Elm (2 BDR w/den)	\$4,490

Cottages:

Alder (1 BDR w/den)	\$4,262
Birch (2 BDR)	\$4,490
Chesnut (2 BDR w/den)	\$4,728
Pine (2 BDR w/study)	\$4,888
Holly (2 BDR w/study)	\$5,044
Magnolia (2 BDR w/study)	\$5,148

DOUBLE OCCUPANCY 2014 MONTHLY SERVICE FEES

Apartments:

Ash (1BDR)	\$4,242
Beech (1BDR exp)	\$4,687
Cedar (1 BDR w/den)	\$5,116
Dogwood (2 BDR)	\$5,621
Elm (2 BDR w/den)	\$5,927

Cottages:

Alder (1 BDR w/den)	\$5,699
Birch (2 BDR)	\$5,927
Chesnut (2 BDR w/den)	\$6,165
Pine (2 BDR w/study)	\$6,270
Holly (2 BDR w/study)	\$6,426
Magnolia (2 BDR w/study)	\$6,530

D. Health and Wellness Center Fees

- Residents of The Forest at Duke:** Each Forest resident with a life care contract receives fifteen (15) prepaid days for overnight stays in the Health and Wellness Center. As prepaid days are used, those days may again accrue back up to the 15 day maximum. One prepaid day will accrue on the first day of the month, following a month in which the resident has not incurred an overnight stay in the Health and Wellness Center. After the fifteen prepaid days are used, if the resident remains in either adult care or skilled nursing care on a temporary basis, the resident will be required to continue to pay their Monthly Service Fee for their independent living residence plus 60% of the Health and Wellness Center per diem rate. The Forest at Duke's Health and Wellness Center fees are private pay. The Health and Wellness Center per diem rate will be set by management relative to the costs of providing services,

and the private pay rates charged at similar local health care facilities. The Health and Wellness Center per diem rate effective October 1, 2014 is \$373.

Residents transferring to the Health and Wellness Center permanently will no longer be charged their Monthly Service Fee for the independent living residence and instead will be charged 40% of the Health and Wellness Center per diem rate if the resident was a single occupant of an independent living residence. If the resident transfers from an independent living unit which is occupied by two persons the resident will be required to continue paying the monthly second person fee for the independent living residence and, in addition, will be charged 15% of the Health and Wellness Center per diem rate.

Residents of The Forest's independent living residences who subsequently move into the Health and Wellness Center are entitled to the services outlined in Section V.B. of the Residence and Care Agreement "Continuing Care Services".

2. **Direct Admission to Skilled Nursing Care:** Residents may be admitted directly for skilled nursing care because of a change in health status after acceptance and prior to Date of Occupancy, or if their spouse or sibling is moving into an independent living residence. These persons pay the \$10,000 Health Care Reserve Fee. Residents who are admitted directly for skilled nursing care are subject to the terms under "Direct Admission to the Health and Wellness Center" Section V.C. of the Residence and Care Agreement and will be required to pay directly for continuing care services listed under Section V.C.1 of the Residence and Care Agreement.
3. **Direct Admission to Adult Care:** Residents may be admitted directly for adult care services without having a spouse or sibling in the independent living residences. Residents can enter on a month-to-month basis by paying the monthly fee. However, for residents of adult care to be eligible for skilled care, they must pay the \$10,000 Health Care Reserve Fee, have lived in adult care for at least 30 days, and be approved by the Health Maintenance Committee. Additionally, residents directly admitted for adult care services who transfer to skilled nursing care are not eligible for fifteen prepaid days of care. The monthly rate for direct admission to adult care is \$9,464, effective October 1, 2014. Residents who are admitted directly to adult care are subject to the terms under "Direct Admission to the Health and Wellness Center" Section V.C. of the Residence and Care Agreement and will be required to pay directly for continuing care services listed under Section V.C.2 of the Residence and Care Agreement.

E. Fee Change Policies

The Residence and Care Agreement Section II.G. makes the following provisions regarding the periodic adjustment of fees:

It is understood by both parties that The Forest is a not-for-profit corporation dedicated to providing high quality services, facilities, and care at the lowest feasible cost. The parties also recognize the uncertain nature of future costs and expenses for goods and services and their mutual need to maintain a sound financial basis for the continued

operation of the facility. The resident agrees that The Forest may adjust the Monthly Service Fee upon a 30-day written notice to the resident, as may be reasonably necessary according to the economic requirements and conditions and the level of services offered. The decision to adjust the Monthly Service Fee shall be made by the Board of Directors of The Forest in its sole discretion.

For purposes of developing financial projections, The Forest anticipates Monthly Service Fees will increase 4% annually in October. Health and Wellness Center fees are also projected to increase 4% annually in October.

F. Changes in Fees for the Previous Five Years

The following table shows the average changes in the Monthly Service Fees and Health and Wellness Center per diems over time. Note that it is the average dollar amount of the CHANGE in fees from year to year – NOT the fees themselves. All changes during this period occurred once per year on October 1.

	<u>10/1/2010</u> <u>9/30/2011</u>	<u>10/1/2011</u> <u>9/30/2012</u>	<u>10/1/2012</u> <u>9/30/2013</u>	<u>10/1/13</u> <u>9/30/14</u>	<u>10/1/14</u> <u>9/30/15</u>
<u>Monthly Service Fees</u>					
One Occupant (\$'s per mo.)	\$144	\$150	\$158	\$148	\$154
Two Occupants (\$'s per mo.)	\$196	\$205	\$215	\$200	\$208
Approx. Percentage Increase	4.5%	4.5%	4.5%	4.0%	4.0%
<u>Health and Wellness Center Per Diems</u>					
Assisted Living (\$'s per day)	\$5	\$6	\$7	\$6	\$6
Skilled Nursing (\$'s per day)	\$5	\$6	\$7	\$6	\$6
Approx. Percentage Increase	4.5%	4.5%	5.5%	4.0%	4.0%

VI. FINANCIAL INFORMATION

A. Overview

The Forest at Duke, Inc. received permanent financing to construct, equip and fund working capital for the project from tax-exempt bonds issued through the North Carolina Medical Care Commission. Interest and principal payments were made to the Commission from operating proceeds. In September 1993, \$19 million of the original bonds were paid off. In March 1994, in order to take advantage of lower interest rates, the outstanding debt was restructured. The remaining callable 1990 bonds were refunded with a bond issue totaling \$35,685,000. This advance refunding allowed The Forest at Duke to capture a permanent saving in debt service cost for the next twenty-six years.

In April 2002, The Forest at Duke, Inc. received financing to construct a new 34 unit assisted living addition, renovate and reconfigure the community center, dining room and common areas,

and redecorate existing assisted living and skilled nursing residences. Financing was obtained for the project from tax exempt bonds issued through the North Carolina Medical Care Commission. The bond issue totaled \$23,495,000. The new assisted living residences were completed in February 2004 with substantially all of the remaining project components completed by the end of FY 2004.

In November 2003, \$30,835,000 of the outstanding principal balance of the Series 1994 bonds were refunded in order to take advantage of lower interest rates. This advance refunding allowed The Forest at Duke to capture a significant permanent savings in debt service costs for the next seventeen years.

In July 2007, \$27,970,000 of outstanding principal balance of the Series 2002 and Series 2003B bonds were refunded in order to take advantage of lower interest rates. In June 2007, The Forest was granted a BBB+ rating from Fitch Ratings on its outstanding debt. In November 2007, The Forest was granted national accreditation by CCAC/CARF. In 2014 the BBB+ Fitch rating was reaffirmed.

B. Current Financial Statements

See Exhibit A, attached, for audited financial statements for fiscal year 2014. The Statements include notations provided by the auditor presenting significant facts and assumptions relevant to the Statements.

C. Interim Financial Statements

See Exhibit B, attached, for internally-generated financial statements for the period ending December 31, 2014.

D. Comparison of Actual Results with Forecasted Proforma Projections

See Exhibit C, attached, for a comparison of actual Fiscal Year 2014 results with Forecasted Proforma Projections included in the March 1, 2014 Disclosure Statement.

E. Financial Projection Statements

See Exhibit D, attached, for financial forecasted statements prepared for the fiscal years 2015 through 2019. The Statements include detailed disclosure of assumptions used in the projections.

F. Actuarial Summary Report

Turnover rates, health care utilization rates and life expectancy assumptions are the basis of The Forest's five year forecast. Using the age profile of The Forest's residents as well as experience from other retirement communities, A.V. Powell & Associates, Inc. (the Actuary) provided turnover profiles for use in the financial forecast. The Actuary is a national consulting firm

located in Atlanta, Georgia which specializes in providing actuarial data to retirement communities.

VII. RESERVES, ESCROW AND TRUSTS

A. Deposits Made by Residents

North Carolina General Statutes 58-64-35, require all deposits made by prospective residents to be held in escrow until the facility reaches the seventy-five percent (75%) pre-sales, construction has been completed and an occupancy permit has been issued. All of these requirements have been met by The Forest at Duke, and therefore The Forest is no longer required to escrow deposits made by residents. However, since prospective residents are required to make a 15% deposit to reserve a residence, The Forest continues to escrow deposits made by prospective residents as a show of good will. If a prospective resident subsequently cancels their reservation (subject to the terms outlined in Section III.B. above), they will receive a refund of their deposit from the escrow agent. The escrow agent for these funds is James Tatum, Esq. of Hedrick Murray Bryson Kennett Mauch, Durham, NC. Mr. Tatum invests escrowed fund in Money Market Funds.

B. Trustee-Held Funds

The following reserves are required by either the North Carolina Medical Care Commission via The Forest at Duke trust indenture or the North Carolina Department of Insurance (balances are for the fiscal year ending September 30, 2014):

1. Debt service reserve fund: The Forest maintains a debt service reserve fund which is equal to the maximum annual debt service over the life of the series 1994, 2003 and 2007 bonds. This fund was established by the bond indentures and has a requirement of \$4,480,518. The current balance is \$4,531,574. These amounts are found in Exhibit A, Balance Sheet under "Non-current assets limited as to use."
2. Interest fund: As provided by the bond indenture, The Forest maintains an interest fund for the payment of current interest. Included in Exhibit A, Balance Sheet under "Noncurrent assets limited as to use" is \$431,010 which includes adequate funds for the 1994, 2003, and 2007 interest fund.
3. North Carolina Department of Insurance reserve requirements: North Carolina State law requires that a provider shall maintain after the opening of a facility an operating reserve equal to fifty percent (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. The forecast statements shall serve as the basis for computing the operating reserve. In addition to total operating expenses, total operating costs will include debt service, consisting of principal and interest payments along with taxes and insurance on any mortgage loan or other long term financing, but will exclude depreciation, amortized expenses, and extraordinary items as approved by the Commissioner. If the debt service portion is accounted for by way of another reserve account, the debt service portion may be

excluded. If a facility maintains an occupancy level in excess of ninety percent (90%), a provider shall only be required to maintain a twenty five percent (25%) operating reserve upon approval of the Commissioner, unless otherwise instructed by the Commissioner. The operating reserve must be funded by cash, by invested cash, or by investment grade securities, including bonds, stocks, U.S. Treasury obligations, or obligations of U.S. government agencies.

The Forest at Duke's campus occupancy exceeds 90%, therefore, the 25% factor is applied to calculate the State-mandated reserve. See Section D "Operating Reserve Funds".

All trustee-held funds are held by The Forest's trustee, US Bank Corporate Trust Services, Charlotte, North Carolina, under the direction of Ms. Lisa Moorehead. The Forest at Duke advises the trustee on investment decisions based on guidelines within the Loan Agreement. Trustee-held funds are invested only in instruments approved by the North Carolina Medical Care Commission and the North Carolina Department of Insurance.

C. Board Designated Funds:

Board designated funds include the Health Care Reserve fund established to provide additional resources which allows The Forest to establish and charge discounted fees for health care services. The balance of the Health Care Reserve fund as of September 30, 2014 was \$3,618,000. In addition, the Benevolent Fund value as of September 30, 2014 was \$215,989. The Benevolent Fund will be used at the discretion of the Benevolent Fund Committee of the Board of Directors to provide financial assistance to residents who are unable to meet their financial responsibilities.

D. Operating Reserve Funds:

The fiscal year 2015 requirement for The Forest's operating reserve is \$3,886,000. This reserve is held in the operating checking account and is maintained at a minimum balance of \$3,886,000. The fiscal year 2016 operating reserve requirement is \$4,041,000. The Forest anticipates the minimum balance to be increased to the required \$4,041,000 by September 2016. The additional funds needed to increase the reserve from the current level to the required level in September 2016 will be obtained from monthly service fees and entry fees. In the unlikely event that the monthly service fees and entry fees do not generate the required level of excess funds, The Forest will transfer the necessary funds from the cash reserves at Branch Banking and Trust which are invested in a money market fund. The Board of Directors makes investment decisions based upon recommendations made by Ziegler Capital Management.

VIII. FACILITY DEVELOPMENT OR EXPANSION

The Corporation is engaged in facility development and expansion. Currently, The Forest is securing reservations for an additional 15 cottages and began site work in October 2013. These new residences are expected to be completed by mid-year fiscal year 2015. The Community is also renovating the current campus to include additional parking, enhanced dining and fitness venues as well as other interior program modifications. These renovations are anticipated to be completed in early 2016.

IX. RESIDENCE AND CARE AGREEMENT

Attached is the Residence and Care Agreement. All persons interested in occupancy at The Forest should carefully review the Agreement and seek professional legal and financial advice prior to making a deposit.

FINANCIAL EXHIBITS

- Exhibit A.....FY 2014 Audited Statements by
Dixon Hughes Goodman LLP
- Exhibit B.....Internally-Generated Financial
Statements for the period ending
December 31, 2014
- Exhibit C.....Comparison of Actual FY 2014
Results with Forecasted Proforma
Projections included in March 1,
2014 Disclosure Statement
- Exhibit D.....Five Year Forecast 2015 - 2019

THE FOREST AT DUKE, INC.

Financial Statements

September 30, 2014 and 2013

(with Independent Auditors' Report thereon)

THE FOREST AT DUKE, INC.

September 30, 2014 and 2013

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DIXON HUGHES GOODMAN^{LLP}
Certified Public Accountants and Advisors

Independent Auditors' Report

The Board of Directors
The Forest at Duke, Inc.
Durham, North Carolina

We have audited the accompanying financial statements of The Forest at Duke, Inc. ("The Forest"), which comprise the balance sheets as of September 30, 2014 and 2013 and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Forest as of September 30, 2014 and 2013, 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.

Dixon Hughes Goodman LLP

November 18, 2014

(1)

THE FOREST AT DUKE, INC.
Balance Sheets
September 30, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 3,392,831	\$ 4,498,821
Assets limited as to use, current portion	2,755,000	2,625,000
Accounts and other receivables	139,715	218,982
Other current assets	<u>273,530</u>	<u>303,443</u>
Total current assets	6,561,076	7,646,246
Assets limited as to use, net of current portion	11,782,141	11,349,126
Investments	19,239,585	19,886,252
Property and equipment, net	34,446,658	35,821,836
Construction in progress	4,796,487	777,740
Deferred costs, net	<u>675,726</u>	<u>730,506</u>
Total assets	<u>\$ 77,501,673</u>	<u>\$ 76,211,706</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 730,128	\$ 149,545
Accrued expenses	665,707	606,962
Current portion of refundable entrance fees to residents	979,733	963,844
Current portion of bonds payable	<u>2,755,000</u>	<u>2,625,000</u>
Total current liabilities	5,130,568	4,345,351
Bonds payable, net of current portion	30,565,373	33,324,890
Construction loan payable	931,970	-
Deposits	2,073,710	590,400
Deferred revenue from non-refundable plan entrance fees	26,150,653	26,735,615
Refundable entrance fees to residents, net of current portion	<u>10,767,954</u>	<u>10,975,161</u>
Total liabilities	<u>75,620,228</u>	<u>75,971,417</u>
Net assets:		
Unrestricted	1,662,751	(8,776)
Temporarily restricted	<u>218,694</u>	<u>249,065</u>
Total net assets	<u>1,881,445</u>	<u>240,289</u>
Total liabilities and net assets	<u>\$ 77,501,673</u>	<u>\$ 76,211,706</u>

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

THE FOREST AT DUKE, INC.
Statements of Operations
For the Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted revenues, gains and other support:		
Monthly service fees	\$ 11,886,003	\$ 11,483,035
Earned entrance fees	3,150,384	3,416,503
Clinic and health care center fees	4,377,485	4,436,257
Dining services income	125,932	133,228
Application fees	9,900	11,100
Other income	124,781	205,865
Net assets released from restriction	<u>66,360</u>	<u>143,652</u>
Total unrestricted revenues, gains and other support	<u>19,740,845</u>	<u>19,829,640</u>
Expenses:		
Dining services	3,483,142	3,350,373
Housekeeping	1,021,769	992,818
Health care center and nursing	4,469,099	4,238,754
Wellness clinic	457,810	476,506
Activities	328,784	306,254
Facility costs	2,745,086	2,700,166
Marketing	453,922	433,348
General and administrative	1,625,511	1,576,536
Depreciation	3,158,399	3,005,267
Amortization	54,780	54,780
Interest	<u>1,840,016</u>	<u>1,964,084</u>
Total operating expenses	<u>19,638,318</u>	<u>19,098,886</u>
Operating income	102,527	730,754
Nonoperating income:		
Interest and dividends	674,765	684,994
Realized gain on sale of investments	1,822,642	851,791
Community responsibility	<u>(135,080)</u>	<u>(70,404)</u>
Nonoperating income	<u>2,362,327</u>	<u>1,466,381</u>
Excess of revenues, gains and other support over expenses	2,464,854	2,197,135
Net assets released from restrictions for purchase of property and equipment	30,581	10,600
Net unrealized gains (losses) on investments and assets limited as to use	<u>(823,908)</u>	<u>330,113</u>
Change in unrestricted net assets	<u>\$ 1,671,527</u>	<u>\$ 2,537,848</u>

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

THE FOREST AT DUKE, INC.
Statements of Changes in Net Assets
For the Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted net assets:		
Excess of revenues, gains and other support over expenses	\$ 2,464,854	\$ 2,197,135
Net assets released from restrictions for purchase of property and equipment	30,581	10,600
Net unrealized gains (losses) on investments and assets limited as to use	<u>(823,908)</u>	<u>330,113</u>
Change in unrestricted net assets	<u>1,671,527</u>	<u>2,537,848</u>
Temporarily restricted net assets:		
Contributions	66,570	396,925
Net assets released from restriction	<u>(96,941)</u>	<u>(154,252)</u>
Change in temporarily restricted net assets	<u>(30,371)</u>	<u>242,673</u>
Change in net assets	1,641,156	2,780,521
Net assets (deficit), beginning of year	<u>240,289</u>	<u>(2,540,232)</u>
Net assets, end of year	<u>\$ 1,881,445</u>	<u>\$ 240,289</u>

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

THE FOREST AT DUKE, INC.
Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating activities:		
Change in net assets	\$ 1,641,156	\$ 2,780,521
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Earned entrance fees	(3,150,384)	(3,416,503)
Net realized and unrealized gains on investments and assets limited as to use	(998,734)	(1,181,904)
Non-refundable plan entrance fees received	3,562,937	3,555,430
Depreciation	3,158,399	3,005,267
Amortization	54,780	54,780
Amortization of bond premium included in interest expense	(4,517)	(4,517)
Net changes in operating assets and liabilities:		
Accounts and other receivables	79,267	54,415
Other current assets	29,913	(141,919)
Accounts payable	145,500	(359,191)
Accrued expenses	<u>58,745</u>	<u>43,495</u>
Net cash provided by operating activities	<u>4,577,062</u>	<u>4,389,874</u>
Investing activities:		
Net change in assets limited as to use	(563,015)	(195,256)
Purchases of investments	(11,885,267)	(10,717,565)
Proceeds from sale of investments	13,530,668	10,336,612
Purchase of property and equipment	<u>(5,366,885)</u>	<u>(2,479,077)</u>
Net cash used by investing activities	<u>(4,284,499)</u>	<u>(3,055,286)</u>
Financing activities:		
Entrance fees refunded	(663,783)	(897,089)
Refundable entrance fees received	958,260	2,133,490
Proceeds from construction loan payable	931,970	-
Principal payments on bonds payable	<u>(2,625,000)</u>	<u>(2,500,000)</u>
Net cash used by financing activities	<u>(1,398,553)</u>	<u>(1,263,599)</u>
Net change in cash and cash equivalents	(1,105,990)	70,989
Cash and cash equivalents, beginning of year	<u>4,498,821</u>	<u>4,427,832</u>
Cash and cash equivalents, end of year	<u>\$ 3,392,831</u>	<u>\$ 4,498,821</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 1,855,518</u>	<u>\$ 1,974,366</u>
Construction in progress included within accounts payable	<u>\$ 435,083</u>	<u>\$ -</u>

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

THE FOREST AT DUKE, INC.
Notes to Financial Statements
September 30, 2014 and 2013

1. Summary of Significant Accounting Policies

Organization - The Forest at Duke, Inc. ("The Forest") is a non-profit, North Carolina corporation. The Forest owns and operates a continuing care retirement community in Durham, North Carolina, which consists of 240 independent living units and 92 health care facility beds.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with the principles generally accepted in the United States of America.

Cash and Cash Equivalents - Cash and cash equivalents include all highly liquid investments with original maturities of three months or less when purchased, except those included with assets limited as to use. Throughout the year the Forest has bank balances which exceed Federal Deposit Insurance Corporation limits.

Assets Limited as to Use - Assets limited as to use are reported at fair value. Assets limited as to use needed for current liabilities have been classified as current assets on the balance sheets. Assets limited as to use include assets set aside for the following purposes:

- *The Department of Insurance (Operating Reserve)* - In accordance with North Carolina General Statute 58, Article 64-33, The Forest is required to maintain an operating reserve equal to 25% of the total operating costs (as defined) forecasted for the following year.
- *Funds Held by Trustee under Trust and Loan Agreements* - Funds held by trustee are held in accordance with the trust and loan agreements. Under the terms of the trust and loan agreements between The Forest and the North Carolina Medical Care Commission, these funds are deposited with the trustee.
- *Funds Held by Escrow Agent* - Funds held by escrow agent represent assets for certain refundable deposits plus interest.
- *Board Designated (Health Care Reserve)* - The health care reserve represents amounts paid by each resident as part of their entrance fee (\$8,000 before October 1, 2000, \$10,000 thereafter). The Board of Directors has designated these funds be maintained to help protect against escalating costs in The Forest's health care center.
- *Board Designated (Benevolent Fund)* - The Board of Directors has designated \$100,000 plus interest and contributions to be used as the benevolent fund. This fund is to be used for resident assistance in the event of financial hardship at the discretion of the Board of Directors.

Investments - Investments in money market mutual funds, corporate obligations, U.S. Treasury obligations, asset-backed securities, common stocks and mutual funds are measured at fair value in the balance sheets. The Forest also holds private equity investments without a readily determinable fair value. Private equity investments are reported at net asset value ("NAV"). The amount reported in the financial statements represents an estimate of The Forest's proportionate share of the fair value of the private equity investments. Interest and dividends, realized gain on sale of investments, and

THE FOREST AT DUKE, INC.
Notes to Financial Statements (continued)
September 30, 2014 and 2013

other-than-temporary impairment loss on investments are reported as nonoperating income, and are included in excess of revenues, gains and other support over expenses. Unrealized gains (losses) on investments and assets limited as to use are excluded from excess of revenues, gains and other support over expenses and are reported as other changes in the unrestricted net assets. The cost of securities sold is based on the average cost method, adjusted for any other-than-temporary impairment loss on investments and assets limited as to use.

Property and Equipment - Property and equipment is stated at cost less accumulated depreciation. Interest cost incurred on borrowed funds during construction of capital assets is capitalized as a component of the cost of acquiring those assets. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Property and equipment is depreciated under the straight-line method by applying the following useful lives.

Land improvements	5-25 years
Buildings	30 years
Equipment and furnishings	5-15 years
Vehicles	4-6 years

Deferred Costs - Deferred costs represent financing costs as a result of the bond issuances. The financing costs are being amortized over the terms of the bonds at approximately \$55,000 per year.

Deferred Revenue from Entrance Fees - Deferred revenue from entrance fees represents funds received from current residents, which have not yet been recognized as revenue, and refundable deposits received from potential residents.

Entrance fees vary based upon the size of the unit and the type of refund plan chosen by the resident. Three alternative entrance fee plans provide for refunds to residents from re-occupancy proceeds. Under the amortized plan, prior to 50 months of occupancy the resident would receive a refund equal to the entrance fee, less 2% per month of occupancy. The 50% refundable plan offers the resident a refund equal to 50% of the entrance fee after 25 months of occupancy. Prior to 25 months of occupancy, the resident is entitled to a refund of the entrance fee, less 2% per month of occupancy. Under the 100% refundable plan, the resident is entitled to a refund equal to 100% of the entrance fee paid. This plan was discontinued in 1994. The Forest had two of these contracts remaining as of September 30, 2014 and 2013. The 90% refundable plan offers the resident a refund equal to 90% of the entrance fee after 5 months of occupancy. Prior to 5 months of occupancy, the resident is entitled to a refund of the entrance fee less 2% per month of occupancy.

Refundable entrance fees to residents are classified as current based on a five year running average of refunds paid. The remaining portion of refundable entrance fees to residents are classified as non-current.

Obligations to Provide Future Services - The Forest annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares the amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to nonoperating expense. The Forest was not required to record such a liability at September 30, 2014 and 2013.

THE FOREST AT DUKE, INC.
Notes to Financial Statements (continued)
September 30, 2014 and 2013

Net Assets - The Forest reports net assets using the following three classes; unrestricted, temporarily restricted and permanently restricted depending on the presence and type of donor-imposed restrictions limiting The Forest's ability to use or dispose of specific contributed assets or the economic benefits embodied in those assets. Unrestricted net assets include those whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. Temporarily restricted net assets are those whose use by The Forest has been limited by donors (a) to later periods of time or after specified dates or (b) to specified purposes. Permanently restricted net assets are those net assets which have been restricted by donors to be maintained by The Forest in perpetuity. There were no permanently restricted net assets at September 30, 2014 and 2013.

Excess of Revenues, Gains and Other Support Over Expenses - The statements of operations include excess of revenues, gains and other support over expenses. Changes in unrestricted net assets which are excluded from excess of revenues, gains and other support over expenses, consistent with industry practice, include unrealized gains and losses on investments and assets limited as to use other than trading securities and net assets released from restrictions for the purchase of property and equipment.

Donor Restrictions - The Forest reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restriction. The Forest reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Use of Estimates - The preparation of financial statements in accordance 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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of results of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes - The Forest is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Forest has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2014 and 2013. The Forest believes it is no longer subject to income tax examinations for years prior to September 30, 2011.

Reclassifications - Certain reclassifications have been made to the 2013 financial statement presentation to correspond to the current year's format. Total net assets and change in net assets are unchanged due to these reclassifications.

Subsequent Events - The Forest evaluated the effect subsequent events would have on the financial statements through November 18, 2014, which is the date the financial statements were available to be issued.

THE FOREST AT DUKE, INC.
Notes to Financial Statements (continued)
September 30, 2014 and 2013

2. Assets Limited as to Use and Investments

The composition of assets limited as to use and investments at September 30 is set forth in the following table:

	<u>2014</u>	<u>2013</u>
Fixed income	\$ 17,479,959	\$ 16,699,362
Equity	10,058,016	11,443,480
Cash funds and money market funds	<u>6,238,751</u>	<u>5,717,536</u>
Total assets limited as to use and investments	<u>\$ 33,776,726</u>	<u>\$ 33,860,378</u>

Assets were limited as to use for the following purposes at September 30:

	<u>2014</u>	<u>2013</u>
Department of Insurance - operating reserve	\$ 3,886,063	\$ 3,733,964
Held by trustee under trust and loan agreements	5,651,922	5,624,523
Held by escrow agent	1,165,167	621,416
Board designated:		
Health Care reserve	3,618,000	3,696,000
Benevolent fund	<u>215,989</u>	<u>298,223</u>
Total assets limited as to use	14,537,141	13,974,126
Less assets limited as to use, current portion	<u>(2,755,000)</u>	<u>(2,625,000)</u>
Total assets limited as to use, net of current portion	<u>\$ 11,782,141</u>	<u>\$ 11,349,126</u>

Investment income for the years ended September 30 follows:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 674,765	\$ 684,994
Realized gain on sale of investments	1,822,642	851,791
Net unrealized gains (losses) on investments and assets limited as to use	<u>(823,908)</u>	<u>330,113</u>
Total net investment income	<u>\$ 1,673,499</u>	<u>\$ 1,866,898</u>

Investment income is shown net of investment fees of approximately \$139,000 and \$132,000 for the years ended September 30, 2014 and 2013, respectively.

THE FOREST AT DUKE, INC.
Notes to Financial Statements (continued)
September 30, 2014 and 2013

Accounting standards require management to evaluate certain investments whereby fair value is below cost to determine when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impaired loss. The following table reflects the investments in an unrealized loss position as of September 30, 2014 and 2013 for which impairment loss has not been taken:

Description of Securities	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2014						
Common stocks	\$ 968,213	\$ 97,331	\$ 142,937	\$ 6,862	\$ 1,111,150	\$ 104,193
Mutual funds	1,295,183	21,156	-	-	1,295,183	21,156
Bonds	3,497,217	56,138	5,199,177	171,384	8,696,394	227,522
	<u>\$ 5,760,613</u>	<u>\$ 174,625</u>	<u>\$ 5,342,114</u>	<u>\$ 178,246</u>	<u>\$ 11,102,727</u>	<u>\$ 352,871</u>
2013						
Common stocks	\$ 1,011,063	\$ 52,804	\$ 56,685	\$ 1,695	\$ 1,067,748	\$ 54,499
Mutual funds	-	-	11,455	407	11,455	407
Bonds	5,229,518	155,209	3,191,307	82,276	8,420,825	237,485
	<u>\$ 6,240,581</u>	<u>\$ 208,013</u>	<u>\$ 3,259,447</u>	<u>\$ 84,378</u>	<u>\$ 9,500,028</u>	<u>\$ 292,391</u>

Other-than-temporary does not mean a permanent impairment. Accounting standards require certain disclosures about unrealized losses on investments that have not been recognized as other-than-temporary impairment. The Forest determined there were no other-than temporary declines in the fair value of investments for the years ended September 30, 2014 and 2013.

The following states management's rationale for not recording other-than-temporary impairment on investments held in an unrealized loss position at September 30, 2014.

- *Stocks* - The Forest's stock investments consist of a wide range of diversified companies. The Forest's stock investments range from small to large size domestic companies, and are adequately diversified among multiple industries. Management has reviewed the stocks held in an unrealized loss position and have determined that the stocks are of a high quality and are not other-than-temporarily impaired, as The Forest has the intent and the ability to hold the investments for a reasonable period of time sufficient for a forecasted recovery of fair value.
- *Mutual funds* - The Forest's unrealized loss on mutual funds primarily relates to one mutual fund. Management has the intent and ability to hold the mutual fund investment for a reasonable period of time for the investment to recover the unrealized losses.
- *Bonds* - The fixed income securities consist largely of government and corporate bonds which are investment-grade rated. Management believes that the decline of fair value below cost on fixed income investments is the result of interest rate changes and the purchase of these investments at either a premium or discount. The Forest has the ability and intent to hold these investments until a recovery of fair value, which may be maturity.

3. Fair Value of Assets and Liabilities

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

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

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

Asset Measured at Fair Value on a Recurring Basis

When quoted prices are available in active markets for identical instruments, investment securities are classified within Level 1 of the fair value hierarchy. Level 1 includes money market mutual funds, corporate obligations, U.S. Treasury obligations, common stocks and mutual funds. Level 2 investment securities include asset-backed securities for which quoted prices are not available in active markets for identical instruments. The Forest utilizes a third party pricing service to determine the fair value of each of these investment securities. Because quoted prices in active markets for identical assets are not available, these prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics.

The Forest's private equity investments are valued at NAV based on The Forest's proportionate share of the investments' fair value as recorded in the investments' financial statements. The investments primarily invest in readily marketable securities. The private equity investments allocate gains, losses and expenses to partners based on the ownership percentage as described in the fund agreements to determine NAV. At September 30, 2014 and 2013, The Forest had no future commitments for additional contributions to the private equity investments. As of September 30, 2014, the Forest no longer holds any private equity investments. The Forest individually assessed each investment based on redemption restrictions, underlying holdings, and if the funds are being closed in determining whether the individual investments are Level 2 or Level 3 investments. There were no transfers in or out of Level 3 during 2014. There were no changes during 2014 to the Forest's valuation techniques used to measure asset and liability fair values on a recurring basis.

THE FOREST AT DUKE, INC.
Notes to Financial Statements (continued)
September 30, 2014 and 2013

The following table sets forth by level, within the fair value hierarchy The Forest's assets accounted for at fair value at September 30, 2014 and 2013:

	Fair Value of Financial Assets as of September 30, 2014			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market				
mutual funds	\$ 3,004,476	\$ -	\$ -	\$ 3,004,476
Corporate obligations	5,696,679	-	-	5,696,679
U.S. Treasury obligations	6,105,046	-	-	6,105,046
Asset-backed securities:				
U.S. government	-	1,345,724	-	1,345,724
Corporate	-	4,332,511	-	4,332,511
Total asset-backed securities	-	5,678,235	-	5,678,235
Common stocks:				
Consumer products	1,215,366	-	-	1,215,366
Energy	699,179	-	-	699,179
Financial	1,366,302	-	-	1,366,302
Health care	1,179,496	-	-	1,179,496
Industrials	903,346	-	-	903,346
Materials	315,385	-	-	315,385
Technology	1,266,276	-	-	1,266,276
Telecommunication	169,225	-	-	169,225
Utilities	226,539	-	-	226,539
Total common stocks	7,341,114	-	-	7,341,114
Mutual funds:				
International	2,558,325	-	-	2,558,325
Other	158,577	-	-	158,577
Total mutual funds	2,716,902	-	-	2,716,902
Total	<u>\$ 24,864,217</u>	<u>\$ 5,678,235</u>	<u>\$ -</u>	<u>\$ 30,542,452</u>

The Forest has \$6,627,105 of cash balances that are included with cash and cash equivalents, assets limited as to use and investments at September 30, 2014, which is not included in the fair value hierarchy.

THE FOREST AT DUKE, INC.
Notes to Financial Statements (continued)
September 30, 2014 and 2013

	Fair Value of Financial Assets as of September 30, 2013			
	Level 1	Level 2	Level 3	Total
Money market				
mutual funds	\$ 2,196,836	\$ -	\$ -	\$ 2,196,836
Corporate obligations	5,331,202	-	-	5,331,202
U.S. Treasury obligations	5,440,924	-	-	5,440,924
Asset-backed securities:				
U.S. government	-	1,206,704	-	1,206,704
Corporate	-	4,720,533	-	4,720,533
Total asset-backed securities	-	5,927,237	-	5,927,237
Common stocks:				
Consumer products	1,340,710	-	-	1,340,710
Energy	680,345	-	-	680,345
Financial	1,506,550	-	-	1,506,550
Health care	1,119,242	-	-	1,119,242
Industrials	802,793	-	-	802,793
Materials	132,610	-	-	132,610
Technology	1,298,134	-	-	1,298,134
Telecommunication	235,386	-	-	235,386
Utilities	278,366	-	-	278,366
Total common stocks	7,394,136	-	-	7,394,136
Mutual funds:				
International	2,580,173	-	-	2,580,173
Other	24,924	-	-	24,924
Total mutual funds	2,605,097	-	-	2,605,097
Private equity	-	242,605	1,201,643	1,444,248
Total	<u>\$ 22,968,195</u>	<u>\$ 6,169,842</u>	<u>\$ 1,201,643</u>	<u>\$ 30,339,680</u>

The Forest has \$8,019,519 of cash balances that are included with cash and cash equivalents, assets limited as to use and investments at September 30, 2013, which is not included in the fair value hierarchy.

THE FOREST AT DUKE, INC.
Notes to Financial Statements (continued)
September 30, 2014 and 2013

The following table illustrates the activity of Level 3 assets from September 30, 2012 to September 30, 2014:

Fair value at September 30, 2012	\$ 966,207
Redemptions	(36,600)
Net realized and unrealized gains	<u>272,036</u>
Fair value at September 30, 2013	<u>1,201,643</u>
Redemptions	(1,232,476)
Net realized and unrealized gains	<u>30,833</u>
Fair value at September 30, 2014	<u>\$ -</u>

Fair Value Estimated Using NAV per Share - The following table sets forth a summary of The Forest's private equity investments with a reported estimated fair value using NAV per share as of September 30, 2014 and 2013.

	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice Period</u>	<u>Commitments</u> <u>for Capital</u> <u>Calls</u>
Aurora Global Opportunities II ASP Fund ⁽¹⁾	\$ -	\$ 378,653	Quarterly	95 days	None
Graham Alternative Investment II ASP Fund ⁽²⁾	-	242,605	Monthly	35 days	None
Keen Focus Fund II Ltd Partnership ⁽³⁾	-	805,020	N/A	30 days	None
Selectinvest Institutional ARV Ltd. ⁽⁴⁾	<u>-</u>	<u>17,970</u>	N/A	N/A	None
Total	<u>\$ -</u>	<u>\$ 1,444,248</u>			

⁽¹⁾ The Aurora Global Opportunities II ASP Fund investment objective is to generate consistent long-term capital appreciation with diversification of risk through the use of a "multi-manager, multi-strategy" global investment strategy. The Aurora Global Opportunities II ASP Fund is considered a Level 3 investment given the redemption period is greater than 90 days, thus affecting the exit price of the investment. The Forest no longer holds this investment as of September 30, 2014.

⁽²⁾ The Graham Alternative Investment II ASP Fund achieves to seek long-term capital appreciation through professionally managed trading in both U.S. and foreign markets, primarily in futures contracts, forward contracts, spot currently contracts, option and associated derivative instruments. The Graham Alternative Investment II ASP Fund is a Level 2 investment given the frequency of routine redemptions and limited notice period. The Forest no longer holds this investment as of September 30, 2014.

THE FOREST AT DUKE, INC.
Notes to Financial Statements (continued)
September 30, 2014 and 2013

- (3) The Keen Focus Fund II Ltd. Partnership seeks to provide long and short term capital appreciation through domestic small cap equity investments. The Keen Focus Fund II Ltd. Partnership is a Level 3 investment given management's assessment of the underlying securities invested in the Fund. The Forest no longer holds this investment as of September 30, 2014.
- (4) The Selectinvest Institutional ARV Ltd. Fund achieves to develop and actively maintain an investment portfolio of alternative asset managers that will seek to earn above-average, risk-adjusted, long-term returns with low correlation to traditional equity and fixed income markets. Effective March 31, 2009, the fund declared its intention to terminate and is currently processing redemption requests of investors. The Fund expects that the vast majority of redemptions will be paid by December 31, 2013. The Selectinvest Institutional ARV Ltd. Fund is a Level 3 given termination of the fund and the unknown timeframe as to when The Forest's investment will be redeemed. The Forest no longer holds this investment as of September 30, 2014.

4. Property and Equipment

Property and equipment consist of the following at September 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 6,111,141	\$ 6,111,141
Land improvements	1,374,668	1,320,818
Buildings	52,802,235	52,465,120
Equipment and furnishings	17,484,719	16,092,462
Vehicles	<u>407,661</u>	<u>407,662</u>
	78,180,424	76,397,203
Less accumulated depreciation	<u>43,733,766</u>	<u>40,575,367</u>
Total property and equipment	<u>\$ 34,446,658</u>	<u>\$ 35,821,836</u>

Construction in progress of approximately \$4,796,000 and \$778,000 at September 30, 2014 and 2013 respectively, includes the costs associated with implementing the initiatives identified in The Forest's strategic plan. One of the initiatives is the addition of 15 cottages for which construction began mid-September 2013. The majority of the construction of the new cottages will be financed with a short-term construction loan as described in Note 6 that will be repaid with the entrance fees received from the new residences. The estimated cost to complete construction of the 15 cottages is approximately \$4,254,000.

The Forest has also begun making amenity enhancements on the current campus including additional parking and renovating the dining, library and fitness venues. Construction of the parking phase began in October 2014. The cost of these amenity improvements will be funded with cash reserves.

THE FOREST AT DUKE, INC.
Notes to Financial Statements (continued)
September 30, 2014 and 2013

5. Bonds Payable

Bonds payable consist of the following at September 30:

	<u>2014</u>	<u>2013</u>
Series 1994 Health Care Facilities First Mortgage Revenue Refunding Bonds with bonds due annually with interest rates as follows:		
2014 - 2015; 6.125%	\$ 25,000	\$ 45,000
2016 - 2020; 6.25%	<u>110,000</u>	<u>110,000</u>
Total 1994 series	<u>135,000</u>	<u>155,000</u>
Series 2003A Retirement Facilities First Mortgage Revenue Refunding Bonds with bonds due annually with interest rates as follows:		
Series A 2014; 4.40% - 5.20%	-	2,045,000
Series A 2015 - 2016; 5.5%	<u>8,920,000</u>	<u>8,830,000</u>
Total 2003 series	<u>8,920,000</u>	<u>10,875,000</u>
Series 2007 Retirement Facilities First Mortgage Revenue Refunding Bonds with bonds due annually with interest rates as follows:		
2014 - 2018; 4.05% - 4.70%	2,905,000	3,555,000
2027; 5.125%	14,225,000	14,225,000
2032; 5.125%	7,055,000	7,055,000
Premium	<u>80,373</u>	<u>84,890</u>
Total 2007 series	<u>24,265,373</u>	<u>24,919,890</u>
Total bonds payable	33,320,373	35,949,890
Less current portion of bonds payable	<u>2,755,000</u>	<u>2,625,000</u>
Bonds payable, less current portion	<u>\$ 30,565,373</u>	<u>\$ 33,324,890</u>

Interest on the bonds is payable semi-annually on March 1 and September 1. All bonds are secured by substantially all of the property and equipment of The Forest. The trust indentures and loan agreements underlying the Series 1994, Series 2003A and Series 2007 bonds contain certain financial covenants including minimum long-term debt service coverage.

Annual principal maturities of bonds payable are as follows:

2015	\$ 2,755,000
2016	2,900,000
2017	3,045,000
2018	3,210,000
2019	3,380,000
Thereafter	<u>17,950,000</u>
	<u>\$ 33,240,000</u>

THE FOREST AT DUKE, INC.
Notes to Financial Statements (continued)
September 30, 2014 and 2013

6. Construction Loan Payable

In conjunction with the construction in progress of 15 cottages as described in Note 4, the Forest entered into a loan agreement with a financial institution dated January 1, 2014. As part of the loan, the Forest has access to \$6 million, of which approximately \$932,000 had been drawn upon as of September 30, 2014. The interest rate on the construction loan is adjusted monthly at the London Interbank Exchange Rate plus 1.35%, which was 1.51% as of September 30, 2014. Interest on the outstanding principal balance is due monthly. Advances on the loan are made after deposits are received for a particular cottage, with the entrance fee from the respective cottage being used to repay the loan within 30 days of move-in from a resident. The entire outstanding principal balance and all accrued unpaid interest is due the earlier of within 30 days of the last resident moving into the cottages or March 31, 2016.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets were \$218,694 and \$249,065 at September 30, 2014 and 2013, respectively. Approximately \$209,000 and \$239,000 was restricted for the purchase of kitchen renovations and equipment at September 30, 2014 and 2013 respectively. The remaining temporarily restricted net assets are restricted for miscellaneous purposes.

8. Retirement Plan

The Forest has a 403(b) defined contribution plan for all eligible employees. Under the terms of the Plan, employees may make voluntary before tax contributions, limited to amounts specified by the Internal Revenue Code. The Forest matches qualifying employees' contributions 100% up to 7% of gross salary. The Forest's contributions were approximately \$191,000 and \$190,000, for the years ended September 30, 2014 and 2013, respectively.

9. Professional Liability Insurance

The Forest is not currently involved in litigation related to professional liability claims. Management believes that if any claims were asserted, they would be settled within the limits of insurance coverage, which is on an occurrence basis, with limits of \$1,000,000 per claim and \$3,000,000 in the aggregate.

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EXHIBIT B

THE FOREST AT DUKE, INC.
Statement of Operations-Unaudited
For The Three Months Ending December 31, 2014

	<u>Actual YTD</u>	<u>Budget YTD</u>	<u>Variance</u>
Revenues:			
Monthly service fees	\$ 3,096,065	\$ 3,112,500	\$ (16,435)
Clinic and health care center fees	1,007,755	1,139,298	(131,543)
Other income	76,377	61,251	15,126
Total operating revenues	<u>4,180,197</u>	<u>4,313,049</u>	<u>(132,852)</u>
Expenses:			
General and administrative	413,701	379,763	(33,938)
Community responsibility	5,620	16,251	10,631
Marketing	111,439	124,350	12,911
Wellness clinic	114,173	116,034	1,861
Health care center	1,019,983	1,051,727	31,744
Activities	79,012	80,841	1,829
Dining services	861,671	903,068	41,397
Housekeeping and laundry	232,727	261,888	29,161
Maintenance	300,091	314,234	14,143
Security	71,816	77,226	5,410
Plant, insurance and utilities	276,309	317,024	40,715
Total operating expenses	<u>3,486,542</u>	<u>3,642,406</u>	<u>155,864</u>
Net operating revenues less operating expenses	693,655	670,643	23,012
Non-operating revenues:			
Earned entrance fees	1,236,071	825,000	411,071
Investment income:		171,249	186,083
Interest and dividends	159,333		
Realized gain / (loss) on sale of Investments	34,620		
Change in unrealized gain / (loss) on investments	163,379		
Gift shop / donation revenue	17,367		17,367
Total non-operating revenues	<u>1,610,770</u>	<u>996,249</u>	<u>614,521</u>
Non-operating expenses:			
Interest	429,798	429,798	0
Gift shop / donation purchases	3,045	0	(3,045)
(Gain) / loss on disposal of equipment	(7,447)	3,750	11,197
Depreciation	790,226	872,001	81,775
Amortization	13,695	13,695	0
Total non-operating expenses	<u>1,229,317</u>	<u>1,319,244</u>	<u>89,927</u>
Net non-operating revenues less non-operating expenses	381,453	(322,995)	704,448
Change in net surplus	<u>\$ 1,075,108</u>	<u>\$ 347,648</u>	<u>\$ 727,460</u>

THE FOREST AT DUKE, INC.
Balance Sheet - Unaudited
December 31, 2014

ASSETS

Current assets:	
Cash and cash equivalents	\$ 2,877,133
Assets limited as to use, current portion	2,755,000
Accounts and other receivables	194,465
Other current assets	513,673
Total current assets	<u>6,340,271</u>
Assets limited as to use, net of current portion	12,794,599
Investments	19,637,493
Property and equipment, net	34,056,676
Construction in Progress	6,833,329
Deferred costs, net	<u>662,030</u>
Total assets	<u>\$ 80,324,398</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 187,138
Accrued expenses	940,019
Current portion of bonds payable	2,755,000
Total current liabilities	<u>3,882,157</u>
Deferred revenue from entrance fees:	
Deposits	989,152
Non-refundable plan entrance fees	26,697,188
Refundable entrance fees to residents	12,431,477
Deferred Customization Revenue	199,802
Bonds payable, net of current portion	30,564,242
Construction loan payable	<u>2,603,827</u>
Total liabilities	<u>77,367,845</u>
Net assets, beginning of year	1,881,445
Net assets for period	<u>1,075,108</u>
Total liabilities and net assets	<u>\$ 80,324,398</u>

THE FOREST AT DUKE, INC.
Assets Limited as to Use
December 31, 2014

Department of Insurance - operating reserve	\$ 3,886,063
Held by trustee under trust and loan agreements	6,781,653
Held by escrow agent	1,022,218
Board designated health care reserve	3,626,000
Board designated benevolent fund	<u>233,665</u>
Total assets limited as to use	15,549,599
Less assets limited as to use, current portion	<u>(2,755,000)</u>
Total assets limited as to use, net of current portion	\$ <u><u>12,794,599</u></u>

THE FOREST AT DUKE, INC.
Statement of Cash Flows - Unaudited
For The Three Months Ending December 31, 2014

Operating activities:	
Change in net surplus	\$1,075,108
Adjustments to reconcile change in net surplus to net cash provided by operating activities:	
Earned entrance fees	(1,236,071)
Net realized & unrealized (gain) loss on investments	(197,999)
Non-refundable plan entrance fees received	1,407,750
Depreciation	790,226
Amortization	13,695
Amortization of bond premium included in interest expense	(1,129)
(Gain) loss on disposal of equipment	(7,447)
Net changes in operating assets and liabilities:	
Accounts and other receivables	(54,750)
Other current assets	(240,143)
Accounts payable	(542,990)
Accrued expenses	274,312
Net cash provided by operating activities	<u>1,280,562</u>
Investing activities:	
Net change in assets limited as to use	(1,012,458)
Purchases of investments	(3,142,566)
Proceeds from sale of investments	3,093,778
Purchases of property & equipment	(2,442,641)
Net cash used by investing activities	<u>(3,503,887)</u>
Financing activities:	
Entrance fees refunded	(434,110)
Refundable entrance fees received	469,879
Proceeds from issuance of construction loan	1,671,858
Principal payments on bonds payable	
Net cash provided by financing activities	<u>1,707,627</u>
Net change in cash and cash equivalents	(515,698)
Cash and cash equivalents, beginning of year	3,392,831
Cash and cash equivalents, end of period	<u><u>\$2,877,133</u></u>

The Forest at Duke
Comparison of Actual Results with Forecasted Proforma Projections
September 30, 2014

EXHIBIT C

<u>STATEMENTS OF OPERATIONS</u>	<u>Actual 2014</u>	<u>Forecast 2014 *</u>	<u>\$ Variance Over (Under)</u>	<u>% Variance Over (Under)</u>	<u>Notes</u>
Unrestricted Revenue, gains and other support:					
Monthly service fees	\$ 11,886,003	11,969,000	(82,997)	-0.7%	
Earned Entrance Fees	3,150,384	3,296,000	(145,616)	-4.4%	
Clinic and health care center fees	4,377,485	4,531,000	(153,515)	-3.4%	
Other income	<u>326,973</u>	<u>276,000</u>	50,973	18.5%	
Total Unrestricted revenue, gains and other support	19,740,845	20,072,000			
Expenses:					
General and administrative expenses	1,625,511	1,593,000	32,511	2.0%	
Dining Services	3,483,142	3,496,000	(12,858)	-0.4%	
Housekeeping and laundry	1,021,769	1,094,000	(72,231)	-6.6%	
Health care center and nursing	4,469,099	4,407,000	62,099	1.4%	
Wellness clinic	457,810	476,000	(18,190)	-3.8%	
Activities	328,784	345,000	(16,216)	-4.7%	
Plant facility costs	2,745,086	2,899,000	(153,914)	-5.3%	
Marketing	453,922	492,000	(38,078)	-7.7%	
Depreciation	3,158,399	3,237,000	(78,601)	-2.4%	
Amortization	54,780	55,000	(220)	-0.4%	
Interest	<u>1,840,016</u>	<u>1,840,000</u>	16	0.0%	
Total expenses and losses	19,638,318	19,934,000			
Operating income (loss)	102,527	138,000			
Non-operating income (loss):					
Investment income	674,765	610,000	64,765	10.6%	
Realized gains	1,822,642	500,000	1,322,642	264.5%	(1)
Gain on disposal of equipment	0				
Community responsibility	<u>(135,080)</u>	<u>(135,000)</u>	80	0.1%	
Net non-operating income	<u>2,362,327</u>	<u>975,000</u>			
Excess of revenues over (under) expenses	2,464,854	1,113,000			
Net assets released from restriction for purchase of property, plant and equipment	30,581				
Net unrealized gain (loss) on investments and assets limited as to use	<u>(823,908)</u>		(823,908)	#DIV/0!	(2)
Change in unrestricted net assets	<u>1,671,527</u>	<u>1,113,000</u>			

* Forecasted Financial Statements included in March 1, 2014 Disclosure Statement dated 2/18/14

Notes to Revenue and Expense Variances:

The Forest at Duke considers any variance of 25% or \$250,000 as material, and therefore deserving of explanation. Other explanations are also provided if they are deemed to be noteworthy to prospective and current residents.

- (1) Investment income was higher than projected due to more gains realized on sales.
- (2) Unrealized gain on investments is included in investment income in the projections.

The Forest at Duke
Comparison of Actual Results with Forecasted Proforma Projections
September 30, 2014

<u>ASSETS</u>	<u>Actual 2014</u>	<u>Forecast 2014*</u>	<u>\$ Variance Over (Under)</u>	<u>% Variance Over (Under)</u>	<u>Notes</u>
Current assets:					
Cash and equivalents	\$ 3,392,831	4,634,000	(1,241,169)	-26.8%	(1)
Assets limited as to use, current portion	2,755,000	2,755,000	0	0.0%	
Accounts and other receivables	139,715	452,000	(312,285)	-69.1%	
Other current assets	273,530	315,000	(41,470)	-13.2%	
Total current assets	<u>6,561,076</u>	<u>8,156,000</u>			
Assets limited to use, net of current portion	11,782,141	11,350,000	432,141	3.8%	
Investments	19,239,585	19,024,000	215,585	1.1%	
Property and equipment, net	39,243,145	40,433,000	(1,189,855)	-2.9%	
Deferred costs, net	675,726	676,000	(274)	0.0%	
Total assets	<u>77,501,673</u>	<u>79,639,000</u>			
<u>LIABILITIES AND NET ASSETS</u>					
Current liabilities:					
Accounts payable	730,128	156,000	574,128	368.0%	(2)
Accrued expenses	665,707	631,000	34,707	5.5%	
Current portion of refundable entrance fees to residents	979,733		979,733		(3)
Current portion of bonds payable	2,755,000	2,755,000	0	0.0%	
Total current liabilities	<u>5,130,568</u>	<u>3,542,000</u>			
Bonds payable, net of current portion	30,565,373	30,565,000	373	0.0%	
Construction loan payable	931,970	4,000,000	(3,068,030)	-76.7%	(4)
Deferred revenue from entrance fees:					
Deposits	2,073,710	590,000	1,483,710	251.5%	(5)
Non-refundable plan entrance fees	26,150,653	28,970,000	(2,819,347)	-9.7%	(3)
Refundable entrance fees to residents	10,767,954	10,618,000	149,954	1.4%	
Total liabilities	<u>75,620,228</u>	<u>76,285,000</u>			
Net assets:					
Unrestricted	1,662,751	1,105,000	557,751	-50.5%	(6)
Temporarily restricted	218,694	249,000	(30,306)	-12.2%	
Total net assets	<u>1,881,445</u>	<u>1,354,000</u>			
Total liabilities and net deficit	<u>77,501,673</u>	<u>79,639,000</u>			

* Forecasted Financial Statements included in March 1, 2014 Disclosure Statement dated 2/18/14

Notes to Balance Sheet Variances:

The Forest at Duke considers any variance of 25% and \$500,000 as material, and therefore deserving of explanation. Other explanations are also provided if they are deemed to be noteworthy to prospective and current residents.

- (1) See statement of cash flows.
- (2) Actual results at the end of the year included a \$435 K construction in progress amount not in the Forecast.
- (3) This balance is not broken out between current and non-current in the Forecast.
- (4) Timing difference in actual expenditure of construction costs. There were some time delays due to weather.
- (5) There were more 15% deposits at fiscal year-end than projected.
- (6) Increase in actual unrestricted net assets was better than forecasted due to favorable investment activity.

The Forest at Duke
Comparison of Actual Results with Forecasted Proforma Projections
September 30, 2014

STATEMENTS OF CASH FLOWS	Actual 2014	Forecast 2014*	\$ Variance Over (Under)	% Variance Over (Under)	Notes
Operating activities:					
Change in net assets	\$ 1,641,156	1,113,000	528,156	47%	(1)
Adjustments to reconcile change in net deficit to net cash provided by operating activities:					
Earned entrance fees	(3,150,384)	(3,296,000)	(145,616)	-4%	
Net realized and unrealized gains on investments and assets limited as to use	(998,734)		(998,734)		(2)
Non-refundable entrance fees received	3,562,937	5,530,000	(1,967,063)	-36%	(3)
Depreciation	3,158,399	3,237,000	(78,601)	-2%	
Amortization	54,780	55,000	(220)	0%	
Amortization of bond premium included in interest	(4,517)	(5,000)	(483)	-10%	
Gain on disposal of equipment	0				
Net changes in operating assets and liabilities:					
Accounts and other receivables	79,267	(233,000)	312,267	134%	
Other current assets	29,913	(12,000)	(41,913)	-349%	
Accounts payable	145,500	6,000	(139,500)	-2325%	
Accrued expenses	58,745	24,000	34,745	145%	
Net cash provided by operating activities	<u>4,577,062</u>	<u>6,419,000</u>			
Investing activities:					
Net change in assets limited as to use	(563,015)	(130,000)	433,015	333%	
Purchases of investments	(11,885,267)		(11,885,267)		(2)
Proceeds from sale of investments	13,530,668	862,000	12,668,668	-1470%	(2)
Purchase of property and equipment	(5,366,885)	(7,070,000)	(1,703,115)	-24%	
Net cash used by investing activities	<u>(4,284,499)</u>	<u>(6,338,000)</u>			
Financing activities:					
Entrance fees refunded	(663,783)	(1,321,000)	(657,217)	-50%	(4)
Net construction loan proceeds	958,260	4,000,000	3,041,740	-76%	(5)
Refundable entrance fees received	931,970		931,970		(3)
Principal payments on bonds payable	(2,625,000)	(2,625,000)	0	0%	
Net cash used by financing activities	<u>(1,398,553)</u>	<u>54,000</u>			
Net change in cash and cash equivalents	(1,105,990)	135,000			
Cash and cash equivalents, beginning of year	<u>4,498,821</u>	<u>4,499,000</u>			
Cash and cash equivalents, end of year	<u>3,392,831</u>	<u>4,634,000</u>			

* Forecasted Financial Statements included in March 1, 2014 Disclosure Statement dated 2/18/14

Notes to Statement of Cash Flow Variances:

The Forest at Duke considers any variance of \$500,000 as material, and therefore deserving of explanation. Other explanations are also provided if they are deemed to be noteworthy to prospective and current residents.

- (1) Actual results were higher due to greater investment income.
- (2) Investment income is projected on a net basis.
- (3) Actual results included six refundable contracts. Forecast is conservative and assumes new residents will choose the Amortized Plan.
- (4) Less refunds paid on refundable contracts than forecasted.
- (5) Difference in timing of expenditures.

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The Forest at Duke, Inc.

Forecasted Financial Statements

2015 Through 2019

Accountant's Compilation Report

To the Board of Directors
The Forest at Duke, Inc.

We have compiled the accompanying forecasted balance sheets and the related forecasted statements of operations, changes in net assets, cash flows, and the schedules of debt service coverage ratios of The Forest at Duke, Inc. as of September 30, 2015 through 2019 and for the years then ending, in accordance with attestation standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting, in the form of a forecast, information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecast and, accordingly do not express an opinion, or any other form of assurance, on the accompanying statements or assumptions. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Sanders, Walsh & Eaton, LLP

February 3, 2015

THE FOREST AT DUKE, INC.

**Forecasted Balance Sheets
At September 30
(Dollars in Thousands)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<u>Assets</u>					
Current assets:					
Cash and cash equivalents	\$ 3,657	\$ 4,126	\$ 5,052	\$ 6,064	\$ 7,148
Assets limited as to use, current portion	2,900	3,045	3,210	3,380	3,555
Accounts and other receivables	484	516	539	563	586
Other current assets	284	295	307	319	332
Total current assets	<u>7,326</u>	<u>7,982</u>	<u>9,109</u>	<u>10,326</u>	<u>11,621</u>
Assets limited as to use, net of current portion					
Operating reserve	3,886	4,041	4,203	4,440	4,676
Other asset limited as to use	7,896	7,741	7,579	7,342	7,106
Investments	12,784	11,727	12,693	13,721	14,815
Property and equipment, net	50,334	50,174	47,949	45,667	43,317
Deferred costs, net	620	565	510	455	400
Total assets	<u>\$ 82,846</u>	<u>\$ 82,230</u>	<u>\$ 82,043</u>	<u>\$ 81,951</u>	<u>\$ 81,935</u>
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Accounts payable	\$ 250	\$ 260	\$ 270	\$ 281	\$ 292
Accrued expenses	693	720	749	779	810
Current portion of bonds payable	2,900	3,045	3,210	3,380	3,555
Total current liabilities	<u>3,843</u>	<u>4,025</u>	<u>4,230</u>	<u>4,440</u>	<u>4,658</u>
Bonds payable, net of current portion	27,661	24,612	21,398	18,014	14,455
Deferred revenue from entrance fees:					
Deposits	197	197	197	197	197
Non-refundable plan entrance fees	37,400	39,361	41,437	43,569	45,614
Refundable entrance fees to residents	10,348	8,760	7,187	5,668	4,209
Total liabilities	<u>79,449</u>	<u>76,955</u>	<u>74,449</u>	<u>71,888</u>	<u>69,133</u>
Net assets:					
Unrestricted	3,178	5,225	7,544	10,013	12,752
Temporarily restricted	219	50	50	50	50
Total net assets	<u>3,397</u>	<u>5,275</u>	<u>7,594</u>	<u>10,063</u>	<u>12,802</u>
Total liabilities and net assets	<u>\$ 82,846</u>	<u>\$ 82,230</u>	<u>\$ 82,043</u>	<u>\$ 81,951</u>	<u>\$ 81,935</u>

See accompanying notes for summary of significant forecast assumptions and accounting policies and accountant's report.

THE FOREST AT DUKE, INC.

**Forecasted Statements of Operations
For the Years Ending September 30
(Dollars in Thousands)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Unrestricted revenues, gains and other support					
Monthly service fees	\$ 13,116	\$ 13,908	\$ 14,398	\$ 14,922	\$ 15,476
Earned entrance fees	3,588	3,883	4,094	4,245	4,526
Clinic and health care center fees	4,562	4,931	5,283	5,615	5,907
Other income	245	255	265	276	287
Net assets released from restriction	35	204	35	35	35
Total unrestricted revenues, gains and other support	<u>21,546</u>	<u>23,181</u>	<u>24,075</u>	<u>25,093</u>	<u>26,231</u>
Expenses:					
Dining services	3,768	3,919	4,075	4,238	4,408
Housekeeping	1,095	1,138	1,184	1,231	1,280
Laundry	69	72	75	78	81
Health care center and nursing	4,508	4,688	4,876	5,347	5,794
Wellness clinic	488	507	527	549	570
Activities	346	360	374	389	405
Plant facility costs	2,953	3,072	3,196	3,323	3,456
Marketing	549	571	594	617	642
General and administrative expenses	1,638	1,703	1,771	1,842	1,916
Community responsibility	130	135	141	146	152
Depreciation	3,705	4,282	4,432	4,577	4,737
Amortization	55	55	55	55	55
Interest	1,720	1,575	1,422	1,260	1,090
Total operating expenses	<u>21,024</u>	<u>22,077</u>	<u>22,722</u>	<u>23,652</u>	<u>24,586</u>
Operating income	522	1,104	1,353	1,441	1,645
Nonoperating income					
Interest and dividends	994	943	966	1,028	1,094
Realized gain on sale of investments	-	-	-	-	-
Contributions/Gifts	-	-	-	-	-
Gain (loss) on disposal of equipment	-	-	-	-	-
Nonoperating income	<u>994</u>	<u>943</u>	<u>966</u>	<u>1,028</u>	<u>1,094</u>
Excess of revenues, gains and other support over expenses	<u>\$ 1,516</u>	<u>\$ 2,047</u>	<u>\$ 2,319</u>	<u>\$ 2,469</u>	<u>\$ 2,739</u>

See accompanying notes for summary of significant forecast assumptions and accounting policies and accountant's report.

THE FOREST AT DUKE, INC.

**Forecasted Statements of Changes in Net Assets
For the Years Ending September 30
(Dollars in Thousands)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Unrestricted net assets:					
Excess of revenues, gains and other support over expenses	\$ 1,516	\$ 2,047	\$ 2,319	\$ 2,469	\$ 2,739
Net unrealized gains (losses) on investments and assets limited as to use	-	-	-	-	-
	<hr/>				
Change in unrestricted net assets	1,516	2,047	2,319	2,469	2,739
	<hr/>				
Temporarily restricted net assets:					
Contributions/Gifts	35	35	35	35	35
Net assets released from restriction	(35)	(204)	(35)	(35)	(35)
	<hr/>				
Change in temporarily restricted net assets	-	(169)	-	-	-
	<hr/>				
Change in net assets	1,516	1,878	2,319	2,469	2,739
	<hr/>				
Net assets, beginning of year	1,881	3,397	5,275	7,594	10,063
	<hr/>				
Net assets, end of year	<u>\$ 3,397</u>	<u>\$ 5,275</u>	<u>\$ 7,594</u>	<u>\$ 10,063</u>	<u>\$ 12,802</u>

See accompanying notes for summary of significant forecast assumptions and accounting policies and accountant's report.

THE FOREST AT DUKE, INC.

**Forecasted Statements of Cash Flows
For the Years Ending September 30
(Dollars in Thousands)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Operating activities:					
Change in net assets	\$ 1,516	\$ 2,047	\$ 2,319	\$ 2,469	\$ 2,739
Adjustments to reconcile change in net asset to net cash provided by operating activities:					
Earned entrance fees	(3,588)	(3,883)	(4,094)	(4,245)	(4,526)
Net realized and unrealized gains on investments and assets limited as to use	-	-	-	-	-
Non-refundable plan entrance fees received	14,837	5,844	6,170	6,377	6,571
Depreciation	3,705	4,282	4,432	4,577	4,737
Amortization	55	55	55	55	55
Amortization of bond premium	(4)	(4)	(4)	(4)	(4)
Net assets released from restrictions	-	(169)	-	-	-
Net changes in operating assets and liabilities:					
Accounts and other receivables	(344)	(32)	(23)	(23)	(23)
Other current assets	(11)	(11)	(12)	(12)	(13)
Accounts payable	(480)	10	10	11	11
Deposits	(1,877)	-	-	-	-
Accrued expenses	27	28	29	30	31
Net cash provided by operating activities	<u>13,835</u>	<u>8,167</u>	<u>8,882</u>	<u>9,234</u>	<u>9,578</u>
Investing activities:					
Net change in assets limited as to use	(145)	(145)	(165)	(170)	(175)
Net change in investments	6,456	1,057	(966)	(1,028)	(1,094)
Purchase of property and equipment	(14,796)	(4,122)	(2,207)	(2,295)	(2,387)
Net cash provided by investing activities	<u>(8,485)</u>	<u>(3,210)</u>	<u>(3,338)</u>	<u>(3,493)</u>	<u>(3,656)</u>
Financing activities:					
Entrance fees refunded	(1,399)	(1,588)	(1,573)	(1,519)	(1,459)
Refundable entrance fees received	-	-	-	-	-
Net Construction loan proceeds	(932)	-	-	-	-
Principal payments on bonds payable	(2,755)	(2,900)	(3,045)	(3,210)	(3,380)
Net cash provided by financing activities	<u>(5,086)</u>	<u>(4,488)</u>	<u>(4,618)</u>	<u>(4,729)</u>	<u>(4,839)</u>
Net increase in cash and cash equivalents	264	469	926	1,012	1,083
Cash and cash equivalents, beginning of year	<u>3,393</u>	<u>3,657</u>	<u>4,126</u>	<u>5,052</u>	<u>6,064</u>
Cash and cash equivalents, end of year	<u>\$ 3,657</u>	<u>\$ 4,126</u>	<u>\$ 5,052</u>	<u>\$ 6,064</u>	<u>\$ 7,148</u>
Supplemental disclosure of cash flow information					
Cash paid for interest	<u>\$ 1,720</u>	<u>\$ 1,575</u>	<u>\$ 1,422</u>	<u>\$ 1,260</u>	<u>\$ 1,090</u>

See accompanying notes for summary of significant forecast assumptions and accounting policies and accountant's report.

THE FOREST AT DUKE, INC.

**Forecasted Schedules of Debt Service Coverage Ratios
For the Years Ending September 30
(Dollars in Thousands)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Excess of revenues over expenses	\$ 1,516	\$ 2,047	\$ 2,319	\$ 2,469	\$ 2,739
Deduct earned entrance fees	(3,588)	(3,883)	(4,094)	(4,245)	(4,526)
Add:					
Depreciation and amortization	3,760	4,337	4,487	4,632	4,792
Interest expense	1,720	1,575	1,422	1,260	1,090
Entry fees received, net of refunds	5,838	4,256	4,597	4,858	5,112
Funds available for debt service	<u>\$ 9,246</u>	<u>\$ 8,332</u>	<u>\$ 8,731</u>	<u>\$ 8,974</u>	<u>\$ 9,207</u>
Maximum annual debt service	<u>\$ 4,479</u>	<u>\$ 4,479</u>	<u>\$ 4,475</u>	<u>\$ 4,475</u>	<u>\$ 4,475</u>
Debt service coverage ratio	<u>2.06</u>	<u>1.86</u>	<u>1.95</u>	<u>2.01</u>	<u>2.06</u>

See accompanying notes for summary of significant forecast assumptions and accounting policies and accountant's report.

THE FOREST AT DUKE, INC.

Summary of Significant Forecast Assumptions and Accounting Policies

This financial forecast presents, to the best of the management's knowledge and belief, the expected financial position, results of operations, and cash flows of The Forest at Duke, Inc. (the Corporation) for the forecast period. Accordingly, the forecast reflects management's judgment as of January 30, 2015, the date of this forecast, of the expected conditions and its expected course of action. This report was prepared for The Forest at Duke, Inc.'s management and for inclusion in its disclosure statement to be filed with the Department of Insurance and should not be used for other purposes. The assumptions disclosed herein are those that management believes are significant to the forecast. 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.

Background Information:

The Forest at Duke, Inc. is a North Carolina not-for-profit corporation established in 1988 for the purpose of establishing, conducting, maintaining, leasing, and operating retirement, health, and life care facilities which provide for the special needs of the elderly. Its principal activity is providing the housing, dining, health care, and other services and facilities needed for persons of retirement age to enable them to live safe, useful, financially secure, and independent lives.

The Corporation currently owns and operates a continuing care retirement community known as The Forest at Duke, located in Durham, North Carolina. The community consists of 160 residential apartments and 80 cottages (collectively, the independent living units); a health care center consisting of 34 adult care beds (assisted living units) and 58 nursing beds; and a community center.

Currently, The Forest at Duke is constructing an additional 15 cottages. Site work began in October 2013. These new residences are expected to be ready for move-in beginning early fiscal year 2015 and completed mid fiscal year 2015.

The community center includes the following amenities:

- community, private and cafe dining areas;
- social lounges;
- swimming pool and game room;
- beauty and barbershop;
- arts and crafts studios, gift shop, library;
- administrative offices;
- auditorium, classroom, and a bank.

The independent living units were 95% occupied as of December 31, 2014. The assisted living units were 80% occupied and the nursing beds were 92% occupied as of December 31, 2014.

The Corporation has received a determination letter from the Internal Revenue Service stating that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Residence and Care Agreement:

The Corporation accepts residents who are at least 65 years old who are able to care for themselves with limited or no assistance and who demonstrate the financial ability to meet the Corporation's fee requirements. A co-resident must be at least 62 years old. Residents are required to pay an initial entry fee and a monthly service fee. These fees entitle the resident to the lifetime use of an independent living unit or an assisted living/nursing bed at a reduced per diem rate. It also includes level-of-care specific services and amenities such as: dining services; utilities, except telephone; 24-hour security; housekeeping services; maintenance and trash removal; recreational activities; parking; scheduled transportation; and 24-hour emergency call service.

The initial entry fee consists of two components: a \$10,000 nonrefundable Health Care Reserve Payment and a partially refundable Residence Fee. The amount of the Residence Fee varies with the size of the unit and the type of Residence Fee Refund Plan chosen by the resident. Upon termination of the Residence and Care Agreement, the Amortized Residence Fee Plan provides a refund equal to the fee paid less 2% per month of occupancy. Under the 50% Refundable Residence Fee Plan, 2% of the fee accrues to the Corporation each month for 25 months. Thereafter, the resident is entitled to a refund of 50% of the fee paid. Under the 90% Refundable Residence Fee Plan, 2% of the fee accrues to the Corporation for the first five months. Thereafter, the resident is entitled to a refund of 90% of the entrance fee. Prior to October 1, 1993, a 100% Refundable Residence Fee Plan was offered to residents. According to management, as of December 31, 2014, there were 2 contracts under the formerly available 100% refund plan. Under all of the plans, refunds are paid upon occupancy of the former resident's unit by another resident.

If a resident is unable to live independently within the range of services provided in the independent living units, as determined by the Corporation's Health Maintenance Committee, the resident is transferred to the health care center. If the transfer is considered permanent, the resident's independent living unit becomes available for occupancy by another resident; however, no refund of the entry fee is paid to the transferring resident until death (death of both residents, if they entered the Forest as a couple) or other termination of the Residence and Care Agreement. If the resident recovers sufficiently to resume independent living, a similar or alternative independent living unit is made available for the resident's use, subject to availability.

The monthly service fees, which vary by unit size and occupancy, may be adjusted at the sole discretion of the Corporation.

Forecast Assumptions:

Occupancy:

Management is of the opinion that occupancy of the independent living units will average at least 95% throughout the forecast period. As of December 31, 2014 the independent living units were 95% occupied.

The assumed number of independent living units becoming available due to attrition and the double occupancy rate has been provided by the Corporation's consulting actuary, AV Powell & Associates LLC, a national actuarial consulting firm specializing in providing actuarial services to retirement communities. The double occupancy rate assumed in the forecast is 32% of the occupied independent living units in 2014. That rate is assumed to decline annually to 30% in 2018. The forecasted number of units vacated during the forecast period averages 23 per year. The majority of the vacancies are expected to result from deaths or permanent transfers to the health care facility.

The assumed average occupancy of the health care facility is 88 units (96%). At December 31, 2014, management has indicated that the health care units are 87% occupied.

Nursing beds are assumed to be occupied by residents transferring from the independent living units or assisted living units on either a temporary or permanent basis. In addition, certain residents are allowed to enter the nursing beds directly when a spouse is a resident of an independent living unit or when their health status changes between the time when the Residence and Care Agreement is entered into and the date the unit is available for occupancy and the resident is not capable of living independently. Additionally, certain residents will be admitted to a nursing bed after completing a minimum 30-day occupancy in assisted living, payment of the Healthcare Reserve, and the approval of the Corporation's Health Maintenance Committee.

The assumed utilization of the nursing beds is based upon the number of permanent and temporary transfers as provided by A V Powell & Associates LLC and the number of direct admissions as provided by management.

Revenue:

Forecasted earned entry fees are based on the nonrefundable portion of the entry fees amortized over the life expectancy of each resident. The estimated life expectancies were provided by the consulting actuary. Fees on continuing care contracts, which are refundable to residents from reoccupancy proceeds, are not amortized, but are reflected as the amount to be refunded to the resident. As of December 31, 2014, approximately 1% of the residents had chosen the 100% refundable plan, 4% the 50% refundable plan, 11% the 90% refundable plan and 84% the amortized plan. Consistent with

the consulting actuary's recommendation, it is assumed that all new entrants will choose the lower cost amortized plan.

Entrance fees for the amortized plan for single residents, which range from \$87,900 to \$508,000, are assumed to increase by 3% annually throughout the forecast period. Entrance fee for a second occupant in an independent living unit is \$28,000.

Monthly service fee revenue is based on the assumed utilization of the independent living units and monthly and second occupant service fees. Monthly service fees currently range from \$2,805 to \$5,148 plus \$1,437 for the second occupant of a unit. These fees are assumed to increase by the assumed 4% increase in operating expenses throughout the forecast period.

Monthly service fee revenue for the new 15 cottages is based on the assumed occupancy of six residences by December 2014 and the remaining nine residences by the end of fiscal year 2015. The first full year of stabilized occupancy is fiscal year 2016. A short-term construction loan will be utilized to finance the construction. The proceeds from the entry fees will be utilized to pay the debt.

Health care center revenue is based on the assumed utilization of assisted living units and nursing beds and the related fees charged to the residents. Assisted living residents admitted from outside the facility are currently charged a monthly service fee of \$7,480. A single occupant of an independent living unit who permanently transfers to an assisted living unit is required to pay 40% of the per diem. A second person of a double-occupied independent living unit transferring to an assisted living unit is charged 15% of the per diem plus their second person portion of the monthly service fee. The per diem is currently \$373. Management has assumed that the assisted living rate and the per diem will increase by the 4% assumed increase in operating expenses throughout the remainder of the forecast period.

Residents transferring to a nursing bed on a temporary basis are required to pay a percentage of the per diem plus their monthly service fee. The applicable percentages of the per diem are as follows:

Permanent transfers:	
Single occupant	40%
Double occupant (in addition to second person monthly fee)	15%
Spouse resides in an independent living unit and resident requires nursing care at move in date, or permanent transfer of a direct admission from an assisted living unit (in addition to the Health Care Reserve payment for residents admitted directly from outside the community) to nursing care	
	90%

Other revenue, including employee, guest and additional resident meals, beauty and barbershop, personal laundry services, etc. is estimated based on historical experience. These revenues are assumed to increase at a rate of 4% annually.

Interest income consists of earnings on all available funds at the annual rate of 3% from 2015 through 2017 and 6% thereafter.

Operating Expenses:

Operating expenses for 2015 were provided by management, based on budgeted amounts. Employee benefits were allocated to the departments in which the employees work. Operating expenses for the remaining years of the forecast are assumed to increase by 4% annually for inflation.

Assets Limited as to Use:

Assets limited as to use consist of funds required under loan agreements, reserves required by the Department of Insurance and investments designated by the Board of Directors.

Property and Equipment:

Depreciation expense is computed using the straight-line method over the estimated lives of buildings, equipment, land improvements and vehicles which are 30 years, 5 to 25 years, 5 to 15 years and 4 to 6 years, respectively. Assumed capital additions of approximately \$2,000,000 in 2015, increased by 4% inflation, thereafter, are assumed to have a useful life of 10 years.

Interest Expense and Debt Service Requirements:

At September 30, 2014, long-term debt consisted of:

Series 1994 Health Care Facilities First Mortgage Revenue Refunding Bonds with bonds due annually. Interest ranging from 6% to 6.25%	\$ 135,000
Series 2003 A Health Care Facilities First Mortgage Revenue Refunding Bonds with bonds due annually, Interest ranging from 4.4% to 5.5%	8,920,000
Series 2007 Retirement Facilities First Mortgage Revenue Refunding Bonds with bonds due annually, Interest ranging from 4.05% to 4.70%	<u>24,265,373</u>
Total	<u>\$33,320,373</u>

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The Forest at Duke is pledged to the letter and spirit of U.S. policy for the achievement of equal housing opportunity throughout the nation. We encourage, support, and are committed to operating a community where there are no barriers or discrimination because of race, color, religion, sex, handicap, familial status or national origin.

